Reply

Living network

_Annual report 2006

_Annual report 2006

_Contents

The annual report has been translated into English from the Italian version.
In case of doubt the Italian version shall prevail.

Board of directors and controlling bodies

Board of Directors

Chairman
Mario Rizzante

Chief executive officers
Sergio Ingegnatti
Tatiana Rizzante

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

Statutory auditors

Statutory auditors
Piergiorgio Re - *President*
Tommaso Vallenzasca
Ada Alessandra Garzino Demo

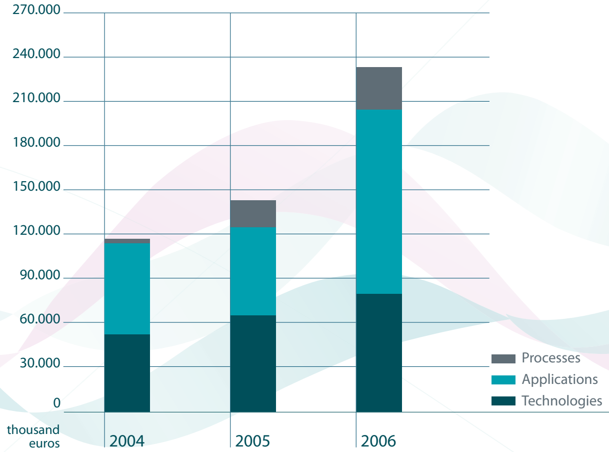
Alternate auditors
Alessandro Mikla
Paolo Claretta-Assandri

Independent auditors

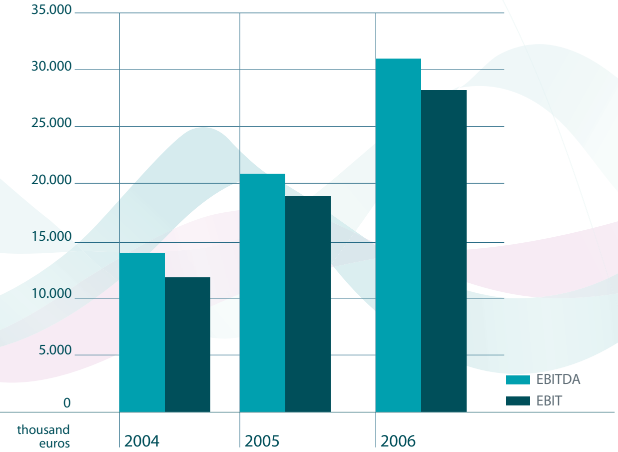
Deloitte & Touche S.p.A.

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

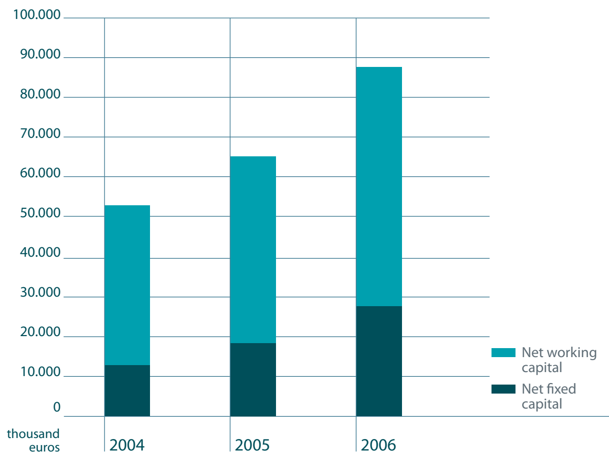
Revenues by business lines



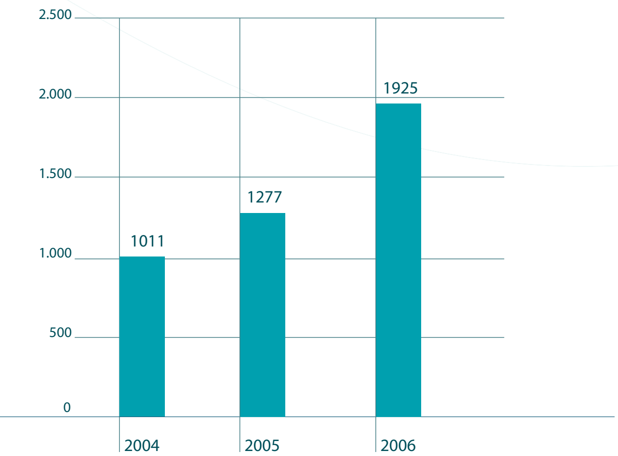
Trends in profitability



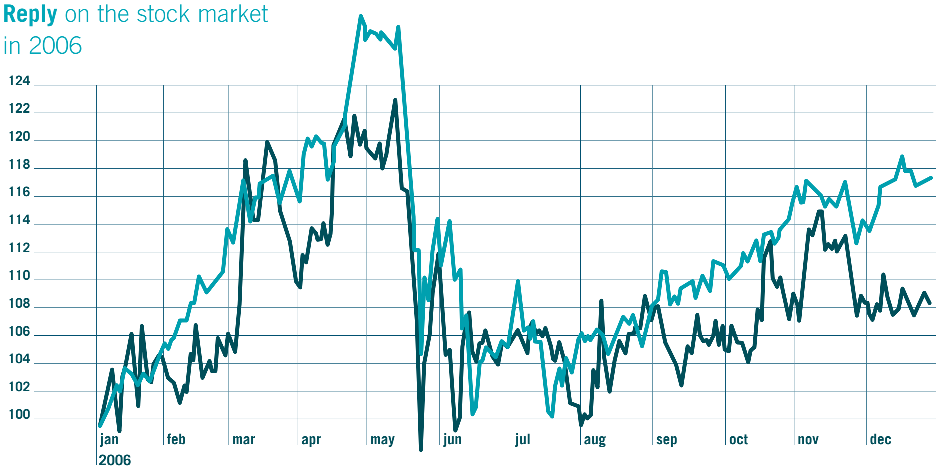
Net invested capital



Human resources



Reply on the stock market in 2006



QREY.MI, Close (Last Trade),
Rebasing 1/2/2006=100
4/18/2007 148.8889

Q.TSTAR, Close (Last Trade),
Rebasing 1/2/2006=100
4/17/2007 129.4980

_Reply financial highlights

Financial figures (thousand euros)	2006	%	2005	%	2004	%
Revenues	230.164	100,0	144.675	100,0	111.820	100,0
Gross operating income	31.462	13,7	21.017	14,5	14.160	12,7
Operating income	27.846	12,1	18.820	13,0	12.005	10,7
Income before taxes	27.797	12,1	18.841	13,0	11.481	10,3
Net income	10.274	4,5	6.864	4,7	4.682	4,2

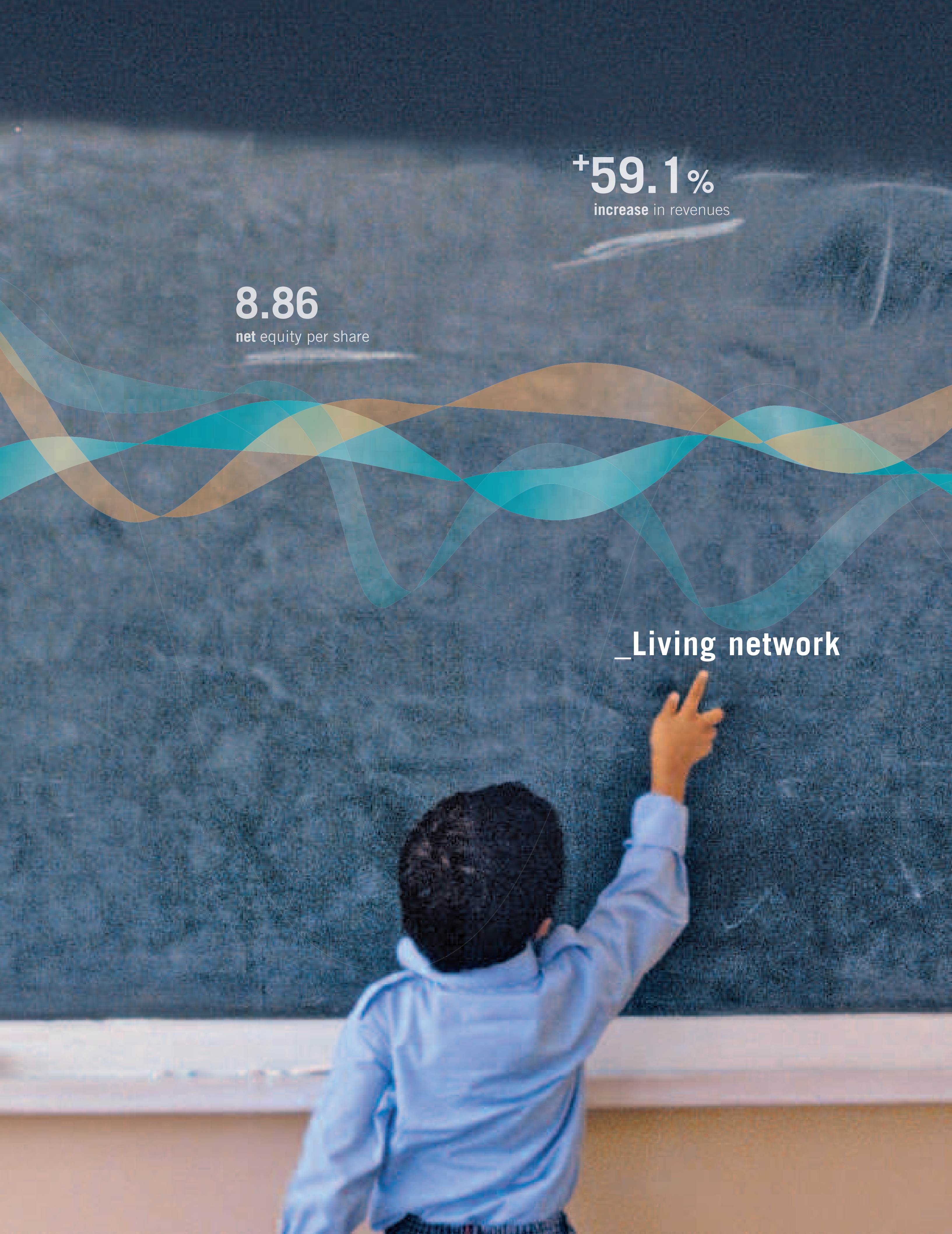
Balance sheet items (thousand euros)	2006	2005	2004
Group shareholders' equity	79.107	61.056	55.273
Minority interest	14.481	206	1.037
Total assets	206.339	129.474	106.166
Net working capital	59.938	39.539	40.616
Net invested capital	86.890	59.062	54.260
Cash Flow (*)	8.837	5.790	1.624
Net financial position	6.698	2.200	2.050

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

Data per single Share (euros)	2006	2005	2004
Number of shares	8.926.905	8.411.710	8.357.010
Operating income per share	3,12	2,24	1,44
Net result per share	1,15	0,82	0,56
Cash Flow per share	0,99	0,69	0,19
Shareholders' equity per share	8,86	7,26	6,61

Other information	2006	2005	2004
Number of employees	1.925	1.277	1.011


10.274
net result
+49.7%
gross operating income
+648
increase in human resources
8,926,905
number of share
8.837
cash flow


+59.1%
increase in revenues
8.86
net equity per share
_Living network

_**Letter** to the shareholders

Dear Shareholders,

after as short as ten years, the technological paradigms and possibly even more so the cultural ones of the web and of its complex underlying technology infrastructure have brought about a dramatic change in the way millions of people live and work.

In these ten years Reply has been set up and has developed with passion and – I am sure – with expertise, being inspired, even in its own internal organization, on the web of tools, information and potential coming from the net.

In these years we have supported our customers along a path - at times brave - of evolution of corporate IT, which is more and more an integral part of the daily life of everyone and less and less relegated to the physical spaces of offices.

Today, when the first generation of the Internet is behind us, we are quickly heading towards a new stage for the network, based on the new Web 2.0 paradigm, convergence between media and telecommunications and IT "consumerization".

This is an era when technologies are increasingly impacting information DNA and culture and will require us to further change our behaviour and lifestyle.

A new high-potential scenario is opening where the roles of the various actors are no longer as well-defined and unique as in the past, and where software is increasingly dematerializing, turning from a product into a service usable and accessible at all times.

It is up to us to harness this big opportunity and transform it into new growth for our group and value for out customers.

In 2006 we are tackling a very important challenge: the European market.

In late 2005 we announced our decision to export our model abroad, persuaded as we were that it was possible to build a highly specialized network – not only Italian - on the ICT market.

Today we can already see the first results in Germany where, with syskoplan, a company we acquired in April 2006, we are replicating our network model, initially focusing on the Media and Financial industries.

Thanks to the solidity we have achieved in Italy and the expansion we have started in Germany, in 2007 Reply can focus on further strengthening its offering and seeking new opportunities of growth in Europe.

In ten years and in an increasingly global and competitive industry we have created a new and lively brand, perceived as innovative and of high quality.

Our commitment and duty is now to lead it to achieve new levels of excellence.

The Chairman

Mario Rizzante

_The Reply Group

_The network, the networks. Convergence of Telecommunications, Media and Consumer Electronics. Software which is increasingly penetrating into any kind of products, turning from a mere component into the core of the product.

The network has now become the real “information system” which moves and makes available more and more real-time data, information and contents which are increasingly complex, while enabling new generations of products and services. A revolution which has triggered several competitive leverages and generated new organizational and behavioural models.

We are all living in a living network, a new form of ecosystem where barriers between digital and real components overlap, where technology becomes a seamless enabling factor for innovation (of products and processes) and innovation itself (of relationships, models, products).

We are quickly heading towards a future where technology will be present in every single moment of our lives, as a visible or invisible driver and enabler of things, objects and habits.

Reply supports its customers along this innovation path, with solutions and services oriented to fully exploit the opportunities provided by the network and communication technologies.

_**Technology** innovation

Web 2.0
Today Internet is no longer a mere "network of networks ", or a conglomeration of isolated and independent sites, but the sum of the technological capabilities achieved by the human kind in the diffusion of information and sharing of knowledge.

In this new scenario, contents and services are the same thing and are used and distributed by means of the same universal languages.

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

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

Mobile 2.0

Social Communities, wikies, Blogs go beyond the frontiers of the network and expand towards the Mobile universe, enabled by convergence between mobile devices and web services. Web 2.0 principles and models applied to mobile devices allow for the creation of new generations of services and solutions capable of fully leveraging the potential of functions such as: location-based marketing, local search, integrated search marketing and micro-payments. Usability and navigations must thus be re-thought for an optimum use of on hundreds of currently available mobile browsers, ultimately separating application logics from presentation modes.

Enterprise 2.0

The application of Web 2.0 models and technologies introduces new forms of collaboration in companies, based on diffuse and unstructured knowledge. The knowledge management platforms, in order to allow users have a say (as more and more often happens) open up to bottom-up approaches of construction and sharing of information based on wikis and blogs. New forms of communication based on instant Messaging tools appear, whereas Instant Messaging Robots speed up interaction between corporate processes.

Fast & Rich Portals

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

Extended SOA

The extension of SOA paradigms to the Internet encourages companies to provide services available for anyone. Web APIs combined with partnership programs allow anybody to disseminate information, distribute and sell third-party objects or services. Reply uses its own experience and methodology to support companies in building extended service-oriented architectures over the Internet and in the definition of partnership programs.

Mobile and Wireless

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

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

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

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

Digital Television

The adoption of the digital standard for terrestrial transmissions is the most dramatic technology innovation in the history of television, even more than colour broadcasts, satellite broadcasts or the remote control.

The digital technology has the potential to modify consumption patterns, operators' business models and thus the Telco-media industry system.

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

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

Service-oriented architecture

Web Services and SOA are the foundations to build new models where weakly interconnected application components are published, consumed, combined with others made available by the network.

New applications are built on two or more layers:
- Channel services, which implement the logics of the interface towards the end-customer;
- Business services, which implement the business logic in individual components;
- Business Process Management elements: for process supervision and monitoring;

It is essential, in the implementation of SOA-based solutions, to adopt a correct methodological approach and in-depth knowledge of reference architectural paradigms.

Reply's supply regarding Web Services, SOA and SAAS-based approaches includes:
- Design of new service-oriented architectural models;
- Support in the evolution of application platforms (ERP, Application Servers and Portals) towards new SOA-based architectural models;
- Expertise on new J2EE and .NET component programming paradigms;
- Consulting on SODA-based service design;
- Design and management of systems supporting Web Service monitoring and checking;

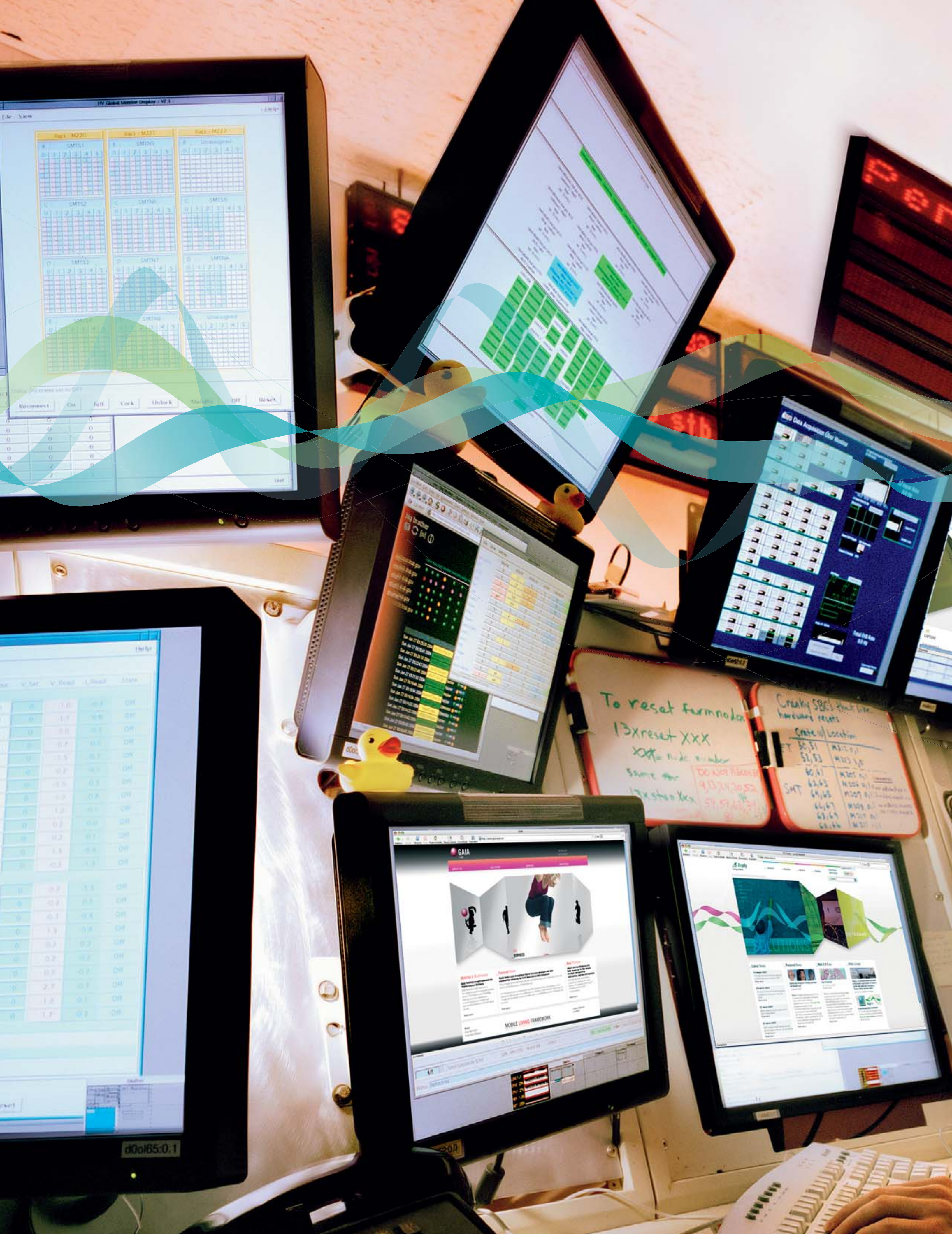
Security

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

Reply's supply on information security includes:

- **Consulting:** Security Plan, Risk Analysis and Management, Legislative Compliance Assessment, Policies and Procedures, Security Consolidation.
- **ICT Security Solutions:** Employee Internet Management, Event Correlation, Log Management, PKI, Firewall, Intrusion Detection, Antivirus, Strong Authentication, User Management, Single Sign On, OS Hardening, Desktop Protection, Alerting are some of the features that Reply can provide by implementing turnkey solutions, management and maintenance services, supervision services at the customer premises and Help Desk services.
- **Training and Education:** in an organization, making everybody aware of the importance of a comprehensive approach on security is essential for integrated security actions. That is why Reply supports its customers in the diffusion of a correct culture within organizations, both from a Security Awareness point of view and in terms of use of ICT Security solutions.

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



_Reply Platforms

_Click Reply™

The new frontier of the Supply Chain is to integrate end-to-end solutions, which eliminate barriers between providers, companies and end-customers, transforming the current models into true Collaborative Networks, where a correct design and implementation of Execution components is increasingly important. In this scenario, among the Auto-ID (automatic identification) technologies, which include systems capable of automatically receiving identification data of objects and people, RFID (Radio Frequency Identification) Labels or Tags are being increasingly used.

Reply has been one of the first companies in investing on RFID technologies in Italy, in order to offer organizations a comprehensive and integrated Supply Chain Execution supply: from consulting on operating process revision to the development of a specific design methodology, up to the definition of a specific application framework integrated into Click Reply™, the proprietary Supply Chain Execution platform.

The solution architecture, fully service-oriented and based on open standards, allows for integration both with ERP systems and with SCE and MES systems, enabling the management and control of an extensive range of devices used to read and write RFID tags.

The provision of an application framework for RFID technology management allows for a further step forward, i.e. the combined use of wireless and mobile technologies in real-time supply chain management and monitoring, thus making available real-time RFID TAG information on products, boxes, pallets or containers.

In 2007 new capabilities will be added as part of the Performance Management System, Activity Cost System and Labour Management System modules, and the level of integration between the RFID components and the Voice Recognition Systems will be enhanced.

_Click Reply™, with its Warehouse Management, Transportation Management, Planning and Inventory components, is used by over 170 customers worldwide to optimize their Supply Chain Execution.

_Discovery Reply™

Reply helps its customers build a new and effective approach in digital media management, in order to fully leverage the potential offered by new communication channels. Knowledge of the communication infrastructures and content management platforms allows Reply to develop pioneering Digital Media solutions.

Thanks to innovative workflow organization methods, the high level of interoperability with other corporate systems and advanced multi-channel content distribution services, Discovery Reply™, the Reply Digital Asset Management platform, offers organizations the opportunity to improve efficiency in the management of the entire life cycle of digital assets.

Discovery Reply™ facilitates transition towards integrated content production, use and archiving models by means of an open and flexible platform and an easy-to-use and intuitive interface for the entry, processing, cataloguing, access, search for and distribution of digital assets.

In 2007 there will be further evolutions in the platform, especially as regards content management for DVB-H, IPTV and Digital Right Management.

_The continuous investments on the platform have led to the development – in 2005-06 – of new capability, including Video Catalogue and Audio Catalogue, as well as the definition of specific verticalizations for some reference industries such as Telco Operators and Media Companies.

_Gaia Reply™

In 2006, as part of its Mobile and Multimedia supply, Reply released Gaia Reply™, an innovative service delivery platform based on a flexible open source framework which enables the delivery of contents and services over various mobile devices.

Gaia Reply™ integrates the data coming from any structured source, aggregates it according to the logics required by the service type and makes it available consistently over any mobile channel and device. In addition, the framework optimizes content display and navigation in order to make it ergonomic on the basis of the characteristics of the various devices used.

Framework evolutions planned for 2007 are aimed to introduce new functionality such as:

- context awareness: according to knowledge of the context of use of mobile services, contents are suitably tailored and adjusted to optimize the quality of the user experience of these services;

- semi-automatic integration of data sources: using suitable tools, heterogeneous data sources external to GAIA are integrated semi-automatically on the basis of the data layout extracted from them.

_Gaia is based on an open architecture which allows it to evolve while remaining compatible at all times with the equipment launched on the market and also to support other channels in addition to the mobile one in the future.

_**Market** focus

Telco & Media

In recent years, in the Telecommunications market operators have turned from connectivity providers into value-added service providers. Network infrastructures and available applications enable a new generation of convergent services related to users (business, consumer, employee), devices (Smart phone, PDA, PC, etc.) and the pattern of use. Wireless applications and applications based on Internet standards require an increasingly sophisticated approach, both in design and in development. The volume of the information managed and transmitted requires increasingly complex infrastructures, such as storage area networks.

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

Technology evolution and market requirements boost innovation towards a consumer market-oriented approach by means of new business models (Virtual Operator – MVNO) and customer-oriented interactive service types (IPTV) with highly customized contents.

By means of an integrated consulting, communication and creativity supply, Reply devises contents and enables innovative services harnessing all the potential of new digital channels.


YoCrunch
Friendship
Sour Cream
CARB

Industry and Services

Successful enterprises must be able to make quick decisions and act effectively, aligning strategies, people, processes and technologies quickly and simultaneously within "networked" structures: complex aggregations of customers, partners and providers.
Information systems ensure maximum flexibility of processes and increasingly accurate checking. New technologies strengthen and extend their potential: electronic tagging, web services, mobile solutions and instant messaging have changed the pace of evolution of companies.
Technological innovation and the ability to effectively integrate it into application solutions make up the foundations of Reply, which supports its customers in the implementation, change and management of information systems: from strategic design to the understanding and re-definition of core processes to the building of solutions ensuring integration of the applications supporting the entire value chain of the Extended Enterprise.

Customer relationship management
For Reply, building CRM solutions means identifying a relationship strategy: adopting the correct cultural attitude to see the customer as part of your organization, redesigning, if necessary, corporate processes and designing the application architecture supporting Marketing, Sales and Customer Service.

Logistics and distribution
The availability of new technological solutions and the quickness of communication allow improving Supply Chain Management efficiency. It becomes crucial to redefine and re-engineer the processes of purchasing, warehouse and production unit positioning, stock turnover checking, product transport and distribution. Reply helps its customers integrate operating partners, designing optimized Supply Chain Execution models in Warehouse Management, Transportation Management, Planning and Inventory components.

Production systems
Meeting market needs quicker and quicker with products that are often customer-defined requires production systems capable of speeding up adaptation to product features that are less and less predictable and more and more variable. For Reply this means re-thinking the systems governing production under a real-time perspective, increasingly aligning them to extended enterprise model paradigms.

Banking, Insurance and Financial companies

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

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

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

Energy & Utilities

In the last year this industry has tackled competition and deregulation, and has had to comply with EU regulations which require the separation between the production and selling processes, under significant pressure in terms of revenues and margins and the need to provide increasing levels of service and security.

Reply has defined a set of specific supplies regarding the main industry's vertical areas – Retailer, Merchant Energy Provider and Network Operations – made up of strategic and technology consulting services which optimize processes and select and implement the technology architectures and platforms most suitable to the context.

In change management (especially in terms of processes and implementation of new business components, Reply can boast consulting and program management capability to ensure *continuity* and *time to market* in the proposition of new convergent services.

Public Administration

The internationalization process at European level and federalism at national level increasingly influence the market demand trend of the Public Administration, where for a long time red tape reduction and improvement of user services (for citizens and businesses) have been sought.

This involves evolving towards more and more customized services delivered in real time, ensuring citizens access to information, providing services on PC, palmtops, television, mobile phones, while maintaining data and information consistency among the various departments.

More and more public administrations are using technologies to manage relationships with citizens, harness and efficiently manage all the information assets and ensure access to knowledge to employees in their day-to-day tasks.

For the Local and Central Public Administration, Reply uses the experience gathered over the years on the most advanced on-line services, quick execution capability and the expertise of its consultants, verticalizing applications and skills to maximize performance and effectiveness in the implementation of specific solutions.

Reply's e-government initiatives are aimed at creating solutions that help companies and administrations effectively compete in the new scenario where the Public and Local Administrations operate.

_The model

Reply operates through a network of operating companies specialized in Processes, Applications and Technologies that are excellence centres classified as Best in Class in their respective competence areas.

__Processes

for Reply understanding and using technologies means introducing a new enabler for processes thanks to in-depth knowledge of the market and of the specific industrial implementation contexts.

__Applications

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

__Technologies

in Reply the use of innovative technologies is optimized to implement solutions ensuring customers maximum operational efficiency and flexibility.

__**Reply** services include:

Consulting

strategic, communication, process and technology.

System Integration

a combination of business consulting with high value-added and innovative technology Solutions to better harness the potential of technology.

Application Management

technology asset management, monitoring and on-going evolution.

_**The value** of people

Reply relies on the excellence of its people. Reply women and men shape the “brand” with customers and partners and represent its image. For this reason, the Group is only joined by people who come from the main Universities and natively share Reply values.

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

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

All the Group managers work every day to safeguard the principles that have always constituted the foundations of Reply and have supported it since its establishment.

Reply team

__ **Sharing** customer targets
__ **Professional** and quick implementation
__ **Culture** and flexibility

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

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

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

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

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

_**Directors'** report on operations

_**Financial** review of the Group

Trend of the period

Reply is specialised in designing and implementing solutions based on new communication channels and digital media.
Reply, consisting of a network of specialized companies, provides applications to optimize corporate processes and develops innovative technology-based solutions to enable communication between customers, business partners and suppliers. Reply's activities are focused on the areas of Telecom & Media, Manufacturing, Finance and Public Administration.
Reply services include consulting, system integration, application management and business process outsourcing.
Reply is listed on the STAR index of the Italian Stock Exchange [REY.MI].

In 2006 Reply confirmed positive trends, higher than expected. The consolidated turnover totalled 230,2 thousand euros (+ 59,1% compared to 2005) with EBITDA of 31,5 million euros (+ 49,7% compared to 2005), and an EBIT of 27,8 thousand euros (+ 48,0% compared to 2005). Income totalled 10,3 thousand euros (+ 49,7% compared to 2005).

The net financial position at December 31, 2006 was positive and stood at 6,7 thousand euros compared to 2,2 thousand euros at December 31, 2005.
In 2006 the German Group confirmed positive trends. Syskoplan ended 2006 with consolidated turnover of 45,2 thousand euros (+12%), an EBIT of 4,2 thousand euros (+17%) and a net financial position of 19,7 thousand euros.

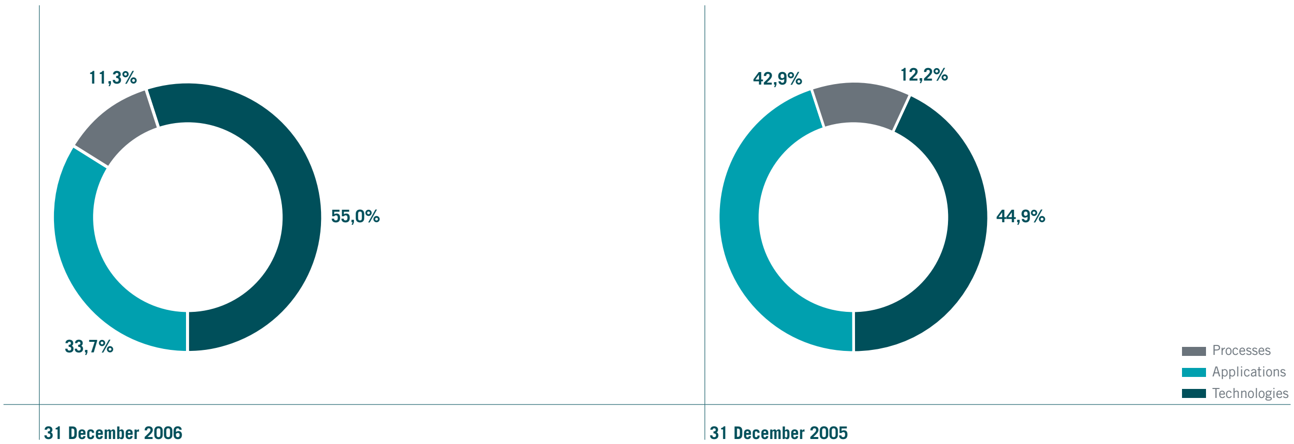
Reply is guided by a group of partners and managers that in only ten years since its foundation was able to obtain a model based on extreme specialisation and competencies and on new technologies in highly competitive markets.
In 2006 the most significant achievements were related to the development of activities in the financial services segment and consolidation of its position within the Telco-media convergence framework, where Reply collaborates with the major operators of Digital Cable, IPTV, DVB-H and Digital Asset Management projects.
All this has enabled Reply to achieve rapid growth in all segments and to position itself as one of the leading consultancy and system integration groups on the new scenario defined by the convergence between telecommunications, media and electronic consumption, a segment in which large development and expansion potentials exist.
The solidity achieved in Italy and the expansion of the network in Germany will allow Reply to concentrate on further strengthening its business offer and more specifically within the convergence framework, the Web 2.0, social networking models and within new 3D worlds such as Second Life.

Reclassified consolidated statement of income

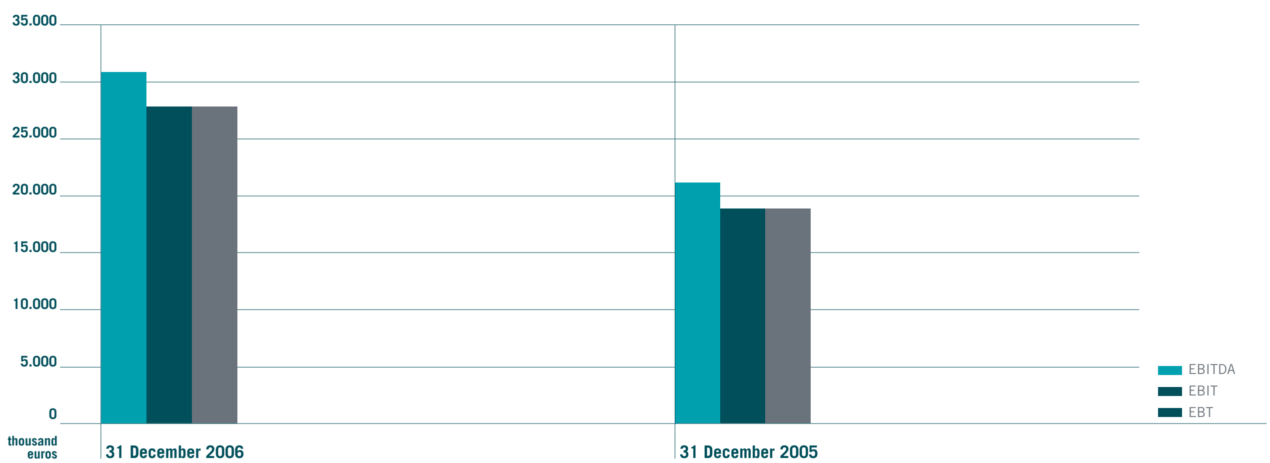
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

(thousand euros)	2006	%	2005	%
Revenues	**230.164**	**100,0**	**144.675**	**100,0**
Purchases	(6.526)	(2,8)	(3.544)	(2,4)
Personnel	(113.813)	(49,4)	(69.866)	(48,3)
Services and other costs	(77.860)	(33,8)	(49.399)	(34,1)
Other unusual operating income/expenses	(503)	(0,2)	(849)	(0,6)
Operating costs	**(198.702)**	**(86,3)**	**(123.658)**	**(85,5)**
Gross operating income (EBITDA)	**31.462**	**13,7**	**21.017**	**14,5**
Amortisation, depreciation and write-downs	(3.616)	(1,6)	(2.197)	(1,5)
Operating income (EBIT)	**27.846**	**12,1**	**18.820**	**13,0**
Result of equity investments	350	0,2	477	0,3
Financial income/(expenses)	(399)	(0,2)	(456)	(0,3)
Result before tax	**27.797**	**12,1**	**18.841**	**13,0**
Income tax	(16.458)	(7,2)	(10.993)	(7,6)
Net result before minority interest	**11.339**	**4,9**	**7.848**	**5,4**
Result from discontinued operations	68	0,0	-	0,0
Minority interest	(1.133)	(0,5)	(984)	(0,7)
GROUP NET RESULT	**10.274**	**4,5**	**6.864**	**4,7**

The breakdown of Group revenues is detailed in the pie graphs below:



Trend in the major economic indexes is shown in the graphs below:



Analysis of the financial structure

The table below details the Group's financial structure as at 31 December compared to 31 December 2005:

(thousand euros)	31/12/2006 (a)	%	31/12/2005 (b)	%	Change (a-b)
Current operating assets	121.620		84.939		36.681
Current operating liabilities	(61.682)		(45.400)		(16.282)
Net working capital (A)	**59.938**		**39.539**		**20.399**
Non current assets	48.237		30.546		17.781
Non M/L term financial liabilities	(21.375)		(11.023)		(10.352)
Net fixed capital (B)	**26.952**		**19.523**		**7.429**
Net invested capital (A+B)	**86.890**	**100,0**	**59.062**	**100,0**	**27.828**
Shareholders' equity (C)	93.588	107,7	61.262	103,7	32.326
Net financial position (A+B-C)	**(6.698)**	**(7,7)**	**(2.200)**	**(3,7)**	**(4.498)**

Net invested capital amounted to 86.890 thousand euros as at 31 December 2006 and was financed by Shareholders' equity for 93.588 thousand euros, with a residual net financial position of 6.698 thousand euros.

The following table details the net working capital.

(thousand euros)	31/12/2006 (a)	%	31/12/2005 (b)	%	Change (a-b)
Inventories	5.325		1.547		3.778
Trade receivables	111.749		79.662		32.087
Other operating assets	4.546		3.730		816
Current operating assets (A)	**121.620**		**84.939**		**36.681**
Trade payables	18.864		16.096		2.768
Other current liabilities	42.818		29.304		13.514
Current operating liabilities (B)	**61.682**		**45.400**		**16.282**
Net working capital (A-B)	**59.938**		**39.539**		**20.399**
% return on revenues	*26,0%*		*27,3%*		

Net financial position

Detail of the Groups' net financial position as at 31 December 2006 analysed by maturity date and compared to 31 December 2005 figures is provided below:

(thousand euros)	31/12/2006	31/12/2005	Change
Cash and cash equivalents	34.673	13.989	20.684
Investments in liquid funds	1.718		1.718
Due to banks	(3.943)	(4.119)	176
Short-term financial position	**32.448**	**9.870**	**22.578**
Due to banks	(25.750)	(7.670)	(18.080)
M/L term financial position	**(25.750)**	**(7.670)**	**(18.080)**
Total net financial position	**6.698**	**2.200**	**4.498**

Total net financial position as at 31 December 2006 amounted to 6.698 thousand euros with a change of 4.498 thousand euros compared to 31 December 2005 and can be explained as follows:

- Consolidation of syskoplan Group at 31 December 2006 for 19.331 thousand euros;
- Drawing of 20.453 thousand euros of the credit facility for the acquisition of the syskoplan Group (16.965 thousand euros) and the acquisition of minority interests of some subsidiary companies (3.488 thousand euros);
- Cash flows from operational activities for 5.620 thousand euros.

Due to banks is referred to the partial utilization (28.452 thousand euros) of the syndicated bank loan undersigned by the parent company Reply S.p.A. for new M&A operations.

Change in net financial position can be analysed as follows:

(thousand euros)	31/12/2006
Cash flows from operating activities (A)	8.837
Cash flows from investment activities (B)	(2.158)
Cash flows from financial activities (C)	13.031
Change in net financial position (A+B+C)	**19.710**
Cash and cash equivalents at beginning of period	13.989
Cash and cash equivalents at year end	33.699
Total change in cash and cash equivalents	**19.710**

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

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

(thousand euros)	**31/12/2006**		**31/12/2005**	
	Net Equity	**Result**	**Net Equity**	**Result**
Reply S.p.A.'s separate financial statements	**60.174**	**550**	**51.965**	**3.273**
Results of the subsidiary companies	52.767	14.245	18.878	9.119
Carrying value of investments in consolidated companies	(55.826)	1.300	(25.876)	-
Consolidation differences	34.218	-	17.120	-
Elimination of dividends from subsidiary companies	-	(4.200)	-	(3.500)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	2.255	(488)	(825)	(1.044)
Minority interest	(14.481)	(1.133)	(206)	(984)
Reply Group consolidated financial statements	**79.107**	**10.274**	**61.056**	**6.864**

_**Significant** operations

Acquisition of syskoplan

Acquisition of 63.7% of the share capital of syskoplan AG was completed in the first half of 2006. syskoplan AG is listed on the Frankfurt Stock Exchange.
syskoplan was founded in 1983 and it is a German consultancy and application management company, leader in CRM consultancy, for major companies and sector leaders in Germany and across Europe.
The acquisition of syskoplan AG that was carried out by Reply S.p.A is as follows:

(a) on December 22, 2005, in relation to the resolution made by the Board of Directors that on the same date provided the guidelines, an agreement was reached to purchase 53.1% of syskoplan AG's share capital of which:
- 31.2% related to the shareholders, half of the stake to be paid through a cash consideration and the other half through a share swap against shares in Reply S.p.A. to be newly issued (11.0 million euros);
- 21.9% through a share purchase and transfer agreement with DZ Equity Partner GmbH (7,7 million euros);

The cash consideration was paid on January 18, 2006, and the share capital increase took place on April 11, 2006.

(b) on 18 January 2006 Reply S.p.A. acquired from the company Siemens Business Services GmbH & Co. OHG 7.31% share capital of syskoplan AG against a cash contribution (2,6 million euros);

(c) on April 3, 2006 Reply S.p.A. purchased a further 3.35% following a Mandatory Public Offer launched, in accordance with German regulations, for the free float of syskoplan AG (1,2 million euros).

The acquisition model adopted contemplated the need to extend credibility among the syskoplan shareholders that, in view of their strategic role within the syskoplan Group, received newly issued Reply shares subject to a lock up period, which led to a corresponding cash saving of 5,5 million euros. At the same time, the cash consideration was financed for over 90% (15,8 million euros) by a medium-long term bank loan finalized at new acquisitions, allowing the Reply Group to obtain tax benefits deriving from the deductibility of the interest expenses on the loan.

The acquisition of a leading company listed on the German market will enable Reply to further strengthen its expansion.

Expansion of the Reply Network in Germany

With the acquisition of syskoplan AG, a German consultancy and application management company, leader in CRM consultancy the Group has laid solid foundations for the future development of the Reply Network in Germany especially in the sectors of financial institutions and media.

macrosInnovation

In the first months of 2006 syskoplan acquired macrosInnovation. A company based in Munich and specialised in the banking and insurance sector.
Following this acquisition, that was finalised through a share capital increase of syskoplan AG, to be paid through contributions in kind in macrosInnovation shares, Reply's shareholding decreased to 60.56%.

discovery sysko and Interactiv

The constitution of discovery sysko GmbH and the acquisition of Interactiv GmbH represents an expansion on the German market in the media and broadcasting segments.
discovery sysko, operating since January 2007, with headquarters in Munich, is a newly cosntituted company specialised in consultancy services and solutions for the digital asset management.
discovery sysko is the centre of excellence in a market that is undergoing extensive expansion thanks to the convergence between Telco - media and a large number of local broadcasters.
discovery sysko will enable Reply to improve, even on the German market, the competencies it has developed with Discovery Reply, the innovative proprietor platform for Media Asset Management already used by some major European Broadcasters in order to access, research, file and distribute digital audio and video contents.
Interactiv GmbH, of which syskoplan AG holds control over the share capital, develops mobile services and applications commissioned by clients. More specifically, JOCA, the mobile portal developed by Interactiv, allows TV spectators, newspaper readers, and radio listeners to participate via cellular phone in contests or the purchase of products in real time. Among Interactiv's key clients are Deutsche Post AG, neckermann.de, Radio FFH, and Volkswagen AG.

Xuccess

In February 2007 syskoplan AG acquired 100% of Xuccess's share capital, a German company specialised in Consultancy and System Integration. Its key clients are major financial institutions. Xuccess was founded in 2001, a Microsoft Gold Certified Partner specialised in regulatory and institutional reporting supporting its clients in adopting the new regulations introduced by Basilea II.
With over 40 employees and based in Gilching near Munich, in 2006 Xuccess generated a turnover of 9.3 million euros and an EBT of 20.3%.
The purchase will encompass a cash payment and share contribution. Current management will be involved with running the operational activities.

Option to acquire control over Santer S.p.A.

In the month of July 2006 Reply S.p.A. exercised the option to acquire control over Santer S.p.A.'s share capital as foreseen in the original contract undersigned for the acquisition of 49% of the company's share capital.

The acquisition was concluded in the month of July and Reply's interest passed from 49% to 53.77% with an investment of 0.5 million euros.

Santer S.p.A., a company that operates in the Public Administration segment and specialised in solutions for Public Health and Local Institutions, generated a turnover of 20.9 million euros with an EBITDA of 2.9 million euros and Net result of 1.2 million euros.

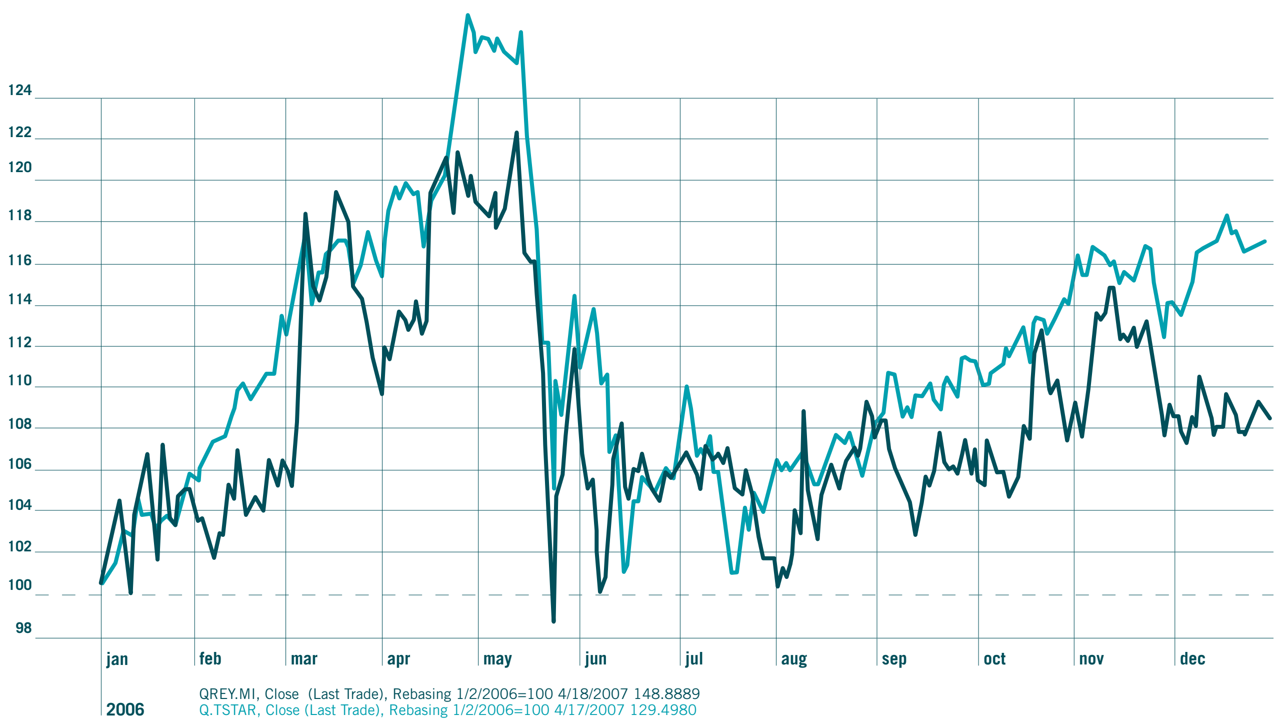
The decision to exercise the put option demonstrates the integration of Santer's specialised competencies within the Local Public Administration and Health segment and Reply's specialization in new technologies and the most advanced on-line services.

Through this operation Reply has confirmed its interest in expanding in a promising field such as the platforms for the management of health services.

_**Reply** on the stock market

Financial year 2006 is the fourth consecutive year of growth for the Italian stock market. The Mibtel index marked an increase of 19% over year ended 2005.
The positive trends of the stock exchanges and the listing of new companies (46 new entries and 17 retractions) caused an increase in the overall capitalizations of the listed companies that stood at 778.5 million euros (676.6 at year ended 2005) equal to 52.8% of GDP (it was 47.7 in 2005). The figures at the end of December were the highest since January 2001.

In 2006 the performance of the Reply share marked an increase of 8.3%, according to the TechStar index trend, although compared to the latter showed a higher volatility.
The graph shows the decline of the share in the month of May, connected to the strong corrections recorded on the entire market and more specifically to the TechStar index, after only ten days having reached a historic maximum of 21.95 euros on May 10 it fell by 19%, in line with the TechStar index (-17%) and the Star index (-14%).
From then on the Reply share turned back to its positive trend, as shown in the graph below, and continued it for the rest of the year.



Extending the analysis of the shares performance to the entire Italian stock market (Mibtel index) Reply in six years has out performed Piazza Affari with a positive gap of approximately 25 percentage points.

In the months following financial year ended 2006, the share's performance was absolutely remarkable, marking an increase of 35% compared to 11% of the TechStar index and 5% of the entire Italian stock market (Mibtel).

Furthermore, on February 13, 2007, the share was exchanged at over 22 euros per share (21.95 all-time high) and is constantly greater, having reached over 26 euros.

During 2006, the major financial institutions demonstrated appreciation for Reply's share by constantly proposing research on the Group (6 coverages with positive recommendation) and by encountering management.

Among shareholders' holding over 2% stake, Kairos Partners, JP Morgan Asset Management and for the first year Absolute Capital Management. The composition of the shareholders confirms that Italian and foreign investment institutions have shown interest in the share and are currently significant stake holders.

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

_The Parent company Reply S.p.A.

Premise

The financial statements commented and illustrated on in the following pages have been prepared on the basis of the company's statutory financial statements at 31 December 2006 to which reference should be made. In compliance with European Regulation no. 1606 of July 19, 2002 the Reply Group has adopted the International Financial reporting Standards ("IFRS") issued by the international accounting standards board ("IASB") for the preparation of its consolidated financial statements. On the basis of national legislation implementing that Regulation, the annual statutory accounts of the Parent Company have also been prepared using those accounting standards. As a consequence the Parent Company Reply S.p.A is presenting its financial statements for 2006 and its comparative figures for the prior year in accordance with IFRS.

Consolidated income statement

The Parent Company Reply S.p.A. mainly carries out the operational, co-ordination and the technical and quality management of the Group as well as the administration, finance and marketing activities for its subsidiaries.
Reply S.p.A. also carries out *fronting* activities with key clients in capacity of sole manager of the ISO 9001 procedures. Therefore the economic results achieved by the company are not representative of the overall economic trends of the Group and the performances on the related market segments.

The company's income statement is summarized as follows:

(thousand euros)	**2006**	**2005**	**Change**
Revenues from operating activities	16.398	14.488	1.910
Other revenue	79.257	65.626	13.631
Purchases, services and other costs	(89.471)	(73.974)	(15.497)
Other unusual operating income/expenses	(8.574)	(6.140)	(2.434)
Amortisation, depreciation and write-downs	(628)	(446)	(182)
Operating income	**(3.018)**	**(446)**	**(2.572)**
Financial income, net	535	714	(179)
Income from equity investments	4.200	3.500	700
Loss on equity investments	(1.299)	-	(1.299)
Result before tax	**418**	**3.768**	**(3.350)**
Income tax	132	(495)	627
NET RESULT	**550**	**3.273**	**(2.723)**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 4.909 thousand euros (4.096 thousand euros for the year ended 2005);
- Activities carried out centrally for the subsidiary companies for 9.123 thousand euros (7.849 thousand euros in 2005);
- Management services for 2.304 thousand euros (2.543 thousand euros in for the year ended 2005).

The increase of Group revenues in 2006, has a direct influence on Reply S.p.A. who has developed in the past years *fronting* activities concerning relations with primary clients also in capacity of sole manager of processes compliant to ISO 9001 quality standards.

Operating income in 2006 marked a negative result of 3.018 thousand euros, after having deducted amortization expenses of 628 thousand euros mainly related to software (150 thousand euros), hardware (125 thousand euros) and improvements on third party premises (113 thousand euros).

The item Financial income net, amounting to positive 535 thousand euros includes interest income for 1.859 thousand euros and interest expenses for 1.323 thousand euros connected to the utilisation of the credit facility for new M&A operations.

Income from equity investments refers to dividends from subsidiaries for 4.200 thousand euros.

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

Net income for financial year ended 2006 amounted to 550 thousand euros after a positive tax burden of 132 thousand euros.

Financial structure

The financial structure of Reply S.p.A. at 31 December, 2006, with comparative figures at 31 December, 2005, is provided below:

(thousand euros)	31/12/2006 (a)	31/12/2005 (b)	Change (a-b)
Tangible assets	880	630	250
Intangible assets	827	806	21
Equity investments	55.388	30.046	25.342
Other intangible assets	978	772	206
Non current assets	**58.072**	**32.253**	**25.819**
Net working capital	**(1.235)**	**(9.014)**	**7.779**
INVESTED CAPITAL	**56.837**	**23.239**	**33.598**
Non current liabilities	921	939	(18)
Total shareholders' equity	60.174	51.965	8.209
Net financial position	(4.258)	(29.665)	25.407
TOTAL	**56.837**	**23.239**	**33.598**

Net invested capital, totalling 56.837 thousand euros was financed by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (698 thousand euros) and the reserve for deferred tax liabilities (223 thousand euros) for a total of 921 thousand euros and also funded by Shareholder's equity, 60.174 thousand euros, with a residual net financial liquidity of 4.258 thousand euros.

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

Financial position

Net financial position of the Parent Company as at 31 December 2006 amounted to 4.258 thousand euros. Detail is below:

(thousand euros)	**31/12/06**	**31/12/05**	**Change**
Cash and cash equivalents	9.555	10.763	(1.208)
Financial assets from subsidiaries	27.013	31.479	(4.466)
Due to banks	(3.740)	(4.025)	285
Financial liabilities due to subsidiaries	(4.887)	(1.232)	(3.655)
Current net financial position	**27.941**	**36.985**	**(9.044)**
Financial assets from subsidiaries	440	350	90
Due to banks	(24.123)	(7.670)	(16.453)
Non current net financial position	**(23.683)**	**(7.320)**	**(16.363)**
Total net financial position	**4.258**	**29.665**	**(25.407)**

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

_ **Other** information

Corporate governance

The *Corporate Governance* system adopted by companies listed on the stock market has undergone numerous and profound changes following the coming into force of the legislation on the *"safeguarding of investors"* (Law no. 252 of 28 December 2005), which significantly modified the regulations of Law Decree 24 February 1998 *(Testo Unico della Finanza)*, introducing important changes.

Furthermore, last December the legislator intervened on the matter and introduced the "*Decreto correttivo Pinza"* (Law Decree no. 303 of 29 December 2006) in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations.

In March 2006, the Committee for Corporate Governance, instituted by Borsa Italiana S.p.A., has ratified the new Corporate Governance Code with the aim of integrating the legislative measures with the best practice principles acknowledged at an international level.

Within this changed legislative and regulatory context, still uncertain and incomplete until Consob issues the implementing regulations, Reply S.p.A. has however seen to adapting its Corporate Governance system in accordance to the requirements of the new text of the Self disciplinary Code for Listed Companies published by the Committee for Corporate Governance instituted by Borsa Italiana S.p.A and adopting the Regulations on Significant Operations and related party transactions.

In anticipation of Consob issuing the implementing regulations, the Board of Directors will propose to the Shareholders in the forthcoming Annual meeting in June, the adoption of the necessary changes to the Articles of Incorporation in order to comply to the existing laws, or those deemed necessary in order to respect the established deadline of June 30, 2007.

In accordance with the regulatory requirements of Borsa Italiana, Reply has prepared a *"Report on Corporate Governance"* that is annexed herein.

Research and development activities

Reply offers services and solutions with high technological standards in a market where innovation is of primary importance.
Research activities therefore include training activities and improvement of the services and solutions offered on the market. More specifically, research and development activities are aimed at upgrading and improving proprietor software. Such activities are measured according to IAS 38.

Transactions with related parties and group companies

Transactions among Group companies are carried out at normal market conditions in connection to the characteristics of the goods or services offered.
Significant transactions between the Parent Company Reply S.p.A. and its subsidiaries are detailed at Note 30 of Reply S.p.A.'s financial statements.

Transactions with related parties, definition of which has been extended to meet the one disciplined by IAS 24, include, apart from the normal economic-financial relations between listed groups or big sized company, in which the directors of the Company or its subsidiaries hold significant positions, the purchase of goods from Group companies that are carried out at normal market conditions.

Information on transactions with related parties as per Consob communication of 28 July, 2006 are disclosed at Note 33 of the Consolidated financial statements and Note 30 of the financial statements.

No atypical or unusual operations, as per Consob definition, have been carried out by the Group companies.

The Annual Report on Corporate Governance provides detailed information on significant operations and transactions with related parties.

Treasury Shares

At the balance sheet date, the Parent Company holds 29.499 treasury shares, amounting to 223.825 euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same value.

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

Financial instruments

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

Interest held by Members of the Board of Directors, Controlling Bodies and Key management

(Art. 79 of Consob Regulation, Resolution No. 11971 of May 14, 1999)

First name and surname	Office held in Reply S.p.A.	Number of shares held at 31/12/2005	Number of shares bought in 2006	Number of shares sold in 2006	Number of shares held at 31/12/2006	% of share capital
Mario Rizzante	Chairman	1.280	201	-	1.481	0.0166%
Tatiana Rizzante	Chief executive officer	5.834	-	-	5.834	0.0654%
Oscar Pepino	Director	700	1.600	(240)	2.060	0.0231%
Marco Mezzalama	Independent director	-	250	-	250	0.0028%
Key management		757.633	1.640	(29.108)	735.290	8.2368%

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

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 18% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds 99.9% of Iceberg's share capital, company governed by Luxemburg laws with headquarters at 5, rue Guillaume Kroll;
- Iceberg holds n. 4,507,538 Reply S.p.A. shares, equivalent to 50.49% of the Company's share capital;
- Alika S.r.l. holds n. 299,799 Reply S.p.A. shares, equivalent to 3.36% of the Company's share capital.

_**Outlook** on operations

Financial year ended 2006 was characterised by an important challenge: the European market. Today one can already see the first results in Germany where, with syskoplan, Reply is replicating its network model, initially focusing on the Media and Financial industries.

The results achieved in Italy, and with the expansion in Germany, testify an extremely solid Group which will enable Reply in 2007 to develop and concentrate on new business opportunities and growth in the European market.

Since January Reply has further consolidated, in Italy and abroad, relations with important client and industrial groups, giving rise to new and important projects within the convergence framework and introducing new technology supporting core processes such as Web services, SOA, Mobile Wireless solutions and multichannel portals.

The economic and financial trend in the first months of 2007 are positive in terms of turnover and profitability.

_**Motion** for the approval of the financial statements and allocation of the 2006 net result

The financial statements at year end 2006 of Reply S.p.A., prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 549.937 euros and shareholders' equity amounted to 60.174.495 euros.
Detail is as follows:

(in euros)	**31/12/2006**
Share capital	4.641.991
Share premium reserve	25.530.027
Legal reserve	929.760
Reserve for treasury shares on hand	223.825
Other reserves	28.298.955
Total share capital and reserves	**59.624.558**
Net result	549.937
Total	**60.174.495**

The Board of Directors in submitting to the Shareholders the approval of the financial statements as at 31 December 2006, with a net result of 549.937 euros, proposes that the shareholders resolve:

- To approve Reply S.p.A.'s separate statements recording a net result of 549.937,00 euros that already accounts for an accrual of 630.000,00 euros related to the participation in the net result of Directors invested with operational powers in accordance to article 22 of the Articles of Incorporation;
- To approve the motion to allocate the entire net result to the extraordinary reserve;
- To approve the motion to distribute a dividend to the shareholders in the amount of 0,28 euros per ordinary share, excluding treasury shares, and that are in circulation at 25 June 2007, with payment to be made on 28 June 2007, to be drawn from distributable reserves for a total amount of 2.499.533,40 euros;
- To approve the motion, in accordance to article 22 of the Articles of Incorporation, to distribute to the Directors invested with operational powers a participation in the Parent company's income for a total amount of 629.240 euros rounded to 630.000 euros, equal to 2% of the consolidated gross operating margin (31.642 thousand euros) in accordance to the International Accounting Standards IAS/IFRS.

Turin, 28 May 2007

For the Board of Directors
The Chairman
(Mario Rizzante)

_**Consolidated** financial statements and explanatory notes as at 31 December 2006

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

(thousand euros)	***Note***	**2006**	**2005**
Revenues	*5*	230.164	144.675
Other revenues		1.386	552
Purchases	*6*	(6.526)	(3.544)
Personnel	*7*	(113.813)	(69.866)
Services and other costs	*8*	(79.246)	(49.951)
Amortisation, depreciation and write-downs	*9*	(3.616)	(2.197)
Other unusual operating income/expenses	*10*	(503)	(849)
Operating income		**27.846**	**18.820**
Result of equity investment	*11*	350	477
Financial income/(expenses)	*12*	(399)	(456)
Result before tax		**27.797**	**18.841**
Income tax	*13*	(16.458)	(10.993)
Net result		**11.339**	**7.848**
Result from discontinued operations	*14*	68	-
Minority interest		(1.133)	(984)
Group net result		**10.274**	**6.864**
Net result per share		*1,18*	*0,82*
Diluted net result per share		*1,17*	*0,82*

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of income are disclosed at the Annexed tables herein.

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

(thousand euros)	***Note***	**31/12/2006**	**31/12/2005**
Tangible assets	*15*	6.484	2.338
Goodwill	*16*	34.218	17.120
Other intangible assets	*17*	2.129	1.746
Equity investments	*18*	10	5.690
Other financial assets	*19*	1.081	740
Deferred tax assets	*20*	4.644	2.912
Non Current assets		**48.566**	**30.846**
Inventories	*21*	5.325	1.547
Trade receivables	*22*	111.749	79.662
Other receivables and current assets	*23*	4.425	3.730
Financial assets	*19*	1.480	-
Cash and cash equivalents	*24*	33.699	13.989
Current assets		**156.678**	**98.928**
Total assets from discontinued operations	*14*	1.095	-
TOTAL ASSETS		**206.339**	**129.474**
Share capital	*25*	4.642	4.374
Other reserves		64.191	49.818
Net result		10.274	6.864
Group shareholders' equity		**79.107**	**61.056**
Minority interest		14.481	206
SHAREHOLDERS' EQUITY		**93.588**	**61.262**
Financial liabilities	*26*	25.750	7.670
Employee benefits	*27*	13.210	9.334
Deferred tax liabilities	*28*	3.447	1.689
Provisions	*29*	4.718	-
Non current liabilities		**47.125**	**18.693**
Financial liabilities	*26*	3.943	4.119
Trade payables	*30*	18.864	16.096
Other current liabilities	*31*	37.250	29.172
Provisions	*29*	5.182	132
Current liabilities		**65.239**	**49.519**
Total liabilities from discontinued operations	*14*	387	-
TOTAL LIABILITIES		**112.751**	**68.212**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**206.339**	**129.474**

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of the related party transactions on the consolidated balance sheet are disclosed at the Annexed tables herein.

_**Reply** Statement of changes in shareholders' equity

(thousand euros)	Share capital	Reserve for cash flow hedges	Other reserves	Result for the year	Total
Balance at 31/12/2004	**4.346**	**(75)**	**46.505**	**4.682**	**55.273**
Allocation 2004 reserve					
- reserves	-	-	3.297	(3.297)	-
- dividends	-	-	-	(1.385)	(1.385)
Increase of share capital	28	-	517	-	545
Other changes	-	58	(299)	-	(241)
Result for the year	-	-	-	6.864	6.864
Balance at 31/12/2005	**4.374**	**(17)**	**49.835**	**6.864**	**61.056**
Allocation 2005 result					
- reserves			5.086	(5.086)	-
- dividends				(1.778)	(1.778)
Increase of share capital	268		8.984		9.252
Other changes		368	(65)		303
Result for the year				10.274	10.274
Balance at 31/12/2006	**4.642**	**351**	**63.840**	**10.274**	**79.107**

_**Reply** Consolidated statement of cash flows

(thousand euros)	**31/12/2006**	**31/12/2005**
Net result for the period	11.339	7.848
Adjustment of equity investments	(350)	(477)
Depreciation and amortisation	3.620	2.197
Other non-monetary income and expenses, net	844	3.279
Change in inventories	(3.048)	(1.269)
Change in trade receivables	(5.459)	(14.556)
Change in trade payables	(2.525)	3.419
Change in other assets and liabilities	18.469	14.193
Income tax paid	(12.769)	(8.636)
Interest paid	(724)	(208)
Net cash flows from operating activities of discontinued operations	(561)	-
Net Cash flows from operating activities	**8.837**	**5.790**
Payments for tangible and intangible assets	(2.849)	(2.278)
Payments for financial assets	(845)	(97)
Proceeds from disposal of financial assets	101	-
Out payments for the acquisition of subsidiaries	(506)	(3.047)
Net cash flows from investment activities of discontinued operations	1.941	-
Net cash flows from investment activities	**(2.158)**	**(5.422)**
In payments from issuing of new shares	385	545
Dividend distribution	(2.173)	(1.385)
In payments from financial loans	20.123	12.000
Payment of instalments	(4.000)	(11.900)
Other changes	(578)	(20)
Net cash flows from financing activities of discontinued operations	(726)	-
Net Cash flows from financing activities	**13.031**	**(760)**
Net cash flows	**19.710**	**(392)**
Cash and equivalents at beginning of period	13.989	14.381
Cash and cash equivalents at year end	33.699	13.989
Total change in cash and cash equivalents	**19.710**	**(392)**

_**Notes** to the consolidated financial statements

Note 1 - General information

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

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

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

Note 2 - Accounting principles and basis of consolidation

Compliance with International Accounting Principles

The year ended 2006 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

Following the coming into force of European Regulation No. 1606 dated 19 July 2002, starting from January 1, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS).
The information required by IFRS 1 – First time adoption of international reporting standards, on the effects included in the Appendix to the Consolidated Financial statements at 31 December 2005, to which reference should be made.

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

General Accounting Principles

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

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

Format of the financial statements

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

The income statement format adopted by the group classifies costs according to their nature, which is deemed to properly represent the Group's business.
The Balance sheet is prepared according to the distinction between current and non-current assets and liabilities.
The statement of cash flows is presented using the indirect method.

The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
In connection with the requirements of Consob resolution No. 15519 of July 27, 2006 as to the format of the financial statements, specific supplementary income statement and balance sheet formats have been added for related party transactions.

Basis of consolidation

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.
Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Minority interest is stated separately with respect to the Group's net equity. Such minority interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post acquisition adjustments. Subsequently, any losses attributable to minority interests that exceed their share of net equity is attributed to the Group net equity unless minority interest is able to make further investments to cover losses according to contractual bonds.
Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

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

Business combinations

Acquisition of subsidiary companies is recognised according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company, plus any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognised according to IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets that are held for sale in accordance to IFRS 5, which are recognised and measured at fair value less selling costs.

The positive difference between the acquisition costs and the fair value of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.
Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognised.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

Investments in associate companies

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

Tangible fixed assets

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

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

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

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.
Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.
Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

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

Goodwill with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test.

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

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

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

Other intangible assets

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits. Intangible fixed assets are recorded at purchase or production cost, including related charges incurred to bring the asset available for use.

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

Assets with a defined useful life are systematically amortised from the moment when the asset is available for use throughout the period of its estimated utility; the recoverable value is assessed according to provisions set out in IAS 36.

Trademarks and patents and other assets with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test. Impairment losses, if any, cannot be reversed.

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

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

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

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

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

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

Impairment

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

Equity investments

Equity investments are related to subsidiary companies not included in consolidation because the company was a start-up at the balance sheet date and consequently did not have a significant effect on the consolidated figures.
They are measured at cost and eventually written down for impairment of value.

Financial assets and liabilities

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

Inventories

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

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

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

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

Trade payables and receivables and other current assets and liabilities

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

Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows discounted at the prevailing market interest rate at the time of recognition.

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

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity instruments

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

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

- Bank borrowings

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

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

  Liabilities are stated according to the amortisation cost.

Derivate financial instruments and other hedging transactions

The Group's activities are primarily subject to financial risks associated with fluctuations in interest rates. Such interest rate risks arise from bank borrowings; in order to hedge these risks the Group's policy consists in converting fluctuating rate liabilities in constant rate liabilities and treat them as cash flow hedges. The use of such instruments is disciplined by written procedures in line with the Group risk strategies that do not contemplate derivative financial instruments for trading purposes.
Derivative financial instruments are initially recognised at cost and are remeasured to fair value at subsequent reporting dates.
Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to company commitments and forecasted transactions are recognised directly in equity. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.
For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For hedging against change in fair value of specific items, the item hedged is restated to the extent of the change in fair value attributable to the risk hedged and recognised at the income statement. Gains and losses arising from the measurement of the derivative are also recognised at the income statement.
Changes in the fair value of derivative financial instruments that do not qualify as hedge accounting are recognised in the income statement as they arise.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.
Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly correlated to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the income statement.

Employee benefits

According to IAS 19, Employee termination indemnities can be recognised as "post-employment benefit" falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "Projected Unit Credit Method", an actuarial method based on demographic and finance data that allows to reasonably estimate the extent of benefits that each employee has matured in relation to the time worked.
Through actuarial valuation, current service costs are recognised as "personnel expenses" at the income statement and represent the amount of rights matured by employees at reporting date and the interest cost is recognised as financial gains or losses and represents the figurative expenditure the company would bear by securing a market loan for an amount corresponding to the Employee termination indemnities (TFR).
Actuarial gains and losses that reflect the effects arising from changes in the actuarial hypothesis made are recognised at a constant rate in the income statement over the remaining service lives of active employees to the extent in which the unrecognised amount at period end does not exceed 10% of the liability (the Corridor approach).

Share-based payment plans (stock options)

The Group has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005. The Group stock option plans foresee only the physical delivery of the share when exercised.
Share-based payments are measured at fair value at granting date. Such amount is recognised in the income statement over a straight-line basis and over the vesting period.

Provisions and reserves for risks

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

Assets and liabilities from discontinued operations

Assets and liabilities from discontinued operations include the book value of the assets and liabilities that will be recovered through their sale or use.
Discontinued operations are measured at the lower between the net book value and fair value net of any selling expenses.

Revenue recognition

Revenue from sales and services is recognised when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.
Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognised.
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable that represents the discounted interest rate of the future estimated proceeds estimated over the expected life of the financial asset in order to bring them to the accounting value of the same asset.

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Liability for current tax is calculated using rates that have been enacted or substantively enacted by the balance sheet date.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings per share

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

Use of estimations

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

Change in accounting principles

The accounting policies have not changed with respect to those applied for the preparation of the Consolidated Financial Statements at 31/12/2005.

Changes in accounting estimates and reclassifications

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

New accounting principles

In 2006 IASB issued an interpretation IFRIC 8 with reference to IFRS 2 (effective from 01//01/2007), IFRIC 9 regarding the reassessment of embedded derivates (effective from 01//01/2007) IFRIC 10 restatement of impairment losses in intermediate financial statements and IFRIC 11 – IFRS 2 related to group and treasury share transactions, effective from 01/01/2008.

Note 3 - Risk management

Credit risk

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

Liquidity risk

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

Currency risk and interest rate risk

As the Group operates mainly in a "Euro area" the exposure to currency risks is limited.
The Group's exposure to interest rate risk is mainly associated to financial loans bearing free float interest rates.
The Group manages this risk with the use of interest rate swaps which allows floating interest rates to be transformed to fixed interest rates.
Information related to the fair value of the derivative financial instrument is disclosed in Note 26.

Note 4 - Consolidation

Companies included in consolidation are consolidated on a line-by-line basis.
Changes in consolidation compared to 31 December 2005 were the following:

- Consolidation of syskoplan Group which was acquired by the Parent Company in the first months of 2006;
- Consolidation of Santer S.p.A. in which the Parent Company holds 53.77%, following a further acquisition of 4.77% of the company's share capital.

In order to have a better understanding of the changes in the economic and earnings position as at 31 December 2006, the Reply Group's financial statements as at 31 December 2006 compared to the 31 December 2005 pro-forma statements that include the acquisition of the syskoplan Group, are annexed herein.
On 11 May 2007, the Parent Company Reply S.p.A. published the Informative Document related to the acquisition operation, of the German company syskoplan AG in compliance to article 70, clauses 4 and 5 letter b) and 71 of Consob Regulation no. 11971 of 14 May 1999 ("Consob Regulation").

Note 5 - Revenues

Revenues from sales and services, including change in work in progress, amounted to 230.164 thousand euros and are detailed as follows:

(thousand euros)	2006	2005	Change
Revenues from sales and services	221.884	139.766	82.118
Change in work in progress	8.280	4.909	3.371
Total	**230.164**	**144.675**	**85.489**

Change in revenues amounted to 85.489 thousand euros and owes to change in consolidation for 55.230 thousand euros.

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

Country	2006	2005
Italy	74,0%	95,0%
Germany	23,3%	0,7%
Other	2,7%	4,3%
	100,00%	**100,00%**

Disclosure required by IAS 14 ("Segment reporting") is provided in Note 32 herein.

Note 6 - Purchases

Detail is as follows:

(thousand euros)	2006	2005	Change
Software licenses for resale	3.853	2.196	1.657
Hardware for resale	552	352	200
Other	2.121	996	1.125
Total	**6.526**	**3.544**	**2.982**

The items "Software licenses for resale" and "Hardware licenses for resale" include change in inventory of the same products.

Note 7 - Personnel

Detail is as follows:

(thousand euros)	2006	2005	Change
Payroll employees	98.229	58.015	40.214
Executive Directors	11.760	8.515	3.245
Project collaborators	3.824	3.336	488
Total	**113.813**	**69.866**	**43.947**

Increase in personnel expenses amounted to 43.971 thousand euros. Such increase can be explained partially by change in consolidation for 27.662 thousand euros and in part owing to the overall increase of the Group's revenues (16.285 thousand euros).

Personnel expenses include the fair value of the stock options vested as at 31 December 2006 for 406 thousand euros.

Detail of personnel by category is provided below:

(number)	31/12/2006	31/12/2005	Change
Directors	132	95	37
Managers	295	161	134
Staff	1.498	1.021	477
Total	**1.925**	**1.277**	**648**

Increase in the number of Staff employees owes to change in consolidation for no. 464 resources.

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

Note 8 - Services and other costs

Service expenses comprised the following:

(thousand euros)	2006	2005	Change
Commercial and technical consulting	36.015	28.900	7.115
Travelling and professional training expenses	11.835	5.307	6.528
Other service costs	18.357	9.050	9.307
Office expenses	5.108	4.055	1.053
Lease and rentals	6.001	1.995	4.006
Other	1.930	644	1.286
Total	**79.246**	**49.951**	**29.295**

Change in other service costs amounted to 29.295 thousand euros and owes to an overall increase in the Groups activities and to change in consolidation for 20.195 thousand euros.
Office charges include charges from related parties in connection to service contracts for the use of premises and centralised secretarial services.

Note 9 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 2.110 thousand euros, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Amortization of intangible assets for the year ended 2006 amounted to 1.506 thousand euros. The details are provided at the notes to intangible assets herein.

Note 10 - Other unusual operating income/expenses

Other unusual operating income/expenses amounting to 503 thousand euros are related to differences on accruals posted in previous years and other minor events falling out of the ordinary course of business.

Note 11 – Result of equity investments

This item is referred to the financial investment in Santer S.p.A., consolidated according to the equity method until 30 June 2006, of which Reply S.p.A. held 49% of the shares. This method brought an adjustment of 350 thousand euros.

Following the exercise of the option by Reply S.p.A. to purchase a further stake in Santer S.p.A.'s share capital, in the month of July such transaction was performed, and allowed Reply to increase its equity investment in Santer from 49% to 53.77%, acquiring therefore control over the company as of the 1st of July.

Note 12 - Financial income and expenses

Detail is as follows:

(thousand euros)	2006	2005	Change
Financial gains	1.037	244	793
Interest expenses	(1.358)	(720)	(638)
Other	(78)	20	(98)
Total	**(399)**	**(456)**	**57**

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

Note 13 - Income taxes

Income taxes for financial year 2006 totalled 16.458 thousand euros and are detailed as follows:

(thousand euros)	2006	2005	Change
IRES	11.852	7.979	3.873
IRAP	4.938	3.909	1.029
Current taxes	**16.790**	**11.888**	**4.902**
Deferred tax liabilities	2.285	593	1.692
Deferred tax assets	(2.617)	(1.488)	(1.129)
Deferred taxes (prepaid)	**(332)**	**(895)**	**563**
Total income taxes	**16.458**	**10.993**	**5.465**

Tax burden before taxation is equivalent to 59,2% (58,3% in 2005).
The difference, compared to the theoretical tax incidence of 37.25%, is mainly due to non-deductible costs due to IRAP.

Note 14 - Assets, liabilities and result of discontinued operations

In accordance with IFRS 5 illustrated below are the assets, liabilities and result of discontinued operations of syskoplan Consulting (USA) and syskoplan Holding (USA), which are no longer running at 31 December 2006.

(thousand euros)	31/12/06
Revenue	705
Operating costs	(337)
Income tax	(300)
Gain/loss from discontinued operations before tax	**68**
Total assets from discontinued operations	1.095
Total liabilities from discontinued operations	387
Net financial position	971
No. employees	2

Note 15 - Tangible assets

Tangible assets as at 31 December 2006 amounted to 6.484 thousand euros and are detailed as follows:

(thousand euros)	31/12/2006	31/12/2005	Change
Buildings	3.243	70	3.173
Plant and machinery	1.018	130	888
Hardware	1.540	1.402	138
Other	683	736	(53)
Total	**6.484**	**2.338**	**4.146**

Change in tangible assets during 2006 is summarised in the table below:

(thousand euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	100	776	5.987	2.535	9.398
Accumulated depreciation	(30)	(646)	(4.585)	(1.799)	(7.060)
Balance at 31 December 2005	**70**	**130**	**1.402**	**736**	**2.338**
Historical cost					
Additions	-	514	1.128	353	1.995
Disposals	-	-	(149)	(130)	(279)
Other change	4.012	2.808	1.245	64	8.129
Accumulated depreciation					
Depreciation	(144)	(260)	(1.244)	(462)	(2.110)
Utilisation	-	-	47	176	223
Other change	(695)	(2.174)	(889)	(54)	(3.812)
Historical cost	4.112	4.098	8.211	2.822	19.243
Accumulated depreciation	(869)	(3.080)	(6.671)	(2.139)	(12.759)
Balance at 31 December 2006	**3.243**	**1.018**	**1.540**	**683**	**6.484**

Other change refers to the consolidation of the syskoplan Group and Santer S.p.A.

The item *Buildings* includes a building belonging to a syskoplan group company amounting to 3.316 thousand euros.

Additions in 2006 amounted to 1.995 thousand euros and were mainly related to computers and network equipment.

Note 16 - Goodwill

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

Detail is as follows:

(thousand euros)	Year of acquisition	% acquired	31/12/2006
@Logistics Reply S.r.l	2000	30%	459
Cluster Reply S.r.l.	2000	15%	155
Sytel Reply S.r.l.	2000	20%	223
Business Reply S.r.l.	2000	30%	160
YH Reply S.r.l.	2000	100%	16
XYZ Reply S.r.l.	2001	70%	1.554
E* Finance Reply S.r.l.	2001	58%	1.012
Sysproject Reply S.r.l.	2002	100%	1.665
XYZ Reply S.r.l.	2003	30%	864
IrisCube Reply S.p.A.	2003	51%	2.594
Planet Reply S.r.l. (now Sytel Reply S.r.l.)	2004	20%	1.191
Blue Reply S.r.l.	2004	12%	285
E* Finance Reply S.r.l.	2005	42%	1.549
EOS Reply S.r.l.	2005	(*)	600
Sytel Reply S.r.l.	2005	(*)	210
IrisCube Reply S.p.A.	2005	49%	4.069
Spike Reply S.r.l.	2005	10%	298
syskoplan AG	2006	63,76%	9.611
Macros Innovation (**)	2006	100%	4.715
Interactiv! (**)	2006	85,1%	1.693
Santer S.p.A.	2006	53,77%	1.062
Other(*)		(*)	233
Total			**34.218**

(*) business branch acquisition
(**) syskoplan Group companies

Goodwill arising from the acquisitions in financial year 2006 is a result of the difference between the fair value of the assets and liabilities acquired.
Goodwill recognized as at 31 December 2006 does not present any impairment of value as confirmed by the expected financial results and related cash flows.
Goodwill was subject to the impairment test as required by IAS 36. This assessment, to be carried out at least once a year, was performed at the level of the Cash Generating Units (CGU), to which value of goodwill is attributed. Such assessment did not reveal any impairment.

The impairment model adopted by Reply is based on an "Unlevered Discounted Cash Flow Analysis" and the figures used in the formula are taken from the financial statements, accounting ledgers and the 3 year business plan of each CGU. The analysis is carried out on the basis of the strategic planning of the Group that presents a three year planning.

The main assumptions used in the impairment model are the following:
- the discount rate: reflects the cost of money on the market considering specific risks of the single CGU, if present;
- the growth rate: assumed according to the expected growth of the single business areas to which the same CGU belong.

Note 17 - Other intangible assets

Intangible assets as at 31 December 2006 amounted to 2.128 thousand euros (1.746 thousand euros at 31 December 2005).

(thousand euros)	Historical cost	Accumulated amortisation	Net book value at 31/12/2006
Development costs	2.486	(1.692)	794
Software	7.346	(6.523)	823
Trademarks	511	-	511
Total	**10.343**	**(8.215)**	**2.128**

Change in intangible assets during 2006 is summarised in the table below:

(thousand euros)	Net book value at 31/12/2005	Change in consolidation	Increases	Accumulated amortisation	Net book value at 31/12/2006
Development costs	799	-	400	(405)	794
Software	441	736	734	(1.088)	823
Trademarks	506	-	5	-	511
Total	**1.746**	**736**	**1.139**	**(1.493)**	**2.128**

Development costs are related to the Click Reply™ and Discovery™ products and are accounted for in accordance with provisions of IAS 38.
The item *Software* is related mainly to software licenses purchased and used internally by the Group companies.
The item *Trademarks* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortisation and does not show signs of impairment in terms of expected financial results and related cash flows.

Change in consolidation refers to the consolidation of the syskoplan Group and Santer S.p.A.

Note 18 - Equity investments

The item *Equity investments* amounting to 10 thousand euros is detailed at the table below:

(thousand euros)	31/12/2006	31/12/2005	Change
Investment in associate	-	5.670	(5.670)
Investments in other non consolidated companies	10	20	(10)
Total	**10**	**5.690**	**(5.680)**

Investment in associate companies is referred to the financial investment in Santer S.p.A., consolidated according to the equity method until 30 June 2006, of which Reply S.p.A. held 49% of the shares. This method brought an adjustment of 350 thousand euros.
Following the exercise of the option by Reply S.p.A. to purchase a further stake in Santer S.p.A.'s share capital, in the month of July such transaction was performed, and allowed Reply to increase its equity investment in Santer from 49% to 53.77%, acquiring therefore control over the company as of the 1st of July.
Investments in other non consolidated companies is related to the company Discovery S.r.l., constituted in the month of December and as at the balance sheet date was not operational.

Note 19 - Other financial assets

Other financial assets amounted to 2.561 thousand euros (of which 1.480 thousand euros current).
Detail is as follows:

(thousand euros)	31/12/2006	31/12/2005	Change
Receivables from insurance companies	553	473	80
Guarantee deposits	290	266	24
L/T securities	238	1	237
Short term securities	1.480	-	1.480
Total	**2.561**	**740**	**1.821**

Change in *Receivables from insurance companies* is mainly due to the insurance premium paid against directors' severance indemnities.
Securities amounting to 1.718 thousand euros refer to investments carried out by the syskoplan Group.

Note 20 - Deferred tax assets

This item amounted to 4.644 thousand euros at 31 December 2006 (2.912 thousand euros at 31 December 2005), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.
The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

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

(thousand euros)	31/12/2005	Statements 2006	Reversals 2006	31/12/2006
Fiscal losses carried forward	-			
Write down of equity investments deductible in 5 years	299	-	(149)	150
Prepaid tax on costs that will become deductible in future years	2.150	2.122	(656)	3.616
Prepaid tax on greater provision for doubtful accounts	125	6	(24)	107
Deferred fiscal deductibility of amortization	282	46	-	328
Consolidation adjustments and other items	56	443	(56)	443
Total	**2.912**	**2.617**	**(885)**	**4.644**

Note 21 - Inventories

The item inventories amounted to 5.325 thousand euros and is detailed below:

(thousand euros)	31/12/2006	31/12/2005	Change
Contract work in progress	21.228	9.209	12.019
Finished products and goods for resale	7	500	(493)
Advance payments from customers	(15.910)	(8.162)	(7.748)
Total	**5.325**	**1.547**	**3.778**

Contract work in progress at 31 December 2006 includes contract revenue amounting to 3.757 thousand euros.

Note 22 - Trade receivables

Trade receivables, all due within 12 months, amounted to 111.749 thousand euros and comprised the following:

(thousand euros)	**31/12/2006**	**31/12/2005**	**Change**
Domestic receivables	103.276	77.853	25.423
Foreign trade receivables	10.348	3.472	6.876
Credit notes to be issued	(475)	(368)	(107)
Total	**112.149**	**80.957**	**32.192**
Allowance for doubtful accounts	(1.400)	(1.295)	(105)
Total trade receivables	**111.749**	**79.662**	**32.087**

Trade receivables comprising mainly high rated clients and all collectable within 12 months, arise from normal sales transactions.

Note 23 - Other receivables and current assets

Detail is as follows:

(thousand euros)	**31/12/2006**	**31/12/2005**	**Change**
Tax receivables	1.491	1.050	441
Advances to employees	141	96	45
Other receivables	687	212	475
Accrued income and prepaid expenses	2.106	2.372	(266)
Total	**4.425**	**3.730**	**695**

Accrued income and prepaid expenses are related to service costs that at 31 December 2006 had not yet been executed.

Note 24 - Cash and cash equivalents

This item amounted to 33.699 thousand euros, with an increase of 19.710 thousand euros compared to 31 December 2005 and reflects the amount of cash at banks and on hand at the balance sheet date.

Note 25 - Shareholders' equity

Share capital

As at 31 December 2006 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.641.990,60 euros and is made up of 8.926.905 ordinary shares, par value 0,52 euros per share.

Change in the period is due to:

- The acquisition of syskoplan AG, in part against a cash payment (48.15% of syskoplan AG's share capital) and in part through an increase of Reply S.p.A's share capital, to be paid against the transfer of syskoplan AG shares (15.61%).
- The acquisition of the total minority shares of the companies IrisCube Reply S.p.A. (49%) and of Spike Reply S.r.l. (10%), for a total value of a 3.359.950,30 euros of which 88.174,32 euros as share capital increase and 3.271.775,98 euros as share premium;
- The exercising of no. 41.900 stock option rights for a total amount of 384.638 euros of which 21.788 euros as share capital increase and 362.850 euros as share premium.

Other reserves

Other reserves comprised the following:

(thousand euros)	31/12/2006	31/12/2005	Change
Share premium reserve	25.530	16.546	8.984
Legal reserve	930	709	221
Reserve for treasury shares on hand	224	224	-
Reserve for purchase of treasury shares	19.703	19.703	-
Reserve for cash flow hedges	351	(17)	368
Retained earnings and other	17.453	12.653	4.800
Total	**64.191**	**49.818**	**14.373**

As at 31 December 2006 the *Share premium reserve* amounted to 25.530 thousand euros, with an increase of 8.984 thousand euros compared to 31 December 2005 arising from the aforementioned operations.
The *Reserve for purchase of treasury shares,* amounting to 19.703 thousand euros was constituted through withdrawal from the Reserve for treasury shares on hand, following the resolution made by the General Shareholders Meeting of Reply S.p.A. which authorised, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 21 million euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.
The *Reserve for treasury shares on hand amounting* to 224 thousand euros, is related to shares held by the Parent company that as at 31 December 2006 were equal to no. 29.499.
The *Reserve for cash flow* hedges includes the effects deriving from financial hedge instruments measured at fair value.
Retained earnings and other includes the effects deriving from the costs related to the existing Stock Option Plans as at 31 December 2006 and the expenses related to the share capital increase.

Share based payment plans

The Group has share based payment plans for its employees.

The stock option plans have the following purposes:

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

Stock option plans of the Parent Company

The Extraordinary Shareholders' Meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code. The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to approximately 212 employees and directors of the group companies.

Extraordinary Shareholders' Meeting of 13 December 2006 resolved to partially modify the resolutions made on 11 June 2002, 10 June 2004 and 15 June 2006 related to the stock option plans in favour of directors and employees of Reply S.p.A and its subsidiaries by extending, for each of the plans, the expiry date for the subscription of the share capital increase.

As 31 December 2006 the number of stock options were 278.800 and can be summarised as follows:

Piano	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	Number of options
2002	11/06/2002	13/05/2004	9	9,416	13/05/2007 – 13/05/2012	89.000
2004	11/06/2004	11/11/2004	2	10,943	11/11/2007 – 11/11/2012	12.400
2004	11/06/2004	11/11/2005	1	17,569	11/11/2008 – 11/11/2013	2.400
2004	11/06/2004	12/05/2006	11	21,339	12/05/2009 – 12/05/2014	165.000
2006	15/06/2006	08/08/2006	1	18,662	08/08/2009 – 08/08/2014	10.000

As at 31 December 2006 stock option plans granted in 2001, 2002 and 2004 were assessed for the purposes of IFRS 2, more specifically, for all stock options granted after November 7, 2002 which had not yet vested at January 1, 2006, the group applied IFRS 2.

At each grant date the stock option plans were remeasured by taking into consideration the existing market conditions at the date.

The method adopted in order to assess the fair value of the options is that of the risk neutral model: the model deducts the risk free interest curve from Bootstrap rates; the expected dividend yield for each share is equal to 1.5% per annum.

The assessment was set up by applying stochastic simulation methods through the Monte Carlo model which calculation is based on distinct monthly time lines.
As far as the volatility of the Reply share is concerned, at each grant date, applying the historical volatility at 1 year was deemed reasonable.

IFRS 2 requires that the fair value of the options in the vesting period be recorded at the statement of income with contra balance net equity. The economic effects are disclosed at Note 7.

Stock option plans of syskoplan AG

Extraordinary shareholders' Meeting of syskoplan AG on 20 September 2000, resolved the increase of the share capital with exclusion of stock option rights and issued no. 300.000 syskoplan AG new ordinary shares in favour of directors and employees of the group companies.

At 31 December 2006 the main characteristics of the stock option plan can be summarised as follows:

Plan	Resolution of the General Shareholders' meeting	No. of beneficiaries	Exercise price	Vesting period	Number of option
2000	05/10/2000	283	26,40	05/10/2002 – 05/10/2007	51.597
2001	12/04/2001	300	21,16	12/04/2003 – 12/04/2008	73.499
2002	22/04/2002	317	22,08	22/04/2004 – 22/04/2009	48.612
2003	24/04/2003	323	6,71	24/04/2005 – 24/04/2010	45.405
2004	07/04/2004	329	7,63	07/04/2006 – 07/04/2011	71.407

The assessment was set up by applying the Binomial Black-Scholes model with a burden of 22 thousand euros.

In 2006 11,031 stock options were exercised and as at 31 December 2006 183,384 shares were still exercisable.

Note 26 - Financial liabilities

Detail is as follows:

(thousand euros)	31/12/2006			31/12/2005		
	current	non current	Total	current	non current	Total
Advances on receivables and bank overdrafts	6	-	6	101	-	101
Financial borrowings	3.937	25.750	29.687	4.018	7.670	11.688
Total financial liabilities	**3.943**	**25.750**	**29.693**	**4.119**	**7.670**	**11.789**

The main features of *Non-current financial borrowings*, as at 31 December 2006, are detailed as follows:

Financing institution	**Balance at 31/12/06 (thousand euros)**	**Interest rate**	**Maturity**	**Instalment**
Syndicated loan – SanPaolo IMI Tranche A	8.000	Euribor 6 months + 0,75	31 December 2008	Half year
Syndicated loan – SanPaolo IMI Tranche B	20.453	Euribor 6 months + 0,75%	31 December 2011	Half year
Commerzbank	1.568	4,28% annual	30 September 2019	Half year
Commerzbank	259	3,73% annual	30 September 2009	Half year
IAS assessments	(593)			
Total M/L term financial liabilities	**29.687**			

The syndicated loan, at 31 December 2006, is referred to the partial utilization of the credit facility for a maximum amount of 66 million euros as undersigned on December 30, 2005 by Reply S.p.A. with San Paolo IMI, pool leader of a group of banks for the granting of the loan.

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

- Tranche A can be used as an overdraft for a maximum amount of 12.000.000 euros with the purpose of entirely reimbursing the previous loan;
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54.000.000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares.

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

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

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

The loan with Commerzbank is referred to a loan undersigned with Syskotool, a syskoplan Group company, for the acquisition of the building in which the Parent Company has its registered office.

The IAS assessments were related to:

- Restatement of the incidental charges related to the financial loan (242 thousand euros);
- Fair value measurement of the financial hedge instrument (351 thousand euros).

Net financial position

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

(thousand euros)	31/12/2006	31/12/2005	Change
Liquidity	34.673	13.989	20.684
- Cash and cash equivalents	*33.699*	*13.989*	*19.710*
- Cash and cash equivalents of discontinued operations	*974*	*-*	*974*
Non current financial assets	238	-	238
Current financial assets	1.480	-	1.480
Total financial funds	**36.391**	**13.989**	**22.402**
Current financial liabilities	(3.943)	(4.119)	176
Non current financial liabilities	(25.750)	(7.670)	(18.080)
Total financial liabilities	**(29.693)**	**(11.789)**	**(17.904)**
Total net financial position	**6.698**	**2.200**	**4.498**

Note 27 - Employee benefits

Detail is as follows:

(thousand euros)	31/12/2006	31/12/2005	Change
Employee severance indemnities (IAS 19)	11.731	8.635	3.096
Employee pension and similar obligations	649	552	97
Other	830	147	683
Total	**13.210**	**9.334**	**3.876**

For the year ended 2006 changes in the reserve for employee severance indemnities, remeasured according to IAS 19, are the following:

Balance at 31/12/2005 (thousand euros)	8.635
Reserve transferred from branch acquisition	-
Accruals	3.622
Utilisation	(526)
Balance at 31/12/2006	**11.731**

Benefits to employees that fall within the Italian regulation of Employee severance indemnities (TFR) are considered by IAS 19 as "post employment benefits" of the "defined benefits" type and are therefore subject to valuation by means of the actuarial procedure "Projected Unit Credit Method".

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

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

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

The actuarial valuation model is based on the so called technical bases which represent the demographic, economic and financial assumptions underlying the parameters included in the calculation.
The actuarial gains and losses are recorded according to the Corridor Method (in 2006 the effects were not significant).

The assumptions adopted can be summarised as follows:

Demographic assumptions	
Mortality	ISTAT 2000 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of each Group company: - Frequency of advances in 2006: 2,50% - Frequency of turnover % 2006: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 2%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2006 was 4,25%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) is revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Group's market segment (3.00 to 4.50%)

Note 28 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2006 amounted to 3.447 thousand euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(thousand euros)	
Costs stated only for tax return purposes	803
Other costs not yet tax deductible	2.644
Balance at 31/12/2006	**3.447**

Other costs not yet tax deductible mainly include the measurement of contract work in progress, employee benefits, capitalisation of development costs and reversal of amortisation of intangible assets.
The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

Note 29 - Provisions

Provisions amounted to 9.900 thousand euros (of which 4.718 thousand euros non current) and refer mainly to:

- Payables to minority shareholders for 3.565 thousand euros that represents the fair value of the minority interest equal to 49% of is4, a syskoplan group company;
  This amount has been recorded according to IAS 32 as syskoplan has signed a put option agreement with the minority shareholders to be exercised with a 12 months notice.
- provisions for risks and reserves amounted to 834 thousand euros related to Santer
- provisions for risks and reserves (4.767 thousand euros) of the syskoplan Group;
- Warrantee provision for 733 thousand euros related to the syskoplan Group.

Note 30 - Trade payables

Change in trade payables compared to period ended 2005, amounted to 2.768 thousand euros and is detailed below:

(thousand euros)	**31/12/2006**	**31/12/2005**	**Change**
Domestic suppliers	18.866	16.487	2.379
Foreign suppliers	771	709	62
Advances to suppliers	(773)	(1.100)	327
Total	**18.864**	**16.096**	**2.768**

Note 31 - Other current liabilities

Details are provided below:

(thousand euros)	31/12/2006	31/12/2005	Change
Income tax payable	4.291	2.550	1.741
VAT payable	3.376	1.152	2.224
Withholding tax and other	2.149	1.815	334
Total due to tax authorities	**9.816**	**5.517**	**4.299**
INPS	5.631	4.482	1.149
Other	327	276	51
Total due to social security authorities	**5.958**	**4.758**	**1.200**
Employee accruals	8.590	6.169	2.421
Other payables	8.648	9.513	(895)
Accrued expenses and deferred income	3.584	3.185	399
Total other payables	**20.822**	**18.897**	**1.925**
Total other payables and current liabilities	**37.250**	**29.172**	**8.080**

Note 32 - Segment reporting

Segment reporting has been prepared in accordance to IAS 14. The Group presents reporting for three segments:

- Technologies
- Applications
- Processes

The segments have been determined on the basis of the individual Group companies' activities and reflect the Group's internal organisational structure and internal reporting.

Economic data (thousand euros)	Technologies	Applications	Processes	Intercompany	2006
Revenues	**77.135**	**128.767**	**26.088**	**(1.826)**	**230.164**
Operating costs	(65.804)	(111.292)	(23.432)	1.826	(198.702)
Gross operating income	**11.331**	**17.475**	**2.656**	**-**	**31.462**
Amortisation, depreciation and write-downs	(1.003)	(2.281)	(331)	-	(3.616)
Operating income	**10.328**	**15.194**	**2.325**	**-**	**27.846**

The following table shows the income statements by business lines for the year ended 2006 in percentage:

(thousand euros)	Technologies	Applications	Processes
Revenues	**100,0**	**100,0**	**100,0**
Operating costs	(85,3)	(86,4)	(89,8)
Gross operating income	**14,7**	**13,6**	**10,2**
Amortisation, depreciation and write-downs	(1,3)	(1,8)	(1,3)
Operating income	**13,4**	**11,8**	**8,9**

The Reply Group is also characterised by an insignificant amount of fixed assets as they are not particularly necessary to carry out ordinary business activities, the above stated figures therefore do not include balance sheet items.
Disclosures by geographical area have been provided in the note to revenues.

Note 33 - Transactions with Related parties

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

Reply Group - Main economic and financial transactions

(thousand euros)	With related parties	Nature of transaction
Financial transactions		
Trade receivables and other	7	Receivables from professional services
Trade payables and other	691	Payables for professional services and office rental
Economic transactions		
Revenues from sales and services	37	Consulting services
Costs for professional services	1.477	Consulting services
Services from Parent company and related parties	2.458	Services related to office rental and office of the secretary

As summarised in the table above, transactions with related parties, Alika S.r.l. and its subsidiary Axcel S.r.l., are overall insignificant.
In accordance with Consob Resolution no. 15519 of July 27, 2006 and Consob communication no. DEM/6064293 of July 28, 2006 the financial statements present the Consolidated Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption. The following can be found in the annexed tables.
Pursuant above art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

Note 34 - Emoluments to Directors, Statutory Auditors and Key Management

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

(thousand euros)	2006	2005
Directors	1.753	1.265
Statutory Auditors	62	65
Total	**1.815**	**1.330**

The fees to Key management amounted to approximately 1.486 thousand euros and include the accrual for director severance indemnities (75 thousand euros).

Note 35 - Guarantees, commitments and contingent liabilities

Guarantees, commitments and contingent liabilities, where exisiting, have been disclosed at the item to which they refer. Certain claims against Sytel Reply S.r.l. with regards to the use of unauthorised software is still pending.
Given this fact and the specific conditions of the related proceedings, the possible outcome of the claim cannot be reasonably estimated and, therefore the likelihood of any costs to be borne cannot be determined.

Note 36 - Events subsequent to December 31, 2006

Acquisition of Axcel

Reply S.p.A. is currently in the process of acquiring the 100% stake in Axcel S.r.l., a related party that has been doing business with the group for some time. Axcel S.r.l. is in the process of becoming a competence centre in the broad band telecommunication and wireless fields.
Through the acquisition, Axcel's offer will be integrated within the Reply Group business units and consequently Reply will benefit from the reduction of costs for activities that Axcel once carried out for the Group.
The acquisition of the above mentioned stake will be carried out through a share capital increase, with the exclusion of stock option rights, to be paid through contribution in kind in the same shares to Reply S.p.A..
According to the company's Business plan and the future profitability it is likely that the 100% stake of Axcel will reasonably be approximately 1.0 – 1.4 million euros.

Stock granting

As in the past, and in line with the Group's remuneration policy and international best practices, the Board of Directors intends on proposing to the Shareholders in the next general meeting, the awarding of shares, in compliance with art. 2349 of the Italian Civil Code, to executive directors, managers and employees as a form of incentive plan.

_Annexed tables

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

(thousand euros)	2006	Of which related parties	%	2005	Of which related parties	%
Revenues	230.164	37	0,0%	144.675	58	0,0%
Other revenues	1.386	-	-	552	-	-
Purchases	(6.526)	-	-	(3.544)	-	-
Personnel expenses	(113.813)	-	-	(69.866)	-	-
Services and other costs	(79.246)	(3.825)	4,8%	(49.951)	(4.039)	8,1%
Amortisation and write-offs	(3.616)	-	-	(2.197)	-	-
Other unusual operating income/expenses	(503)	-	-	(849)	-	-
Operating income	**27.846**	**-**	**-**	**18.820**	**-**	**-**
Result of equity investments	350	-	-	477	-	-
Financial income/(expenses)	(399)	-	-	(456)	-	-
Result before tax	**27.797**	**-**	**-**	**18.841**	**-**	**-**
Income taxes	16.458	-	-	(10.993)	-	-
NET RESULT	**11.339**	**-**	**-**	**7.848**	**-**	**-**
Result of discontinued operations	68	-	-		-	-
Minority interest	(1.133)	-	-	(984)	-	-
GROUP NET RESULT	**10.274**	**-**	**-**	**6.864**	**-**	**-**

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

(thousand euros)	31/12/2006	Of which related parties	%	31/12/2005	Of which related parties	%
Tangible fixed assets	6.484	-		2.338	-	
Goodwill	34.218	-		17.120	-	
Other intangible assets	2.128	-		1.746	-	
Equity investments	10	-		5.690	-	
Other financial assets	1.081	-		740	-	
Deferred tax assets	4.644	-		2.912	-	
Non current assets	**48.565**	**-**		**30.846**	**-**	
Inventories	5.325	-		1.547	-	
Trade receivables	111.749	11		79.662	12	
Other receivables and current assets	4.425	0,0%		3.730	0,0%	
Deferred tax assets	1.480	-			-	
Financial assets	33.699	-		13.989	-	
Current assets	**156.678**			**98.928**		
Total assets from discontinued operations	1.095	-			-	
TOTAL ASSETS	**206.338**			**129.474**		
Share capital	4.642	-		4.374	-	
Other reserves	64.191	-		49.818	-	
Group net result	10.274	-		6.864	-	
Group Shareholders' equity	**79.107**	**-**		**61.056**	**-**	
Minority interest	14.481	-		206	-	
TOTAL SHAREHOLDERS' EQUITY	**93.588**	**-**		**61.262**	**-**	
Financial liabilities	25.750	-		7.670	-	
Employee benefits	13.210	-		9.334	-	
Deferred tax liabilities	3.447	-		1.689	-	
Other provisions	4.718	-			-	
Non current liabilities	**47.125**	**-**		**18.693**	**-**	
Financial liabilities	3.943	-		4.119	-	
Trade payables	18.864	691	3,7%	16.096	1.098	6,8%
Other payables and current liabilities	37.249	-		29.172	-	
Other provisions	5.182	-		132	-	
Current liabilities	**65.238**			**49.519**		
Total liabilities from discontinued operations	387	-				
TOTAL LIABILITIES	**112.750**			**68.212**		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**206.338**			**129.474**		

Consolidated Statement of income 2006
compared to the pro-forma Statement of income 2005 (**)

(thousand euros)	**2006**	**2005 (pro-forma)**
Revenues	230.164	186.467
Other revenue	1.386	848
Purchases	(6.526)	(4.603)
Personnel expenses	(113.813)	(92.546)
Services and other costs	(79.246)	(64.223)
Amortisation, depreciation and write-downs	(3.616)	(3.243)
Other unusual operating income/expenses	(503)	(826)
Operating income	**27.846**	**21.874**
Result of equity investments	350	477
Financial income/(expenses)	(399)	(1.012)
Result before tax	**27.797**	**21.339**
Income taxes	(16.458)	(11.948)
NET RESULT	**11.339**	**9.391**
Result from discontinued operations	68	-
Minority interest	(1.133)	(1.607)
GROUP NET RESULT	**10.274**	**7.785**

(**) figures include the acquisition of the syskoplan Group

Consolidated Balance Sheet at 31 December 2006
compared to the pro-forma Consolidated Balance Sheet at 31 December 2005 (**)

(thousand euros)	2006	2005 (pro-forma)
Tangible fixed assets	6.484	6.540
Goodwill	34.218	26.057
Other intangible assets	2.129	2.404
Equity investments	10	7.679
Other financial assets	-	1.090
Deferred tax assets	1.081	1.891
Tangible fixed assets	4.644	3.874
Non current assets	**48.566**	**49.535**
Inventories	5.325	4.867
Trade receivables	111.749	87.368
Other receivables and current assets	4.425	4.587
Financial assets	1.480	46
Cash and cash equivalents	33.699	32.147
Current assets	**156.678**	**129.015**
Total assets from discontinued operations	1.095	-
TOTAL ASSETS	**206.339**	**178.550**
Share capital	4.642	4.532
Other reserves and net result	74.465	61.310
Group shareholders' equity	**79.107**	**65.842**
Minority interest	14.481	10.488
TOTAL SHAREHOLDERS' EQUITY	**93.588**	**76.330**
Financial liabilities	25.750	25.462
Employee benefits	13.210	11.810
Deferred tax liabilities	3.447	1.689
Other provisions	4.718	2.147
Non current liabilities	**47.125**	**41.108**
Financial liabilities	3.943	4.846
Trade payables	18.864	20.417
Other payables and current liabilities	37.250	35.717
Other provisions	5.182	132
Current liabilities	**65.239**	**62.211**
Total liabilities from discontinued operations	387	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**206.339**	**178.550**

(**) figures include the acquisition of the syskoplan Group

Companies included in the consolidated financial statements
at 31 December 2006 and equity investments

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Torino - Corso Francia, 110	€	4.641.991	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
@Logistics Reply S.r.l.	Torino - Corso Francia, 110	€	78.000	100,00%
Action Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	83,30%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€	78.000	100,00%
Cape Reply Roma S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Cape Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€	100.000	100,00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€	34.000	100,00%
Ekip S.r.l.	Torino - Corso Francia, 110	€	10.400	100,00%
EOS Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	80,00%
Hermes Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	95,00%
IrisCube Reply S.p.A.	Torino - Corso Francia, 110	€	651.735	100,00%
IrisCube SA	Lugano - Switzerland	CHF	100.000	100,00%
Logistics Reply do Brasil LTDA	Sao Paolo - Brazil	R$	588.059	80,00%
Logistics Reply SL	Barcelona - Spain	€	53.010	100,00%
Open Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Power Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	84,49%
Reply Consulting S.r.l.	Torino - Corso Francia, 110	€	10.000	51,00%
Reply Services S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Santer S.p.A.	Milano - via Don Minzoni, 24	€	2.209.500	53,77%
Spike Reply S.r.l.	Torino - Corso Francia, 110	€	50.000	100,00%
syskoplan AG and its subsidiaries	Gutersloh, Germany	€	4.435.616	60,56%
Sysproject S.r.l.	Torino - Corso Francia, 110	€	10.400	100,00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€	115.046	100,00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€	79.743	100,00%
Themis Reply S.A.	Lugano - Switzerland	CHF	100.000	99,98%
Twice Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	70,00%
XYZ Reply S.r.l.	Torino - Corso Francia, 110	€	12.939	100,00%
YH Reply S.r.l.	Torino - Corso Francia, 110	€	21.224	100,00%
ASSOCIATE COMPANIES CARRIED AT COST				
Discovery Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%

_**Financial** statements at 31 December 2006

_**Reply S.p.A.** Statement of income (*)

(in euros)	***Note***	**2006**	**2005**
Revenues	*5*	93.209.219	78.099.030
Other revenue		2.194.341	1.814.746
Purchases	*6*	(915.583)	(629.880)
Personnel expenses	*7*	(8.574.346)	(6.139.631)
Services and other costs	*8*	(88.554.950)	(73.344.062)
Amortisation, depreciation and write-downs	*9*	(628.394)	(445.905)
Other unusual operating income/expenses	*10*	251.749	200.187
Operating income		**(3.017.964)**	**(445.515)**
Profit/(loss) on equity investment	*11*	2.900.791	3.499.650
Financial income/(expenses)	*12*	535.147	714.239
Result before tax		**417.974**	**3.768.374**
Income taxes	*13*	131.963	(495.421)
NET RESULT		**549.937**	**3.272.953**
Earnings per share		*0,06*	*0,39*
Diluted earning per share		*0,06*	*0,39*

(*) Pursuant to Consob Resolution no. 15519 of 27 July 2006,the effects of related-party transactions on Income Statement are reported in the annexed tables

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

(in euros)	*Note*	31/12/2006	31/12/2005
Tangible fixed assets	*14*	880.275	630.158
Goodwill	*15*	86.765	86.765
Other intangible assets	*16*	740.203	719.511
Equity investments	*17*	55.388.019	30.046.372
Other financial assets	*17*	525.519	442.757
Deferred tax assets	*19*	891.355	678.134
Non-current assets		**58.512.136**	**32.603.697**
Trade receivables	*20*	56.228.813	48.384.586
Other receivables and current assets	*21*	11.733.047	7.989.745
Financial assets	*22*	27.013.020	31.478.977
Cash and cash equivalents	*23*	9.554.624	10.763.247
Current assets		**104.529.504**	**98.616.555**
TOTAL ASSETS		**163.041.640**	**131.220.252**
Share capital		4.641.991	4.374.089
Other reserves		54.982.567	44.318.014
Net result		549.937	3.272.953
TOTAL SHAREHOLDERS' EQUITY	*24*	**60.174.495**	**51.965.056**
Financial liabilities	*25*	24.122.872	7.670.000
Employee benefits	*26*	697.698	625.928
Deferred tax liabilities	*27*	222.848	313.005
Non- current liabilities		**25.043.418**	**8.608.933**
Financial liabilities	*25*	8.626.448	5.256.626
Trade payables	*28*	59.485.262	54.868.427
Other payables and current liabilities	*29*	9.712.017	10.521.210
Current liabilities		**77.823.727**	**70.646.263**
TOTAL LIABILITIES		**102.867.145**	**79.255.196**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**163.041.640**	**131.220.252**

(*) Pursuant to Consob Resolution no. 15519 of 27 July 2006,the effects of related-party transactions on the Balance sheet are reported in the annexed tables.

_**Reply S.p.A.** Change in shareholders' equity

(in euros)	Share capital	Share premium reserve	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve from cash flow hedge	Other reserves	Result for the year	Total
Balance 31/12/2004	**4.345.645**	**15.903.681**	**558.718**	**349.680**	**3.946.288**	**(75.000)**	**20.436.827**	**3.500.356**	**48.966.195**
Allocation 2004 result									
- reserves			150.000		1.279.624		815.350	(2.244.974)	0
- dividends								(1.255.382)	(1.255.382)
Increase in share capital	28.444	516.873							545.317
Other change		125.876		(125.876)		58.000	377.973		435.973
Result for the year								3.272.953	3.272.953
Balance at 31/12/2005	**4.374.089**	**16.546.430**	**708.718**	**223.804**	**5.225.912**	**(17.000)**	**21.630.150**	**3.272.953**	**51.965.056**
Allocation 2005 result									
- reserves			221.042		1.792.230		(517.880)	(1.495.392)	-
- dividends								(1.777.561)	(1.777.561)
Increase share capital	267.902	8.983.597							9.251.499
Reserve for stock option							383.930		383.930
Income (losses) stated directly to net equity						368.382			368.382
Other							(566.748)		(566.748)
Result for the year								549.937	549.937
Balance at 31/12/2006	**4.641.991**	**25.530.027**	**929.760**	**223.804**	**7.018.142**	**351.382**	**20.929.452**	**549.937**	**60.174.495**

_**Reply S.p.A.** Statement of cash flows

(in euros)	**2006**	**2005**
Net result for the period	549.937	3.272.953
Depreciation and amortisation	628.394	445.905
Other non-monetary income, net	71.770	141.875
Change in trade receivables	(7.844.227)	(12.167.127)
Change in trade payables	5.545.786	21.440.870
Change in other assets and liabilities	(1.601.708)	(3.029.068)
Income tax paid	(315.700)	(207.469)
Interest paid	(637.428)	(192.845)
Cash flows from operating activities	**(3.603.176)**	**9.705.094**
Payments for tangible and intangible assets	(899.203)	(643.180)
Payments for equity investments	(19.474.647)	(2.762.774)
Cash flows from investment activities	**(20.373.850)**	**(3.405.954)**
In payments for the issuing of shares	384.638	545.317
Distribution of dividends	(1.777.561)	(1.255.382)
In payments from financial loans	20.122.872	12.000.000
Payment of instalments	(4.000.000)	(11.900.000)
Payments for financial assets	(82.762)	(149.361)
Cash flows from financing activities	**14.647.187**	**(759.426)**
Net cash flow	**(9.329.839)**	**5.539.714**
Cash and equivalents at beginning of period	41.010.578	35.470.864
Cash and cash equivalents at year end	31.680.739	41.010.578
Total change in cash and cash equivalents	**(9.329.839)**	**5.539.714**

_**Notes** to the financial statements

Note 1 - General information

Reply S.p.A. is an Italian company with legal headquarters in Turin (Italy), it is listed on the STAR segment of the Italian Stock Exchange (REY.MI) and is the holding of a leading Italian group operating in the e-business segment. The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.

Note 2 - Accounting principles

Compliance with International accounting principles

The year ended 2006 financial statements are separate from Reply S.p.A Parent Company and have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").
Following the coming into force of European Regulation No. 1606 dated 19 July 2002, starting from January 1, 2005, Reply adopted International Financial Reporting Standards (IFRS) in the preparation of the consolidated financial statements. On the basis of national law implementing that Regulation, starting from 1 January 2006, Reply S.p.A is presenting its financial statements in accordance with IFRS.
The accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening balance sheet at January 1, 2005, as well the financial statements at December 31, 2005, as restated in accordance with IFRS and published in these financial statements. These accounting policies are described in the Appendix herein.
Reconciliations between profit or loss and equity under previous GAAP (Italian GAAP) to profit or loss and equity under IFRS for the periods shown as comparatives, as required by IFRS 1 – First-time Adoption of IFRS, together with related explanatory notes, are included herein with reference to the financial statements as of December 31, 2006.

General principles

The financial statements are prepared under the historical cost convention, modified as required for the valuation of certain financial instruments. The criteria of *fair value* is adopted as defined by IAS 39.
These financial statements are expressed in euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.

Format of the financial statements

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

The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
In connection with the requirements of the Consob resolution No. 15519 of July 27, 2006 as to the format of the financial statements, specific supplementary income statement and balance sheet formats have been added for related party transactions so as not to compromise an overall reading of the statements.
Some changes have been made compared to the Annexed transition published in the 2006 half-year report. The corresponding comparative figures have consequently been restated. These changes had effects on net equity and the result of the period.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses. Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.
Fixed assets are stated at purchase, production or transfer costs including related charges and other direct or indirect expenses incurred to bring the asset to its intended use.
Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

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

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.
Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

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

Goodwill with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test.

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

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

Other intangible assets

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

Intangible fixed assets are recorded at purchase or production cost, including related charges incurred to bring the asset available for use.

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

Assets with a defined useful life are systematically amortised from the moment when the asset is available for use throughout the period of its estimated utility; the recoverable value is assessed according to provisions set out in IAS 36.

Trademarks and patents and other assets with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test. Impairment losses, if any, cannot be reversed.

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

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

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

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

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

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

Impairment

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

Equity investments

Investments in subsidiaries and associates are stated at cost.
Investments in subsidiaries and associates are tested for impairment annually. If there is any evidence that these investments have been impaired, the impairment loss is recognised directly in the Income Statement. If the company's share of losses of the investee exceeds the carrying amount of the investment and if the company has an obligation to respond for these losses, the Company's interest is reduced to zero and the liability is recognized for its share of the additional loss. If the impairment subsequently does not exist it is reversed and the reversal is recognised in the income statement up to the limit of the cost of the investment.
Investments in other companies, comprising non-current financial assets that are not held for trading are initially measured at fair value. Any subsequent profits and losses resulting from changes in fair value, arising from quoted prices, are recognised directly in equity until the investment is sold or impaired; the total recognised in equity up to that date are recognised in the Income Statement for the period.
Minor investments in other companies for which a market quotation is not available are measured at cost, adjusted for impairment losses.
Dividends are recognised as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution.

Financial assets and liabilities

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

Trade payables and receivables and other current assets and liabilities

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

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity instruments

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

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

Bank borrowings

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

Equity instruments

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

Non current financial liabilities

Liabilities are stated according to the amortisation cost.

Derivate financial instruments and other hedging transactions

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

Derivative financial instruments are initially recognised at cost and are remeasured to fair value at subsequent reporting dates.

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

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

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

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

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

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

Employee benefits

According to IAS 19, Employee termination indemnities can be recognised as "post-employment benefit" falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "Projected Unit Credit Method", an actuarial method based on demographic and finance data that allows to reasonably estimate the extent of benefits that each employee has matured in relation to the time worked.
Through actuarial valuation, current service costs are recognised as "personnel expenses" at the income statement and represent the amount of rights matured by employees at reporting date and the interest cost is recognised as financial gains or losses and represents the figurative expenditure the company would bear by securing a market loan for an amount corresponding to the Employee termination indemnities (TFR).
Actuarial gains and losses that reflect the effects arising from changes in the actuarial hypothesis made are recognised at a constant rate in the income statement over the remaining service lives of active employees to the extent in which the unrecognised amount at period end does not exceed 10% of the liability (the Corridor approach).

Share-based payment plans (stock options)

The Company has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005. The Company stock option plans foresee only the physical delivery of the share when exercised.
Share-based payments are measured at fair value at granting date. Such amount is recognised in the income statement over a straight-line basis and over the vesting period.

Provisions and reserves for risks

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

Revenue recognition

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

This also includes services which are recognised at the time of execution and are classified in Other Services.

Sales of goods are recognised when goods are delivered and title has passed, net of returns, discounts, bonuses or directly connected taxes.

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

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

Taxation

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

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

Liability for current tax is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

Earnings per share

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

Use of estimations

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

Changes in accounting estimates and reclassifications

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

New accounting principles

In 2006 IASB issued an interpretation IFRIC 8 with reference to IFRS 2 (effective from 01//01/2007), IFRIC 9 regarding the reassessment of embedded derivates (effective from 01//01/2007) IFRIC 10 restatement of impairment losses in intermediate financial statements and IFRIC 11 – IFRS 2 related to group and treasury share transactions, effective from 01/01/2008.

Note 3 - Risk management

Credit risk

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

Liquidity risk

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

Currency risk and interest rate risk

As the Company operates mainly in a "Euro area" the exposure to currency risks is limited.
The Company's exposure to interest rate risk is mainly associated to financial loans bearing free float interest rates.
The Company manages this risk with the use of interest rate swaps which allows floating interest rates to be transformed to fixed interest rates.
Disclosure related to the fair value of the derivative financial instrument is in Note 25.

Note 4 - Other Information

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

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

Fiscal Consolidation

Starting from fiscal year 2004 and for the following three years the Company has decided to abide to the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.

Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.
Each adhering company will transfer to Reply S.p.A. its taxable income recording a payable to the company corresponding to IRES to pay, companies having fiscal losses can record a receivable from Reply, equal to IRES, on the part of the loss compensated at a Group level and remunerated according to the consolidation terms established among the Group companies.

Note 5 - Revenues

Revenues amounted to 93.209.219 euros and are detailed as follows:

(in euros)	2006	2005	Change
Revenues from services	78.909.642	65.349.515	13.560.127
Royalties on "Reply" trademark	4.909.007	4.095.946	813.061
Intercompany services	7.074.800	6.110.496	964.304
Other intercompany revenues	2.315.770	2.543.073	(227.303)
Total	**93.209.219**	**78.099.030**	**15.110.189**

The increase of Group revenues in 2006, has a direct influence on Reply S.p.A. who has developed in the past years *fronting* activities concerning relations with primary clients also in capacity of sole manager of processes compliant to ISO 9001 quality standards.

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

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

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

Note 6 - Purchases

Detail is as follows:

(in euros)	**2006**	**2005**	**Change**
Software licenses for resale	202.862	393.708	(190.846)
Hardware for resale	106.109	-	106.109
Other	606.612	236.172	370.440
Total	**915.583**	**629.880**	**285.703**

Note 7 - Personnel

Personnel costs amounted to 8.574.346 euros, with an increase of 2.434.715 euros and are detailed in the table below:

(in euros)	**2006**	**2005**	**Change**
Payroll employees	5.280.628	4.795.016	485.612
Executive Directors	3.144.480	1.197.672	1.946.808
Project collaborators	149.238	146.943	2.295
Total	**8.574.346**	**6.139.631**	**2.434.715**

Personnel expenses include the fair value of the stock options vested as at 31 December 2006 for 384 thousand euros.

Detail of personnel by category is provided below:

(number)	**31/12/2006**	**31/12/2005**	**Change**
Directors	17	19	(2)
Managers	9	9	-
Staff	41	45	(4)
Total	**67**	**73**	**(6)**

Note 8 - Services and other costs

Service expenses comprised the following:

(in euros)	2006	2005	Change
Commercial and technical consulting	1.039.580	1.579.525	(539.945)
Professional services from group companies	79.168.652	65.410.528	13.758.124
Travelling and training expenses	1.318.889	698.584	620.305
Marketing expenses	403.778	448.626	(44.848)
Administrative and legal services	663.268	581.130	82.138
Statutory auditors and independent auditors	104.400	140.064	(35.664)
Lease and rentals	310.537	263.344	47.193
Office expenses	1.563.663	1.259.228	304.435
Services to be recharged to group companies	2.136.930	1.673.011	463.919
Other	1.845.253	1.290.022	555.231
Total	**88.554.950**	**73.344.062**	**15.210.888**

Services from Group companies are connected to revenues from services to third parties. Change compared to the previous year owes to the *fronting* role that Reply has led in the past years in executing services to third party clients and then subcontracting them to the Group companies.

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

Note 9 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 478.275 euros, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.
Amortization of intangible assets for the year ended 2006 amounted to 150.119 euros. The details are provided at the notes to intangible assets herein.

Note 10 - Other unusual operating income/expenses

Other unusual operating income/expenses amounting to 251.749 euros are related to differences on accruals posted in previous years and other minor events falling out of the ordinary course of business.

Note 11 - Gains/(losses) on equity investments

Detail is as follows:

(in euros)	**2006**	**2005**	**Change**
Dividends	4.200.000	3.499.650	700.350
Loss on equity investments	(1.299.209)	-	(1.299.209)
Total	**2.900.791**	**3.499.650**	**(598.859)**

Dividends include income from dividends received from several subsidiary companies during the year.
Detail is as follows:

(in euros)	**31/12/2006**
Aktive Reply S.r.l.	300.000
Atlas Reply S.r.l.	245.000
Blue Reply S.r.l.	335.000
Cluster Reply S.r.l.	545.000
e*finance Reply S.r.l.	265.000
Sysproject Reply S.r.l.	210.000
Sytel Reply S.r.l.	1.795.000
Technology Reply S.r.l.	235.000
XYZ Reply S.r.l.	270.000
Total	**4.200.000**

Loss on equity investments is related to the year end loss of some subsidiary companies that were deemed as non recoverable and posted to the income statement.

Note 12 - Financial income and expenses

Detail is as follows:

(in euros)	**2006**	**2005**	**Change**
Interest income from subsidiaries	1.394.003	1.236.076	157.927
Interest income on bank accounts	322.746	102.684	220.062
Interest expenses	(1.207.096)	(600.837)	(606.259)
Other	25.494	(23.684)	49.178
Total	**535.147**	**714.239**	**(179.092)**

Interest income from subsidiaries are related to the cash pooling accounts of the group companies included in the centralised pooling system.
Interest expenses are mainly related to the interest expenses on the use of the credit facility for the acquisitions made in 2006.

Note 13 - Income taxes

Income taxes for financial year 2006 totalled -131.963 euros and are detailed as follows:

(in euros)	31/12/2006	31/12/2005	Change
IRES	179.248	4.647	174.601
IRAP	294.087	259.000	35.087
Current taxes	**473.335**	**263.647**	**209.688**
Deferred tax liabilities	95.168	331.090	(235.922)
Deferred tax assets	(700.466)	(99.316)	(601.150)
Deferred taxes (prepaid)	**(605.298)**	**231.774**	**(837.072)**
Total income taxes	**(131.963)**	**495.421**	**(627.384)**

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

(in euros)	Amount	Tax
Result before taxes	10.029.671	
Theoretical tax rate	**33%**	**3.309.791**
Temporary differences, net	(10.090.269)	
Taxable IRES	**(60.598)**	
Payable taxes on income of the year		**-**
Gains on losses brought from consolidation	2.814.338	928.732
Reversal of the temporary differences from prior years		255.667
fiscal benefits deriving from adoption of fiscal consolidation		(1.005.151)
Current IRES tax		**179.248**

Calculation of taxable IRAP

(in euros)	Amount	Tax
Difference between value and cost of production	(3.269.713)	
Change IRAP net	9.614.428	
Taxable IRAP	**6.344.715**	**290.000**
Reversal of the temporary differences from prior years		4.087
Current IRAP tax		**294.087**

Note 14 - Tangible assets

Tangible assets as at 31 December 2006 totalled to 880.275 thousand euros. Detail is as follows:

(in euros)	**31/12/2006**	**31/12/2005**	**Change**
Plant and machinery	322.716	71.315	251.401
Hardware	179.254	146.548	32.706
Other	378.305	412.295	(33.990)
Total	**880.275**	**630.158**	**250.117**

Other includes computers, net work equipment, furniture and plants for new office locations.
Change in tangible assets during 2006 is summarised in the table below:

(in euros)	**Plant machinery**	**Hardware**	**Other**	**and Total**
Historical cost	385.868	666.223	1.245.755	2.297.846
Accumulated depreciation	(314.553)	(519.675)	(833.460)	(1.667.688)
Balance at 31 December 2005	**71.315**	**146.548**	**412.295**	**630.158**
Historical cost				
Additions	363.188	157.829	262.944	783.961
Disposals	-	(8.174)	(61.706)	(69.880)
Other change	-	-	-	-
Accumulated depreciation				
Depreciation	(111.787)	(125.123)	(241.367)	(478.277)
Utilisation	-	8.174	6.139	14.313
Historical cost	749.056	815.878	1.446.993	3.011.927
Accumulated depreciation	(426.340)	(636.624)	(1.068.688)	(2.131.652)
Balance at 31 December 2006	**322.716**	**179.254**	**378.305**	**880.275**

In 2006 the Company's additions totalled 784 thousand euros and referred mainly to:

- computers and network equipment for 168 thousand euros;
- furniture and fittings and plants for new office locations totalling 492 thousand euros.

Note 15 - Goodwill

Goodwill at 31 December 2006 amounted to 86.765 and refers to the value of business branches (consulting activities related to *Information Technology* and management support) purchased in July 2000.
Goodwill recognized as at 31 December 2006 is deemed adequately supported in terms of expected financial results and related cash flows.

Note 16 - Other intangible assets

Intangible assets as at 31 December 2006 amounted to 740.203 euros (719.511 thousand euros at 31 December 2005).

(in euros)	Historical cost	Accumulated amortisation	Net book value at 31/12/2006
Software	1.231.353	(1.003.538)	227.815
Trademark	512.388	-	512.388
Total	**1.743.741**	**(1.003.538)**	**740.203**

Change in intangible assets during 2006 is summarised in the table below:

(in euro)	Net book value at 31/12/2005	Increases	Accumulated amortisation	Net book value at 31/12/2006
Software	212.989	164.945	(150.119)	227.815
Trademark	506.522	5.866	-	512.388
Total	**719.511**	**170.811**	**(150.119)**	**740.203**

The item *Software* is related mainly to software licenses purchased and used internally by the company.

The item *Trademarks* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortisation and does not show signs of impairment in terms of expected financial results and related cash flows.
The movements in this item refer to the registration of minor trade marks.

Nota 17 - Equity investments

The item *Equity investments* at 31 December 2006 amounted to 55.388.019 euros, with an increase of 25.341.648 euros compared to 31 December 2005.

(in euros)	Balance at 31/12/2005	Acquisitions and subscriptions	Disposals	Financial loan remission	Other	Balance at 31/12/2006	Interest
@Logistics Reply S.r.l.	969.167			80.000		1.049.167	100,0%
Action Reply S.r.l.	10.000		(1.670)	380.000		388.330	83,3%
Aktive Reply S.r.l.	140.692					140.692	100,0%
Atlas Reply S.r.l.	356.575					356.575	100,0%
Blue Reply S.r.l.	527.892					527.892	100,0%
Business Reply S.r.l.	314.461					314.461	100,0%
Cape Reply Roma S.r.l.	70.000			510.000	(44.589)	535.411	100,0%
Cluster Reply S.r.l.	539.010					539.010	100,0%
Cape Reply S.r.l.	54.572				44.589	99.160	100,0%
Discovery Reply S.r.l.		10.000				10.000	100,0%
e*finance consulting Reply S.r.l.	3.076.385					3.076.385	100,0%
EOS Reply S.r.l	8.000					8.000	80,0%
Hermes Reply S.r.l.	10.000		(500)	40.000		49.500	95,0%
IrisCube Reply S.p.A	9.632.133					9.632.133	100,0%
Logistics Reply do Brasil LTDA	229.316					229.316	80,0%
Logistics Reply SL	53.010					53.010	100,0%
Open Reply S.r.l.	10.000					10.000	100,0%
Power Reply S.r.l.	441.749	1.700		1.140.000		1.583.449	84,5%
Reply Consulting S.r.l.	105.100					105.100	51,0%
Reply Services S.r.l.		10.000				10.000	100,0%
Spike Reply S.r.l.	402.866				(10.000)	392.866	100,0%
syskoplan AG		22.593.557				22.593.557	60,6%
Sysproject Reply S.r.l.	2.071.022					2.071.022	100,0%
Sytel Reply S.r.l.	2.153.255					2.153.255	100,0%
Technology Reply S.r.l.	241.353					241.353	100,0%
Themis Reply SA	45.116					45.117	99,9%
Twice Reply S.r.l.	407.000					407.000	70,0%
XYZ Reply S.r.l.	2.467.019			100.000		2.567.019	100,0%
YH Reply S.r.l.	89.657					89.657	100,0%
Santer S.p.A.	5.621.021	488.561				6.109.582	53,8%
Total	**30.046.372**	**23.103.818**	**(2.170)**	**2.250.000**	**(10.000)**	**55.388.019**	

Acquisitions and subscriptions

syskoplan AG

syskoplan AG, founded in 1983 and supplies services related to consulting and application management leader in CRM for major companies and sector leaders in Germany and across Europe.
The acquisition of the 63.76% stake in syskoplan AG that was carried out by Reply S.p.A is as follows:

(a) on December 22, 2005, in relation to the resolution made by the Board of Directors that on the same date provided the guidelines, an agreement was reached to purchase 53.1% of syskoplan AG's share capital of which:
- 31.2% related to the shareholders, half of the stake to be paid through a cash consideration and the other half through a share swap against shares in Reply S.p.A. to be newly issued (11.0 million euros);
- 21.9% through a share purchase and transfer agreement with DZ Equity Partner GmbH (7,7 million euros);

The cash consideration was paid on January 18, 2006, and the share capital increase took place on April 11, 2006.

(b) on 18 January 2006 Reply S.p.A. acquired from the Group Siemens Business Services GmbH & Co. OHG the 7,31% share capital of syskoplan AG against a cash contribution (2,6million euros) ;

(c) on April 3, 2006 Reply S.p.A. purchased a further 3.35% following a Mandatory Public Offer launched, in accordance with German regulations, for the free float of syskoplan AG (1,2 million euros).

The acquisition model adopted contemplated the need to extend credibility among the syskoplan shareholders that, in view of their strategic role within the syskoplan Group, received newly issued Reply shares subject to a lock up period, which led to a corresponding cash saving of 5,5 million euros. At the same time, the cash consideration was financed for over 90% (15,8 million euros) by a medium-long term bank loan finalized at new acquisitions, allowing the company to obtain tax benefits deriving from the deductibility of the interest expenses on the loan.

Santer S.p.A.

In 2006 Reply S.p.A has acquired a further amount of Santer S.p.A's share capital. In the month of July, Reply S.p.A increased its interest from 49% to 53.77%, purchasing therefore control over the company.

Reply Services S.r.l.

In the month of March 2006, Reply Services S.r.l. was constituted, company in which Reply S.p.A. holds 100% of the share capital. Reply Services S.r.l supplies services related to management, financial and economic consultancy as well as marketing and technical support to the Group.

Discovery Reply S.r.l.

In the month of December 2006 Discovery Reply S.r.l. was constituted, company in which Reply S.p.A. holds 100% of the share capital.
Discovery Reply S.p.A carries out services related to digitalisation, cataloguing and managing audio archives.

Power Reply S.r.l.

Change in the carrying value of such investment is related to a further 17% stake in the company.

Disposals

Action Reply S.r.l.

The amount refers to the disposal of 16.7% of the share capital to the management of the company.

Hermes Reply S.r.l.

The amount refers to the disposal of 5% of the share capital to the management of the company.

Financial loan Remission

The amounts recorded are referred to reserves set up to cover several equity investments' losses against waiver of the financial receivable from the same. Such reserve was utilized by the subsidiaries to partially cover the 2006 loss.

* * * * *

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

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

Note 18 - Non current financial assets

Detail is as follows:

(in euros)	31/12/2006	31/12/2005	Change
Guarantee deposits	85.985	92.757	(6.772)
Financial receivables from subsidiaries	439.534	350.000	89.534
Total	**525.519**	**442.757**	**82.762**

Guarantee deposits are mainly related to deposits on lease contracts.

The item *Financial receivables from subsidiaries* is referred to non-interest bearing loans granted to Reply Consulting S.r.l. (200.000 euros) and Themis Reply SA. (239.534 euros).

Note 19 - Deferred tax assets

This item amounted to 891.355 euros at 31 December 2006 (678.134 euros at 31 December 2005), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.
The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

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

Temporary deductible differences (in euros)	**Tax**
Total deferred tax assets at 31/12/2005	678.134
- accruals	734.381
- utilization	(521.160)
Total deferred tax assets at 31/12/2006, of which:	891.355
- maintenance, licenses and other deductible costs	18.349
- write-down of investments	149.160
- directors fees and employee bonuses accrued but not paid at year end	647.010
- Other	76.836
Total	**891.355**

Note 20 - Trade receivables

Trade receivables, mainly comprising accounts with high rated companies, all collectable within the year, arise from normal sales transactions.
Trade receivables, all due within 12 months amounted to 56.228.813 euros and are detailed below.

(in euros)	**31/12/2006**	**31/12/2005**	**Change**
Third party trade receivables	45.782.141	39.443.050	6.339.091
Credit notes to be issued	(247.900)	(308.100)	60.200
Allowance for doubtful accounts	(150.483)	(197.774)	47.291
Third party trade receivables	**45.383.758**	**38.937.176**	**6.446.582**
Receivables from subsidiaries	10.842.528	9.125.052	1.717.476
Receivables from associates	-	318.240	(318.240)
Receivables from Parent Company	2.527	4.118	(1.591)
Trade receivables from subsidiaries and Parent Company	**10.845.055**	**9.447.410**	**1.397.645**
Total trade receivables	**56.228.813**	**48.384.586**	**7.844.227**

Receivables from third party mainly refers to professional services related to agreements entered with Reply S.p.A. and subcontracted by the latter to its subsidiaries. The above contractual practice was more frequent in 2006 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A.

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

Receivables from associate companies were related, in the previou year, to trade receivables from Santer S.p.A., a company that is now a subsidiary.

Note 21 - Other receivables and current assets

Detail is as follows:

(in euros)	31/12/2006	31/12/2005	Variazione
Tax receivables	638.245	102.005	536.240
Advances to employees	3.996	2.500	1.496
Other receivables from subsidiary Companies	9.586.000	5.999.000	3.587.000
Other receivables	31.811	28.521	3.290
Accrued income and prepaid expenses	1.472.995	1.857.719	(384.724)
Total	**11.733.047**	**7.989.745**	**3.743.302**

Tax receivables mainly refer to receivables from tax authorities for VAT (395.604 euros), and for withholding tax.
Other receivables from subsidiary companies refer to IRES receivables which are calculated on taxable income, such income was transferred to Reply S.p.A by the Italian subsidiary companies in compliance to the national fiscal consolidation.
Accrued income and prepaid expenses amounted to 1.473 thousand euros and refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.

Note 22 - Current financial assets

This item amounted to 27.013.020 euros (31.478.977 euros at 31 December 2005) and are related to the cash pooling accounts of the subsidiary companies involved in the centralised pooling system with pool leader Reply S.p.A..
The interest yield on these accounts is in line with current market conditions.

Note 23 - Cash and cash equivalents

This item amounted to 9.554.624 euros, with a decrease of 1.208.623 euros compared to 31 December 2005, and is referred to cash at banks and on hand at year-end.

Note 24 - Shareholders' equity

Share capital

As at 31 December 2006 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4.641.990,60 euros and is made up of no. 8.926.905 ordinary shares, par value 0,52 euros per share.

Change in the period is due to:

- the acquisition of syskoplan AG, in part against a cash payment (48.15% of syskoplan AG's share capital) and in part through an increase of Reply S.p.A's share capital, paid against the transfer of syskoplan AG shares (15.61%).
- The acquisition of the total minority shares of the companies IrisCube Reply S.p.A. (49%) and of Spike Reply S.r.l. (10%), for a total value of a 3.359.950,30 euros of which 88.174,32 euros as share capital increase and 3.271.775,98 euros as share premium;
- The exercising of no. 41.900 stock option rights for a total amount of 384.638 euros of which 21.788 euros as share capital increase and 362.850 euros as share premium.

Other reserves

Other reserves comprised the following:

(in euros)	31/12/2006	31/12/2005	Change
Share premium reserve	25.530.027	16.546.430	8.983.597
Legal reserve	929.760	708.718	221.042
Extraordinary reserve	7.018.142	5.225.912	1.792.230
Reserve for treasury shares on hand	223.804	223.804	0
Reserve for purchase of treasury shares	19.703.012	19.703.012	0
Reserve for cash flow hedges	351.382	(17.000)	368.382
Retained earnings and other	1.226.440	1.927.138	(700.698)
Total	**54.982.567**	**44.318.014**	**10.664.553**

As at 31 December 2006 the *Share premium reserve* amounted to 25.530.027 euros, with an increase of 8.983.597 euros compared to 31 December 2005 arising from the aforementioned operations.
Change in *legal reserve* and *extraordinary reserve* owes to the allocation of 2005 net result.
The *Reserve for treasury shares on hand* amounting to 223.804 euros, is related to shares held by the Parent company that as at 31 December 2006 were equal to no. 29,499.
The *Reserve for purchase of treasury shares*, amounting to 19.703.012 euros, was constituted through withdrawal from the Reserve for treasury shares on hand, following the resolution made by the General Shareholders Meeting of Reply S.p.A. which authorised, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 21 million euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

The *Reserve for cash flow hedges* includes the effects deriving from financial hedge instruments measured at fair value.
Retained earnings and other includes the effects deriving from the costs related to the existing Stock Option Plans as at 31 December 2006 and the expenses related to the share capital increase.

Shareholders' net equity distinguished according to their origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years in annexed herein.

Share based payment plans

The Group has share based payment plans for its employees.

The stock option plans have the following purposes:

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

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

The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to approximately 212 employees and directors of the group companies.

The Extraordinary Shareholders' Meeting of 13 December 2006 resolved to partially modify the resolutions made on 11 June 2002, 10 June 2004 and 15 June 2006 related to the stock option plans in favour of directors and employees of Reply S.p.A and its subsidiaries by extending, for each of the plans, the expiry date for the subscription of the share capital increase.

As 31 December 2006 the number of stock options were 278.800 and can be summarised as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2002	11/06/2002	13/05/2004	9	9,416	13/05/2007 – 13/05/2012	89.000
2004	11/06/2004	11/11/2004	2	10,943	11/11/2007 – 11/11/2012	12.400
2004	11/06/2004	11/11/2005	1	17,569	11/11/2008 – 11/11/2013	2.400
2004	11/06/2004	12/05/2006	11	21,339	12/05/2009 – 12/05/2014	165.000
2006	15/06/2006	08/08/2006	1	18,662	08/08/2009 – 08/08/2014	10.000

As at 31 December 2006 stock option plans granted in 2001, 2002 and 2004 were assessed for the purposes of IFRS 2, more specifically, for all stock options granted after November 7, 2002 which had not yet vested at January 1, 2006, the group applied IFRS 2.

At each grant date the stock option plans were remeasured by taking into consideration the existing market conditions at the date.

The method adopted in order to assess the fair value of the options is that of the risk neutral model: the model deducts the risk free interest curve from Bootstrap rates; the expected dividend yield for each share is equal to 1.5% per annum.

The assessment was set up by applying stochastic simulation methods through the Monte Carlo model which calculation is based on distinct monthly time lines.

As far as the volatility of the Reply share is concerned, at each grant date, applying the historical volatility at 1 year was deemed reasonable.

IFRS 2 requires that the fair value of the options in the vesting period be recorded at the statement of income with contra balance net equity. The economic effects are disclosed at Note 7.

Note 25 - Financial liabilities

Detail is as follows:

(in euros)		**31/12/2006**			**31/12/2005**	
	current	**non current**	**Total**	**current**	**non current**	**Total**
Advances on receivables and bank overdrafts	2.225	-	2.225	7.980	-	7.980
Financial borrowings	3.737.318	24.122.872	27.860.190	4.017.000	7.670.000	11.687.000
Total due to banks	**3.739.543**	**24.122.872**	**27.862.415**	**4.024.980**	**7.670.000**	**11.694.980**
Transaction accounts from subsidiaries	4.886.905	-	4.886.905	1.231.646	-	1.231.646
Total financial payables	**8.626.448**	**24.122.872**	**34.749.320**	**5.256.626**	**7.670.000**	**12.926.626**

The syndicated loan, at 31 December 2006, is referred to the partial utilization of the credit facility for a maximum amount of 66 million euros as undersigned on December 30, 2005 by Reply S.p.A. with San Paolo IMI, pool leader of a group of banks for the granting of the loan.

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

- Tranche A can be used as an overdraft for a maximum amount of 12.000.000 euros with the purpose of entirely reimbursing the previous loan;
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54.000.000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares.

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

As contractually defined, such ratios are as follows:

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

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

The IAS assessments were related to:

- Restatement of the incidental charges related to the financial loan (242 thousand euros);
- Fair value measurement of the financial hedge instrument (351 thousand euros).

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's Recommendations for the consistent implementation of the European's regulation on Prospectuses issued on February 10, 2005, the Net financial position amounted to 4.257.858 euros at 31 December 2006, and is as follows:

(in euros)	**31/12/2006**	**31/12/2005**	**Change**
Liquidity			
Cash and cash equivalents	*9.554.624*	*10.763.247*	*(1.208.623)*
Cash pooling accounts	*22.126.115*	*30.247.331*	*(8.121.216)*
Total liquidity	**31.680.739**	**41.010.578**	**(9.329.839)**
Financial receivables from third parties	439.534	350.000	89.534
Total financial assets	**32.120.273**	**41.360.578**	**9.419.373**
Non-current due to banks	(24.122.872)	(7.670.000)	(16.452.872)
Current due to banks	(3.739.543)	(4.024.980)	285.437
Total financial liabilities	**(27.862.415)**	**(11.694.980)**	**(16.167.435)**
TOTAL NET FINANCIAL POSITION	**4.257.858**	**29.665.598**	**(25.407.740)**
Of which related parties	*22.565.649*	*30.597.331*	*(8.031.682)*

Note 26 - Employee benefits

This item includes reserve for employee severance indemnities, remeasured according to IAS 19, changes are the following:

(in euros)	
Balance at 31/12/2005	**625.928**
Reserve transferred from branch acquisition	226.863
Accruals	(14.370)
Utilisation	(140.723)
Balance at 31/12/2006	**697.698**

Benefits to employees that fall within the Italian regulation of Employee severance indemnities (TFR) are considered by IAS 19 as "post employment benefits" of the "defined benefits" type and are therefore subject to valuation by means of the actuarial procedure "Projected Unit Credit Method".

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

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

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

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

The actuarial gains and losses are recorded according to the Corridor Method (in 2006 the effects were not significant).

The assumptions adopted can be summarised as follows:

Demographic assumptions	
Mortality	ISTAT 2000 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: - Frequency of advances in 2006: 2,50% - Frequency of turnover % 2006: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 2%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual dicount used for 2006 was 4,25%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) is revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment (3.00 to 4.50%)

Note 27 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2006 amounted to 222.848 euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility. Detail is as follows:

(in euros)	
Total at 31.12.2005	313.005
- accruals	121.843
- utilization	(212.000)
Total at 31/12/2006	**222.848**
- On deductible items off the books	173.280
- Employee benefits IAS 19	20.045
- incidental charges on the financial loan	18.150
- different goodwill measurements	11.373
Total at 31/12/2006	**222.848**

The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

Note 28 - Trade payables

Change in trade payables compared to period ended 2005, amounted to 4.616.835 euros, and is detailed below:

(in euros)	31/12/2006	31/12/2005	Change
Due to suppliers	1.743.503	1.903.891	(160.388)
Due to subsidiary companies	*51.658.883*	*49.464.653*	*2.194.230*
Due to associates	-	81.668	(81.668)
Advance payments	6.082.876	3.418.215	2.664.661
Total	**59.485.262**	**54.868.427**	**4.616.835**

Due to suppliers include:

- domestic suppliers for 1.722 thousand euros;
- foreign suppliers for 7 thousand euros;
- foreign non European member suppliers for 14 thousand euros;

The item due to subsidiary companies refers to trade transactions carried out at normal market conditions.
Such payables refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2006 compared to the prior year and this explains the difference in the payable position.

Advance payments include advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.

Note 29 - Other current liabilities

Details are provided below:

(in euros)	**31/12/2006**	**31/12/2005**	**Change**
IRES - IRAP	2.993.149	1.612.263	1.380.886
Withholding tax and other (IRPEF)	157.772	169.897	(12.125)
Other	51.216	3.800	47.416
Total due to tax authorities	**3.202.137**	**1.785.960**	**1.416.177**
INPS	332.029	317.943	14.086
Other	51.147	41.976	9.171
Total due to social security authorities	**383.176**	**359.919**	**23.257**
Employee accruals	528.763	415.374	113.389
Due to subsidiary companies	2.218.160	387.512	1.830.648
Due to minority shareholders	-	6.370.000	(6.370.000)
Other payables	1.810.882	87.225	1.723.657
Accrued expenses and deferred income	1.568.899	1.115.220	453.679
Total other dues	**6.126.704**	**8.375.331**	**(2.248.627)**
Total trade payables and other liabilities	**9.712.017**	**10.521.210**	**(809.193)**

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

Due to social security authorities is related to both Company and employees contribution payables.

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

Pursuant to IAS 32, the amount *due to minority shareholders* was related to the shares of IrisCube Reply S.p.A. and Spike Reply S.r.l. in connection to the option to sell the same shares. Such option was exercised in 2006.

Due to subsidiary companies represents the remuneration due for the tax losses contributed by subsidiaries to the national tax consolidation for 2006 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

Nota 30 - Transactions with Related parties

In relation to CONSOB communication no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1999 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2006 financial statements related to such transactions are summarized below.
Transactions carried out by Reply S.p.A. with related parties, that as of the closing date are Alika S.r.l. and its subsidiary, Axcel S.r.l., are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.

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

(thousand euros)	With subsidiary and associate companies	With related parties	With subsidiary and associate companies	With related parties	Nature of transaction
Financial transactions	**31/12/2006**		**31/12/2005**		
Financial receivables	440	-	350	-	Financial loans yielding interest
Transaction accounts	22.126	-	30.247		Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	20.428	12	15.443	9	Royalties, administration services, marketing and quality management, management services and office rental
Trade payables and other	59.960	-	49.934	6	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Economic transactions	**2006**		**2005**		
Revenues from royalties	4.909	-	4.096	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	9.208	11	7.849	-	Administration services, marketing and quality management and office rental
Revenues from management services	2.304	-	2.580	-	Strategic management services
Costs for professional services	79.680	-	65.606	-	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Services from Parent Company and related parties	-	519	-	475	Services related to office rental and office of the secretary
Interest income on loans, net	1.394	-	1.236	-	Interest on financial loans: 3 month euribor with a spread of 2 percentage points

In accordance with Consob Resolution no. 15519 of July 27, 2006 and Consob communication no. DEM/6064293 of July 28, 2006 the financial statements present the Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption.
Pursuant to art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

Note 31 - Significant non-recurring transactions

Pursuant to the Consob communication no. 6064293 of 28 July, 2006, the only significant non-recurring transaction carried out by Reply S.p.A in 2006 was the purchase of 63.76% of syskoplan AG's share capital.

On 11 May 2007, Reply S.p.A. published the Informative Document related to the acquisition operation, of the German company syskoplan AG in compliance to article 70, clauses 4 and 5 letter b) and 71 of the Consob Regulation no. 11971 of 14 May 1999 ("Consob Regulation"). This operation was fully disclosed in the Directors' report on operations and the Explanatory notes to Reply S.p.A.'s 31 December 2006 financial statements.

Note 32 - Transactions resulting from unusual and/or abnormal operations

Pursuant to the Consob communication no. 6064293 of 28 July, 2006, Reply S.p.A has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

Note 33 - Guarantees, commitments and contingent liabilities

Guarantees, commitments and contingent liabilities, where exisiting, have been disclosed at the item to which they refer.
Guarantees granted to related parties are not remunerated.
At the present date Reply S.p.A. does not have any contingent liabilities

Note 34 - Emoluments to Directors, Statutory Auditors and Key Management

Emoluments to Directors, Statutory Auditors and key management of Reply S.p.A. including those in other subsidiary companies are summarised in the table below:

Name	Office	Term of office	Emoluments	Other	Non-cash benefits
Mario Rizzante	Chairman	01/01/06 – 31/12/06	540.000		
Sergio Ingegnatti	Chief Executive Officer	01/01/06 – 31/12/06	420.000		
Tatiana Rizzante	Chief Executive Officer	01/01/06 – 31/12/06	70.500	242.500	
Oscar Pepino	Executive director	01/01/06 – 31/12/06	420.000		
C. A. Carnevale Maffé	*Non executive and independent director*	01/01/06 – 31/12/06	20.000		
Marco Mezzalama	*Non executive and independent director*	01/01/06 – 31/12/06	20.000		
Fausto Forti	*Lead Independent Director*	01/01/06 – 31/12/06	20.000		
Piergiorgio Re	Chairman of the Board of Statutory auditors	01/01/06 – 31/12/06	28.000		
Tommaso Vallenzasca	Statutory auditor	01/01/06 – 31/12/06	17.200		
Ada A. Garzino Demo	Statutory auditor	01/01/06 – 31/12/06	17.200		
Key management		01/01/06 – 31/12/06		1.411.500	74.800

Stock options granted to Members of the Board of Directors and Key management

		Options held at the beginning of the year			Options granted during the year			Options held at the end of the year
Name	**Office held**	**Number of options**	**Average exercise price (euros)**	**Exercise period**	**Number of options**	**Average exercise price (euros)**	**Exercise period**	**Number of options**
Mario Rizzante	Chairman	9.900	9,416	13-05 -07 to 13-05-12	-	-	-	9.900
Sergio Ingegnatti	Chief executive officer	9.800	9,416	13-05 -07 to 13-05-12	-	-	-	9.800
Tatiana Rizzante	Chief executive officer	9.900	9,416	13-05 -07 to 13-05-12	15.000	21,339	12-05-09 to 12-05-14	24.900
Oscar Pepino	Executive director	9.900	9,416	13-05 -07 to 13-05-12	-	-		9.900
Key management		49.500	9,416	13-05 -07 to 13-05-12	75.000	21,339	12-05-09 to 12-05-14	124.500

During the financial year under review, no stock options have been exercised and no options have expired.

Note 35 - Events subsequent to December 31, 2006

Acquisition of Axcel

Reply S.p.A. is currently in the process of acquiring the 100% stake in Axcel S.r.l., a related party that has been doing business with the group for some time. Axcel S.r.l. is in the process of becoming a competence centre in the broad band telecommunication and wireless fields.

Through the acquisition, Axcel's offer will be integrated within the Reply Group business units and consequently Reply will benefit from the reduction of costs for activities that Axcel once carried out for the Group.

The acquisition of the above mentioned stake will be carried out through a share capital increase, with the exclusion of stock option rights, to be paid through contribution in kind in the same shares to Reply S.p.A..

According to the company's Business plan and the future profitability it is likely that the 100% stake of Axcel will reasonably be approximately 1.0 – 1.4 million euros.

Stock granting

As in the past, and in line with the Group's remuneration policy and international best practices, the Board of Directors intends on proposing to the Shareholders in the next general meeting, the awarding of shares, in compliance with art. 2349 of the Italian Civil Code, to executive directors, managers and employees as a form of incentive plan.

_**Annexed** tables

Statement of income
pursuant to Consob Resolution no. 15519 of July 27, 2006

(in euros)	**2006**	**Of which related parties**	**%**	**2005**	**Of which related parties**	**%**
Revenues	93.209.219	*14.371.677*	*15,4%*	78.099.030	*12.749.515*	*16,3%*
Other revenues	2.194.341	*2.048.190*	*93,3%*	1.814.746	*1.738.840*	*95,8%*
Purchases	(915.583)			(629.880)		
Personnel expenses	(8.574.346)			(6.139.631)		
Services and other costs	(88.554.950)	*(80.199.440)*	*90,6%*	(73.344.062)	*(66.080.732)*	*90,1%*
Amortisation and write-offs	(628.394)			(445.905)		
Other unusual operating income/expenses	251.749			200.187		
Operating margin	**(3.017.964)**			**(445.515)**		
Income/(loss) from equity investment	2.900.791			3.499.650		
Financial income	1.742.243	*1.474.260*	*84,6%*	1.338.760	*1.248.284*	*93,2%*
Financial expenses	(1.207.096)	*(80.257)*	*6,65%*	(624.521)	*(12.208)*	*1,95%*
Result before tax	**417.974**			**3.768.374**		
Income taxes	131.963			(495.421)		
NET RESULT	**549.937**			**3.272.953**		

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

(in euros)	31/12/2006	Of which related parties	%	31/12/2005	Of which related parties	%
Tangible fixed assets	880.275			630.158		
Goodwill	86.765			86.765		
Other intangible assets	740.203			719.511		
Equity investments	55.388.019			30.046.372		
Financial assets	525.519			442.757		
Deferred tax assets	891.355			678.134		
Non current assets	**58.512.136**			**32.603.697**		
Trade receivables	56.228.813	*10.774.658*	*19,2%*	48.384.586	*9.133.860*	*18,9%*
Other receivables and current assets	11.733.047	*9.586.000*	*81,7%*	7.989.745	*5.999.000*	*75,1%*
Financial assets	27.013.020	*27.013.020*	*100,0%*	31.478.977	*31.478.977*	*100,0%*
Cash and cash equivalents	9.554.624			10.763.247		
Current assets	**104.529.504**			**98.616.555**		
TOTAL ASSETS	**163.041.640**			**131.220.252**		
Share capital	4.641.991			4.374.089		
Other reserves	54.982.567			44.318.014		
Net result	549.937			3.272.953		
TOTAL SHAREHOLDERS' EQUITY	**60.174.495**			**51.965.056**		
Financial liabilities	24.122.872			7.670.000		
Employee benefits	697.698			625.928		
Deferred tax liabilities	222.848			313.005		
Non-current liabilities	**25.043.418**			**8.608.933**		
Financial liabilities	8.626.448	*4.886.905*	*56,7%*	5.256.626	*1.231.646*	*23,4%*
Trade payables	59.485.262	*57.741.759*	*97,1%*	54.868.427	*52.882.868*	*96,4%*
Other payables and current liabilities	9.712.017	*2.218.160*	*22,8%*	10.521.210	*387.512*	*3,7%*
Current liabilities	**77.823.727**			**70.646.263**		
TOTAL LIABILITIES	**102.867.145**			**79.255.196**		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**163.041.640**			**131.220.252**		

List of equity investments in subsidiaries with additional information required by Consob (communication no. 6064293 of 28 July 2006)

Company (in euros)	Registered office	Share capital	Shareholders' equity at 31/12/06	Result 2006	% owned	Carrying value at 31/12/06
@Logistics Reply S.r.l.	Torino	78.000	199.756	(73.716)	100,0%	1.049.167
Action Reply S.r.l.	Torino	10.000	48.396	(341.604)	83,3%	388.330
Aktive Reply S.r.l.	Torino	10.000	1.088.470	628.663	100,0%	140.692
Atlas Reply S.r.l.	Torino	10.000	1.368.089	1.058.500	100,0%	356.575
Blue Reply S.r.l.	Torino	10.000	1.615.466	697.590	100,0%	527.892
Business Reply S.r.l.	Torino	78.000	333.439	82.167	100,0%	314.461
Cape Reply Roma S.r.l.	Torino	10.000	19.970	(568.068)	100,0%	535.411
Cape Reply S.r.l.	Torino	10.000	78.870	(152.134)	100,0%	99.160
Cluster Reply S.r.l.	Torino	100.000	1.549.254	1.185.008	100,0%	539.010
Discovery Reply S.r.l.	Torino	10.000	10.000	-	100,0%	10.000
e*finance consulting Reply S.r.l.	Torino	34.000	2.549.200	1.986.544	100,0%	3.076.385
Ekip S.r.l.	Torino	10.400	180.705	121.364	100,0%	139.348
Eos Reply S.r.l.	Torino	10.000	(567.152)	(656.582)	80,0%	8.000
Hermes Reply S.r.l.	Torino	10.000	11.869	(38.130)	95,0%	49.500
IrisCube Reply S.p.A.	Milan	651.735	5.939.544	2.262.366	100,0%	9.632.133
IrisCube S.A.	Bioggio	58.597	308.334	11.317	100,0%	307.053
Logistics Reply do Brasil LTDA	San Paolo	286.646	630.318	(69.450)	80,0%	229.316
Logistics Reply SL	Barcelona	53.010	(63.413)	(12.712)	100,0%	53.010
Open Reply S.r.l.	Torino	10.000	40.503	1.128	100,0%	10.000
Power Reply S.r.l.	Torino	10.000	18.492	(1.135.743)	84,5%	1.583.449
Reply Consulting S.r.l.	Torino	10.000	166.672	44.838	51,0%	105.100
Reply Services S.r.l.	Torino	10.000	11.002	(8.999)	100,0%	10.000
Santer S.p.A.	Milan	2.209.500	10.662.933	1.247.730	53,8%	6.109.582
Spike Reply S.r.l.	Torino	50.000	890.526	266.502	100,0%	392.866
syskoplan AG and its subsidiaries	Gutersloh, Germany	4.435.616	24.325.580	2.206.910	60,6%	22.593.557
Sysproject Reply S.r.l.	Torino	10.400	470.993	272.550	100,0%	2.071.022
Sytel Reply S.r.l.	Torino	115.046	5.873.331	4.442.145	100,0%	2.153.255
Technology Reply S.r.l.	Torino	79.743	1.448.646	1.109.958	100,0%	241.353
Themis Reply S.A.	Bioggio	64.451	(118.975)	10.250	99,9%	45.117
Twice Reply S.r.l.	Torino	10.000	(642.646)	(702.268)	70,0%	407.000
XYZ Reply S.r.l.	Torino	12.939	104.759	(96.005)	100,0%	2.567.019
YH Reply S.r.l.	Torino	21.224	638.425	465.939	100,0%	89.657

Detail of Shareholders' net equity distinguished
according to their origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years.

Nature/description (in euros)	**Amount**	**Possibility of utilization**	**Available amount**	Summary of the amounts used in the prior three fiscal years **For coverage of losses**	**Other**
Capital	**4.641.991**				
Capital reserves					
Reserve for treasury shares	223.804				
Share premium reserve	25.530.027	A, B,C	25.530.027		
Reserve for purchase of treasury shares	19.703.012	A, B	19.703.012		
Income reserves					
Legal reserve	929.760	B	-		
Extraordinary reserve	7.018.142	A, B, C	7.018.142		
Retained earnings	674.740	A, B, C	674.740		5.782.794
			52.925.921		
Total					
Amount not available (*)			83.742		
Residual available amount			**52.842.179**		
Reserves from transition to IAS/IFRS					
FTA reserve	208.756				
Retained earnings	1.111.347				
Reserve for cash flow hedge	351.382				
Treasury share	(223.825)				
Items posted directly to net equity (IAS 38)	(544.578)				
	59.624.558				

Legend

A: for share capital increase

B: for loss coverage

C: distribution to shareholders

_**Declaration** pursuant to article 81-ter of Consob Regulation no. 11971

_**Declaration** pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations

1. The undersigned, Sergio Ingegnatti, Chief Executive Officer, Giuseppe Veneziano, director in charge of drawing up the accounting documents of Reply S.p.A. pursuant to article 154-bis, paragraph 3 and 4 of legislative decree no. 58 of 24 February 1998, declare the following:

that the information and that all the economic, financial and earnings position reported in the Reply S.p.A Financial Statements and the Consolidated Financial Statements for the period 1 January 2006 to 31 December 2007 correspond to documentational, general ledger and accounting evidence.

2. On 11 May 2007, the Parent Company Reply S.p.A. published the Informative Document related to the acquisition operation, even through contribution in kind, of the German company syskoplan AG in compliance to article 70, clauses 4 and 5 letter b) and 71 of the Consob Regulation no. 11971 of 14 May 1999 ("Consob Regulation"). This operation was fully disclosed in the Directors' report on operations and Explanatory notes to Reply S.p.A.'s financial statements and the consolidated financial statements as at 31 December 2006.

3. Reply S.p.A.'s statements and the Group consolidated statements as at 31 December 2006:

a. correspond to documentational and general ledger;

b. are prepared in accordance to International financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB") e, and are suitable to provide a fair and true view of Reply S.p.A.'s and the consolidated companies' earning, economic and financial position.

Turin, 28 May 2007

Sergio Ingegnatti
(Chief Executive Officer)

Giuseppe Veneziano
(Director in charge of drawing up the accounting documents)

_**Statutory** Auditors' Reports

_**Statutory** Auditors' report
on the consolidated financial statements at 31 December 2006

To the Shareholders,

The Consolidated Balance Sheet at year end 2006 has been prepared in accordance with IFRS issued by IASB. The financial statements include the balance sheet, the statements of income, changes in shareholders' equity and cash flows and the related explanatory notes.

The consolidated balance sheet as at 31 December 2006 shows a net equity for the Group amounting to 79,107 million euros including net income of 10,274 million Euros.

The Report on Operations presents fairly the results, balance sheet and financial position of Reply S.p.A, the operations in 2006 and the events that have occurred since the end of the fiscal year, for all the companies included in consolidation as well as revenues by business line and consolidated results.

As at 31 December 2006 consolidation includes the syskopaln Group and thirty companies consolidated on a line-by-line basis.

The controls carried out by Deloitte & Touche S.p.A. have shown that the amounts included in the financial statements are consistent with the accounting records of the parent Company and its Subsidiaries and with the official information provided by said subsidiaries.

These results and information were communicated by the Subsidiaries to the Parent Company for use in the preparation of the consolidated financial statements. They were examined by the external auditors during their audit for the consolidated financial statements.

The Board of Statutory Auditors did not review these results.

Deloitte & Touche S.p.A., the independent audit firm engaged to audit Reply's Consolidated financial statements, issued its opinion on 28 May 2007 stating that the Consolidated financial statements were drawn up in accordance to the disciplining laws.

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

- the area of consolidation results correct;
- the preparation of the consolidated financial statements are prepared in accordance with the disciplining laws;
- the Directors' report on operations is coherent with the consolidated financial statements;
- all the information used for consolidation is referred to the entire accounting period of 2006;
- the accounting principles applied are the same used in the preparation of those in the previous year;
- the main changes in consolidation compared to 31 December 2005 are related to consolidation of the syskoplan Group, of which Reply S.p.A. acquired control in the first months of 2006 and consolidation of Santer S.p.A., of which the Parent Company holds 53.77% of the share capital, after having acquired a further 4.77% stake during 2006;
- Discovery Reply S.r.l., constituted in December 2006 is recorded at historical cost.

Turin, 29 May 2007

Statutory Auditors

(Prof. Piergiorgio Re)

(Mr. Tommaso Vallenzasca)

(Mrs. Ada Alessandra Garzino Demo)

_**Statutory** Auditors' Report

to the shareholders' pursuant to art. 153 of Italian legislative decree no. 58/1998 and art. 2429, paragraph 3 of the Italian civil code in relation to the financial statements as at 31 December 2006

To the Shareholders,

Pursuant to art. 153 of the Italian Legislative Decree no. 58/98, and in compliance with the Italian Civil Code, the Board of Statutory Auditors refers to the Shareholders the supervision activities carried out in 2006.

Throughout fiscal year 2006 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree 24/02/1998 no. 58 and in compliance with correct behaviour principles set out by the Statutory Auditors and recommended by the National Board of Accountants ("Dottori Commercialisti and Ragionieri") and also by CONSOB resolutions and recommendations. Our activities are summarized below:

1. Significant economic, financial and monetary transactions.

The most significant economic, financial and monetary transactions carried out in 2006 are summarized below:

- In April 2006 the acquisition of 63.76% share capital of the German company syskoplan AG, for a total amount of 22.5 million euros of which 5.5 a share capital increase resolved on 11 April 2006 by Reply S.p.A.'s Board of Directors, in accordance to the proxy resolved by the shareholders' meeting of June 14, 2005, against 655,683 syskoplan shares equal to 15.6% of the said company's share capital;
- The acquisition of a 10% stake in Spike Reply S.r.l.'s, in which Reply S.p.A. already held 90% of the share capital, for a total amount of 337.865 euros against 17,051 new ordinary shares of Reply S.p.A. with the exclusion of stock option rights, resolved by the shareholders' meeting of June 15, 2006, in compliance to the proxy resolved by the shareholders' meeting of June 14, 2005;
- The acquisition of a 49% stake in IrisCube Reply S.p.A., in which Reply S.p.A. already held 51% of the share capital, for a total amount of 6,022 million euros. The acquisition was carried out in part against 152,515 new ordinary shares of Reply S.p.A. with the exclusion of stock option rights, resolved by the shareholders' meeting of June 15, 2006, in compliance to the proxy resolved by the shareholders' meeting of June 14, 2005 and against a cash contribution of 3 million euros;
- In July 2006 a further 4.77% of Santer S.p.A.'s share capital was purchased for a total 488.561 euros which allowed Reply S.p.A. to increase its interest to 53.77% and therefore acquiring control;
- In February 2007 the Board of Directors started the procedures to acquire the entire share capital of Axcel S.r.l. by Reply S.p.A.

The acquisition price of approximately 1.2 million euros will be entirely paid against no. 51,615 newly issued Reply S.p.A. shares to be granted to Axcel's shareholders through a share capital increase with the exclusion of stock option rights and will be resolved by Reply S.p.A.'s Board of Directors on June 14, 2007, in compliance to the proxy resolved by the shareholders' meeting of June 14, 2005.

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

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

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

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

- Reply S.p.A. has received professional services from group companies in relation to revenues from third parties;
- Reply S.p.A. has granted surety ships and patronage letters on behalf of some subsidiary companies in order to enable them to have adequate financial means for the development of their activities;
- REPLY S.p.A. has granted to its subsidiaries Reply Consulting S.r.l. and Themis Reply S.A. non-interest bearing loans for the carrying out of their activities;
- REPLY S.p.A. provided the subsidiaries administrative, managerial, and commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services. Also in this case all transactions are regulated at normal market conditions;
- Reply S.p.A. has introduced a cash pooling system and activated transaction accounts with the single group companies;
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company.

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

These operations are ongoing at present.

As mentioned above, in the month of February 2007, an operation to acquire 100% of Axcel's share capital has been started; currently 69% of its share capital is held by Alika S.r.l., company that indirectly controls Reply S.p.A., 18% is held by several executive directors of Reply S.p.A. and the remaining 13% by a third party company.

With reference to the above mentioned acquisition, the Board of Statutory Auditors deems that the procedures adopted by the company are in compliance to art. 2391-bis of the Italian Civil Code, to the company's Corporate Governance Code and to the Regulations on significant operations with related parties.

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

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

The Directors' Report on Operations related to the year ended 2006 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.

Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year end close.

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

Deloitte & Touche S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2006, issued its report on 28 May 2007 in which it asserts that REPLY S.p.A.'s financial statements as of 31 December 2006 comply with laws governing the criteria for their preparation.

The second paragraph of the auditors' opinion points out the adjustment made in the 2006 Annual report to the annexed transition to IFRS already published in the 2006 half-year report, also disclosed in the notes to the financial statements.

5. **Complaints pursuant to art. 2408 Italian Civil Code.**

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

6. **Petitions.**

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

7. Additional engagements conferred to the independent audit firm and related charges.

In the financial year under review the following additional engagements were conferred to Deloitte & Touche S.p.A.:

- Review of the reconciliation statements between net equity at January 1, 2005 and December 31, 2005 under Italian GAAP and IFRS. Fee for execution of this service amounted to 12.000 euros.
- Assistance in filing of the company's tax return. Fee for execution of this service amounted to 1.000 euros.
- Report on the adequacy of the price for the issuing of shares following a share capital increase with the exclusion of stock option rights in compliance to art. 2441, clause 6 of the Italian Civil Code against the acquisition of the investment in syskoplan AG and review of the pro-forma statements drawn up including this operation. Fee for execution of this service amounted to 120.000 euros.
- Report on the adequacy of the price for the issuing of shares following a share capital increase with the exclusion of stock option rights in compliance to art. 2441, clause 6 of the Italian Civil Code and in compliance with art. 158, clause 1 of Law Decree 58/98 against the acquisition of the minority shares of IrisCube Reply S.p.A. and Spike Reply S.r.l. Fee for execution of this service amounted to 25.000 euros.
- Report on the adequacy of the price for the issuing of shares following a share capital increase with the exclusion of stock option rights in compliance to art. 2441, clause 6 of the Italian Civil Code for stock option plans as resolved by the Extraordinary Shareholders Meeting on June 15, 2006. Fee for execution of this service amounted to 5.000 euros.

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

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

9. Existence of opinions issued during the year.

In the year under review and in compliance to art. 2389, clause 3 of the Italian Civil Code an opinion was issued related to emoluments to members of the Board of Directors invested with special powers and an opinion with reference to the appointment of the "Director in charge of drawing up the company accounting documents" provided by Law 262/2005 and art. 24 of the Articles of Incorporation

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

In 2006 the Board of Directors met 12 times, and the Statutory Auditors held 8 meetings.

11. Instructions given by the company to its subsidiaries in accordance with art 114, paragraph 2 of Law Decree 58/1998

Instructions given to the subsidiary companies, in accordance to paragraph 2, art.114 of Law Decree 58/1998, seem to be adequate and the same subsidiaries provided Reply S.p.A. with timely and appropriate information concerning the companies activities.

In this regards, we inform You that in order to guarantee the timeliness of the information requested, the Chief Executive Officer of Reply S.p.A., Mr. Sergio Ingegnatti, is covering all the duties of director in all the corporate bodies of the subsidiary companies with the exception of syskoplan AG in which Mr. Daniele Angelucci was appointed.

We also inform you that Mr. Mario Rizzante, Chairman of the Board of Directors of Reply S.p.A., holds office as Chairman of the Supervisory Board of syskoplan AG.

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

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

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

13. Compliance with the conduct code set out by the Corporate Governance Committee of listed companies.

Since 2000 the Company complies to the Corporate Governance set out by Borsa Italiana S.p.A..

In such regards, the company has adopted in 2006 the new Corporate Governance presented on March 14, 2006 by Borsa Italiana S.p.A.

On 20 April 2007 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company.

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

We have kept and developed, through meetings and occasions, a systematic relationship with the audit firm Deloitte & Touche S.p.A throughout the year, with the purpose of a reciprocal exchange of information and data.

On such occasions, the Audit firm did not refer reprehensible matters or events worthy of being mentioned.

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

1) Administration

The Board of Statutory Auditors asserts to have:

_ Verified the legitimacy of managerial decisions made by the Administrating Body and the related economic adequacy excluding our opinion concerning the convenience or opportunity of such decisions;

_ Examined the major typical and usual and the most significant operations in order to control whether in contrast with the purpose of the company or in conflict of interest so as to compromise the integrity of the company's wealth;

_ Verified that these were not in contrast with Board resolutions or jeopardize individual or minority rights.

2) Organizational structure

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

3) Internal control system

Within the Board of Directors an Internal Control and Internal Remuneration Committee have been constituted. Their activities are carried out in accordance to a work program in line with the company's needs.

We have met with those in charge of the aforementioned committees, gathering information with respect to the areas in which they intervene and the solutions adopted in order to overcome weak points.

From the controls carried out the internal control system is deemed reliable.

4) Administrative and accounting system

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

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

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

The Financial statements at 31 December 2006 were not as in the previous year prepared in accordance to Italian accounting principles but rather according to the European regulation no. 1606/2002 of 19 July 2002 in compliance to IAS/IFRS.

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

Directors' Report on Operations and the allocation of the net result, subject to Your approval.
The Board of Statutory Auditors, in specific reference to requirements set out by Law Decree 58/1998, paragraph 2, does not have any further proposals to make.
With reference to the point on the agenda concerning the approval of a stock option plan through granting of Reply S.p.A.'s shares to key resources of the Group, the Board asserts that the resolution is compliant to art.114-bis of Law Decree 58/98.
With reference to the point on the agenda concerning the purchase and disposal of treasury shares, even for the purpose of stock option plans, considering disclosures made by the directors, the Board states that the resolution proposed is in accordance to articles 2357, 2357-ter of the Italian Civil Code, in accordance to article 132 of Legislative Decree 58/98 and to art. 144 –bis of Consob Regulation no. 11971 dated 14 May 1999.
With regards to the point on the agenda concerning modification of articles 12,15,16,23,24, and 25 of the Articles of Incorporation considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to Law Decree 58/98 and subsequently amended by Law 262/2005 and Law Decree 303/2006.
With regards to the point on the agenda concerning modification of art. 5 of the Articles of Incorporation to introduce the possibility the General Shareholders' meeting to resolve the allocation of income and or reserves to employees and directors of the company and its subsidiaries through the issuing of ordinary shares, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2349, paragraph 1 of the Italian Civil Code.
With regards to the point on the agenda concerning the motion to constitute a "Reserve for the issuing of shares in accordance to art. 2349 of the Italian Civil Code" and to grant the Board of Directors the proxy to resolve, in one or more times and for a maximum of five years, an increase in share capital without payment, in accordance to article 2349 of the Italian Civil Code, to be granted to employees and directors of the Parent Company and its subsidiaries, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2443 of the Italian Civil Code.

Turin, 29 May 2007.

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

_**Independent** Auditors’ Reports

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AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
REPLY S.p.A.

1. We have audited the consolidated financial statements of Reply S.p.A. and its subsidiaries (the "Reply Group"), which comprise the balance sheet as at December 31, 2006, the income statement, the statements of changes in equity and cash flows for the year then ended and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   For the opinion on the prior year consolidated financial statements, whose balances are presented for comparative purposes, reference should be made to our auditors' report issued on May 9, 2006.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Reply Group as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Giuseppe Pedone
Partner

Turin, Italy
May 28, 2007

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

Deloitte.

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AUDITORS' REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
REPLY S.p.A.

1. We have audited the financial statements of Reply S.p.A., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent Reply S.p.A.'s first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

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

   For comparative purposes the financial statements present the corresponding data of the prior year prepared in accordance with IFRS. In addition, the Appendix to the explanatory notes "Transition to international financial reporting standards (IFRS)", explains the effects of transition to IFRS as adopted by the European Union. As discussed in the explanatory notes, the Directors have retrospectively adjusted the comparative data related to the effects of transition to IFRS included in the reconciliation statements required by IFRS 1, previously published as an attachment to the Reply Group's Half Year Report as of June 30, 2006 and which we audited and on which we issued a special purpose auditors' report on September 28, 2006. The information presented in the explanatory notes and in the Appendix, have been audited by us for the purpose of expressing our opinion on the financial statements as of December 31, 2006.

3. In our opinion, the financial statements present fairly the financial position of Reply S.p.A. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Giuseppe Pedone
Partner

Turin, Italy
May 28, 2007

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

_**Corporate** governance

_**Annual** Report on corporate governance

Introduction

The *Corporate Governance* system adopted by companies listed on the stock market has undergone numerous and profound changes following the coming into force of the legislation on the *"safeguarding of investors"* (Law no. 252 of 28 December 2005), which significantly modified the regulations of Law Decree 24 February 1998 – TESTO UNICO DELLA FINANZA (TUF), introducing important changes such as providing a voting list for the nomination of the Board of Directors, giving office of President of the Statutory Auditors to the auditor elected by the minority, at least one Chief Executive Officer must meet the independency requirements established for the members of the Board of Statutory Auditors, institution of a Director in charge of drafting accounting and legal documents.
Furthermore, last December the legislator intervened on the matter and introduced the "Decreto correttivo Pinza" (Law Decree no. 303 of 29 December 2006) in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations.
Such measures, aside from mere technical adaptations, brought forth significant changes even to the regulations introduced by the *"Safeguarding of Investors Law"* in order to bring coherency to the system, such as establishing a nine year term for the Independent audit firm.
The *"Decreto correttivo Pinza"* has in addition granted to Consob the task of issuing, by 31 March 2007, the numerous regulations implementing the measures introduced completing therefore the regulatory framework and allowing the listed companies to bring the necessary changes to their Articles of Incorporation within the authoritative deadline of June 30, 2007 established by the Law.
At present the aforesaid measures have not been implemented by Consob.
In March 2006, the *Committee for Corporate Governance*, instituted by Borsa Italiana S.p.A., has ratified the *new Corporate Governance Code* with the aim of integrating the legislative measures with the *best practice* principles acknowledged at an international level.
The Committee has provided more precise and detailed indications with regards to the composition, election, tasks and the independency requirements of the Board of Directors and concerning the coordination of all the bodies and offices involved in the management of the company activities.
Within this changed legislative and regulatory context, still uncertain and incomplete until Consob issues the implementing regulations, Reply S.p.A. has however seen to adapting its *Corporate Governance* system in accordance to the requirements of the new text of the Self disciplinary Code for Listed Companies published by the *Committee for Corporate Governance* instituted by Borsa Italiana S.p.A and adopting the *Regulations on Significant Operations and related party transactions.*

In anticipation of Consob issuing the implementing regulations, the Board of Directors will propose to the Shareholders in the forthcoming Annual meeting in June, the adoption of the necessary changes to the Articles of Incorporation in order to comply to the existing laws, or those deemed necessary in order to respect the established deadline of June 30, 2007.
This Report reflects and illustrates the governing structure that the Company has adopted in accordance with the indi-

cations set forth in the new March 2006 edition of the Corporate Governance Code.
The Board of Directors is always open to any new orientations that will be brought to the *“Corporate Governance Code“* and their acknowledgments in the Company’s Corporate Governance system, only and compatibly with the company’s reality , if the recommendations formulated will allow to further strengthen the Company’s credibility.

Articles of Incorporation

The articles of incorporation in force are those approved by the Extraordinary Shareholders’ meeting on June 15 2006.
The share capital amounts to 4.641.990,60 euros (number 8,926,905 shares) as at 31 December 2006 with an increase of 267.901,40 euros (number 515,195 shares) compared to 31 December 2005 owing to:

- No. 41,900 Stock options exercised;
- No. 473,295 new shares issued against equity investments.

The General Shareholders’ Meeting held on June 14, 2005 granted the Board of Directors the proxy, in accordance with art. 2443 of the Italian Civil Code, to increase the share capital with the exclusion of pre-emptive rights by contribution in kind in equity investments having the same or similar business scope as that of the Reply Group companies.
Differently than stated in the previous Report on Corporate Governance (April 21, 2006) during 2006 the Board of Directors made use of the proxy and increased the share capital by 88.174,32 euros through the issuing of 169,566 ordinary shares of nominal value of 0, 52 euros each to be paid through contributions in kind of the minority shares, equal to 10% of Spike Reply S.r.l.’s share capital and in 159,673 shares of IrisCube Reply S.p.A..
Following the increase in the share capital previously mentioned, article 5 of the Articles of Incorporation was consequently amended.
The General Shareholders’ Meeting held on June 15, 2006 granted the Board of Directors further proxy, in accordance with art. 2443 of the Italian Civil Code, to increase the share capital with the exclusion of pre-emptive rights by contribution in kind in equity investments having the same or similar business scope as that of the Reply Group companies.

The General Shareholders’ Meeting held on June 15, 2006 granted the Board of Directors the proxy, in accordance to art. 2357 of the Italian Civil Code, and art. 132 of Law Decree 58/1998 subsequent amendments and additions and art. 144-bis of Consob Regulation 11971, to purchase and dispose of treasury shares for an 18 month period, that is from 15/06/2006 to 15/12/2007, under the conditions established by the General meeting’s resolution; by virtue of such authorization and those previously agreed, currently 24,499 treasury shares have been purchased.

Governance structure of the company

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

Role and tasks of the Board of Directors

The Board of Directors is the statutory managing body of the company invested with all powers with regards to the ordinary and extraordinary administration of the company.
The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.
More specifically the Board of Directors:

a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;
b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
c) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;
d) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determine the total amount to which the members of the board and of the executive committee are entitled;
e) evaluate the general performance of the company, paying particular attention to the information received from the executive committee (when established) and the managing directors, and periodically comparing the results achieved with those planned;
f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterizing new professional figures whose presence on the board would be considered appropriate;
h) provide information, in the report on corporate governance on the number of meetings of the board and of the executive committee, if any, held during the fiscal year plus the related percentage of attendance of each director.

In accordance to the *Corporate Governance Code* (art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report at the section dedicated to the topic.
The Board of directors meet on a regular basis, at least every three months or whenever deemed necessary.
The Directors report to the Statutory auditors on a quarterly basis with regards to the activities carried out during the year, to significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.
During 2006 the Board of Directors met 12 (twelve) times.
The Board of Directors or scheduled to meet at least 7 (seven) times in 2007.
The participating members of the Board are also allowed to intervene through audiovisual connection.
In order to facilitate the participation of a greater number of Managers and Statutory auditors, a draft of the annual meetings is scheduled.
Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

Calendar of the Company's annual events

In accordance with Borsa S.p.A. Regulation, a calendar of the company events for 2007 was provided to the public within the established time, with the following schedule:

- The Board of Directors Meeting that approves the Financial Statements in draft;
- The Annual General Shareholders' Meeting that approves the Financial Statements;
- The quarterly Board of Directors Meetings that approve the first, second and third quarterly report and the Half year report.

Composition of the board of directors

The company's Board of Directors is made up of a variable number of components from a minimum of 3 to a maximum of 11 members. The number of components is resolved by the Annual General Shareholders' Meeting.
As required by the Corporate Governance Code the Board of Directors is made up of executive and non executive directors, the number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.

At present the Board of Directors is made up of 7 (seven) Directors of which 4 (four) executive:

- Mr. Mario Rizzante — Chairman and Managing Director
- Mr. Sergio Ingegnatti — Managing Director
- Mrs. Tatiana Rizzante — Managing Director
- Mr. Oscar Pepino — Executive Director

and 3 (three) non Executive and Independent Directors:

- Mr. Fausto Forti — *(Lead Independent Director)*
- Prof. Marco Mezzalama
- Prof. Carlo Alberto Carnevale Maffè

The non Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.
The aforementioned Directors will hold office until the 31 December 2008 financial statements have been approved.
The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the investor. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.
The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner.
The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing their knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.
The *Corporate Governance Code* requires that, in the event that the Chairman of the Board of Directors is the primary responsible of the company management, or in the event that office of the Chairman is held by the person who controls the Company, the Board designates a *"Lead Independent Director"*, that represents a reference point and coordinates the requests and contributions made by the non executive Directors and more specifically by the independent Directors, as in concrete these circumstances exist, in compliance to art. 2.C.3 of the *Corporate Governance Code*, a Lead Independent Director was appointed and Mr. Fausto Forti, Independent non Executive Director currently holds this position.

The Independent non Executive Directors have the same characteristics as the Independent Directors, in compliance to paragraph 3.C.1. of the 2006 edition of the Corporate Governance Code that provides that a director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;
b) if he/she is, or has been in the preceding three fiscal years, a relevant representative of the issuer, of a subsidiary having strategic relevance or of a company under common control with the issuer, or of a company or entity controlling the issuer or able to exercise over the same a considerable influence, also jointly with others through a shareholders' agreement;
c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
   - with the issuer, one of its subsidiaries, or any of its significant representatives;
   - with a subject who, jointly with others through a shareholders' agreement, controls the issuer,

   or – in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;
d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;
e) if he/she was a director of the issuer for more than nine years in the last twelve years
f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;
g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;
h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, has verified and obtained positive results with respect to the independency of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code.

Annual survey on the office of Directors and Statutory Auditors

The Board of Directors has verified the other office held by Directors and Statutory auditors in other listed companies, finance, bank, and insurance companies or big enterprises.

The following arose

- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte, of Innogest S.p.A. and of Fondazione Torinowireless.
- Prof. Carlo Alberto Carnevale Maffè is member of the Board of Directors of Buongiorno Vitaminic S.p.A. and of Poligrafica San Faustino S.p.A.; in Buongiorno Vitaminic S.p.A. he will hold office until May.
- Mr. Fausto Forti is Chairman and Managing Director of DHL Express Italy S.r.l..

Appointment of directors

The last edition of the Corporate Governance Code provides that the appointment of Directors shall occur according to a transparent procedure. The procedure shall ensure, inter alia, timely adequate information on the personal and professional qualifications of the candidate and the list shall be deposited at the company's registered office according to the terms established by the Articles of Incorporation. The lists shall be timely published through the Company's Internet site.
The lists, must eventually indicate the candidates eligibility as independent director in accordance with the Corporate Governance Code.
The Company's Articles of Incorporation, in occasion of the coming into force of the latest legislation and regulations, will once again include a "voting list", at present the rulings do not provide specific requirements for the composition of the Board of Directors in terms of the minimum number of non executive and independent directors.
The current Articles of Incorporation, unless differently and unanimously resolved by the shareholders' meeting, provide that the members of the Board of Directors are appointed by the same shareholders that present a list of all candidates in numerical order.
Each shareholder can present only one list and each candidate can be elected only on one list and will be considered ineligible if fails to do so.
Only those shareholders that alone or together with others represent 2% of the ordinary voting shares have the right to present the lists.
The lists signed by the shareholder or shareholders must be deposited at the Company at least twenty days prior to the date of the first call for the Annual General Shareholders' meeting.
Within the date established above, a *curriculum* is deposited together with each list which describes the candidates professional experience along with a declaration of acceptance of the nomination and a declaration excluding causes of incompatibility and ineligibility and of having the requisites as per law and the by-laws.
The lists not meeting all the requirements are considered as not having been presented.
Candidates who hold office in other five Italian companies listed on the stock market, with the exception of the Company's subsidiaries or candidates who do not meet the requirements set out by law cannot be appointed, those having the right to vote can only vote one list.
The Directors are appointed as follows:

a) From the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates;
b) the remaining Directors will be selected from the other lists. The votes obtained on the same list will subsequently be divided by one, two, three, four, five, etc., according to the number of directors to be appointed. These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed. The candidates with the highest percentage will be appointed. If two or more candidates have the same percentage, the candidate on the list having the least number of directors will be appointed.

If a director from each list has not been appointed or if the same number of directors have been appointed from each list, the candidate having obtained the majority of the votes will be appointed.
If there is a tie between the votes on a list and a tie in the percentages, the shareholders are called to vote again and the candidate who receives the majority of the votes will be appointed.

c) If a director is appointed not in accordance with the above mentioned procedure, the shareholders resolve by majority voting.
If the requirements foreseen by the legislation in force and by the by-laws are not met, the Director can no longer hold office.
The Shareholders' meeting cannot change the number of components of the Board of Directors to the extent of the provisions of the by-laws, seeing to the relative nominations.
The Directors appointed under such procedure hold office for the remaining period of the Directors already in office.
If for any reason half of the directors, if the number of components is even, or more than half, if the number of components is odd, can no longer hold office, the entire Board of Directors is to decline office and the Shareholders' meeting must be immediately convened for the nomination of all the Directors.
The current Board of Directors was appointed on June 15, 2006, through only one list presented by the shareholders'.
The Board of Directors, as allowed under the *Corporate Governance Code*, did not find it necessary to constitute a Committee for the nomination of its directors. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates was carried out on the basis of sharing among the shareholders, and the sound knowledge of moral requisites and professional competencies of the candidates involved.
The Board of Directors will propose in the forth coming Annual General Shareholders' meeting the changes to the voting list procedures deemed necessary in view of the new legislation.

Chairman of the Board of Directors and Managing Directors

The Board of Directors currently holding office is composed of two Managing Directors, an Executive Director and has empowered the Chairman with any operational delegations.
Mr. Mario Rizzante, Chairman of the Board of Directors, has the powers of the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the Regulation on Significant Operations and with related parties.

Mr. Sergio Ingegnatti and Mrs. Tatiana Rizzante, Chief Executive Officers, have the following disjoint main powers:
- ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
  - Carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the related mandate in the event of a temporary group enterprise participation;
  - undersign the contracts following the assignment of the bid;
  - grant to third parties, to the extent foreseen by the law, the execution of the contracts.

Mr. Oscar Pepino, Executive Directors has the following disjoint main powers:

- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5.000.000,00 euros for each operation;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Director meetings, and at least four times a year, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.

The Chairman, under the company's Articles of Incorporation, has the power to convene the Board of Directors' meetings.

In preparing the Board of Directors' meetings, the Chairman informs the Directors and Statutory Auditors about the agenda and provides the necessary documentation and information for an effective participation in the Board's work.

The Chairman coordinates the activities of the Board of Directors and coordinates the meetings.

In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. has the possibility to attribute specific delegation powers so several key managers of the Group Companies can act in name and on behalf and interest of the Company.

Currently the following delegations have been conferred:

a) Mr. Riccardo Lodigiani, Mr. Daniele Angelucci, Mr. Domenico Piantelli and Mr. Fernando Masella, have the following powers:
   - accept and undersign orders from clients, offers and participate in biddings for an amount up to 5.000.000 Euros for each transaction;
   - sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions; ? 500.000 per single transaction;

b) Mr. Riccardo Iezzi, has the following powers:

- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
   - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
   - confer or receive the related mandate in the event of a temporary group enterprise participation;
   - undersign the contracts following the assignment of the bid;
   - grant to third parties, to the extent foreseen by the law, the execution of the contracts.
   - negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5.000.000,00 euros for each operation;

c) Mr. Zangari Salvatore and Mr. Luoni Luigi, have more specific and limited powers related to single areas of activity.

Remuneration of Directors

The Board of Directors has internally constituted a Remuneration Committee composed by Prof. Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, non Executive and Independent Directors and by Mr. Fausto Forti, *Lead Independent Director.*

The Remuneration Committee has the duty to submit to the Board of Directors proposals on the remuneration of the Chairman and Chief Executive Officers, whereas the latter propose the adoption of general remuneration criteria of the company's directors.

The Committee meets upon request of one of the members, before the Board meetings that resolve the Chief Executive Officers' remuneration, the assignment of stock options or with reference to other forms of remuneration connected to results, or when deemed necessary.

Minutes of the meeting are drawn up and include the proposals made by the Committee.

The Remunerations Committee met 5 times during 2006.

At present, the Committee does not include external consultants.

In accordance to art. 7.C.4 of the Corporate Governance Code, no director shall participate in meetings of the Remuneration Committee in which proposals are submitted to the Board of directors relating to his/her remuneration.

The following table summarises remuneration of Reply S.p.A.'s controlling bodies, resolved and attributed by Reply S.p.A or any one of its subsidiaries:

Director	**Fee resolved (annual in relation to duration of office)**	**Note**
Rizzante Mario Chairman and Chief executive officer	Euro 540.000,00	Of which Euro 330.000 annual fee for office of Chairman and Chief executive officer and Euro 210.000 as participation in 2005 results as resolved by the Shareholders' Meeting of 15 June 2006
Ingegnatti Sergio Chief executive officer	Euro 420.000,00	Of which Euro 210.000 annual fee for office Chief executive officer and Euro 210.000 as participation in 2005 results as resolved by the Shareholders' Meeting of 15 June 2006
Pepino Oscar Executive Director	Euro 420.000,00	Of which Euro 210.000 annual fee for office Chief executive officer and Euro 210.000 as participation in 2005 results as resolved by the Shareholders' Meeting of 15 June 2006
Rizzante Tatiana Chief executive officer	Euro 212.000,00	Of which Euro 192.000 paid by the subsidiary Cluster Reply S.r.l. for office as Chief executive officer in 2006. The amount of Euro 212.000 does not include the amount received by Reply S.p.A. in capacity of Director (Reply Services S.r.l. from the second half-year), and amounts to Euro 101.686
Carnevale Maffè Carlo Alberto Non Executive and independent Director	Euro 20.000,00	Fee for office as Non Executive and independent Director
Mezzalama Marco Non Executive and independent director	Euro 20.000,00	Fee for office as Non Executive and independent director
Forti Fausto Non Executive and independent director - *Lead Independent Director*	Euro 20.000,00	Fee for office as Non Executive and independent director Lead Independent Director

At present, Stock option rights have been assigned to Directors of the Company in accordance to the Stock Option Plans adopted by the Company, the following table summarises the stock options assignment to Directors:

Director	Resolution of the Shareholders' meeting	Number of Stock options assigned	Vesting period	Strike price
Rizzante Mario	11/06/2002 (2002 plan)	9.900	13/5/07 - 13/5/2012	Euro 9,416
Ingegnatti Sergio	11/06/2002 (2002 plan)	9.800	13/5/07 - 13/5/2012	Euro 9,416
Pepino Oscar	11/06/2002 (2002 plan)	9.900	13/5/07 - 13/5/2012	Euro 9,416
Rizzante Tatiana	11/06/2002 (2002 plan)	9.900	13/5/07 - 13/5/2012	Euro 9,416
Rizzante Tatiana	10/06/2004 (2004 plan)	15.000	12/5/09 - 12/5/2014	Euro 21,339

The Options assigned to the above Directors can be exercised, within the vesting period in the above table, in a lump sum solution, within the "exercise window" following fifteen days after the Board of Directors' meeting approving the quarterly reports, the half year report or the annual report.
Stock options cannot be exercised in the "Blocked period", foreseen by the Conduct Code in relation to Internal Dealing, which are 15 days prior to the Board of Directors' meetings approving the annual report, the half year report and the quarterly reports, including the day the meeting is held.
Pursuant to article 7.C.1 of the March 2006 edition of the Corporate Governance Code, article 22 of the Articles of Incorporation foresee the possibility to assign to the Directors invested with specific powers, a variable fee, represented by the participation in the results of the Parent Company, connected to the economic trend of the Group and more specifically to the Gross Consolidated Operating margin, which amount is established by the Annual General Shareholders' meeting approving the annual statements.
As this does not exclude the distribution of a dividend, and already practiced for the allocation of 2004 and 2005 annual results, it will be used again for the results achieved as at 31 December 2006.

Internal control system

The internal control system is a set of procedures that contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information and the the compliance with laws and regulations.
The Board of Directors is responsible for the internal control and defines the guide-lines of the internal control system and the company's risk management.
The Board of Directors has nominated Ms. Celestina Massenzio, presently and temporarily substituted by Ms. Rosa Scalise, as head of internal controls.
Head of internal controls reports his activities to the members of the Board of Directors, key management and to the Board of Statutory Auditors.

Director in charge of drawing up the accounting and legal documents

The Board of Directors, pursuant to Law 262/2005, has appointed in capacity of *Director in charge of drawing up the accounting and legal documents*, with approval of the Board of Statutory Auditors, Mr. Giuseppe Veneziano. On September 15, 2005 a specific proxy was conferred in order to enable him to execute his powers.
Pursuant to article 24 of the Articles of Incorporation, the Director must set up adequate administration and accounting procedures for the drawing up of the statutory financial statements, the consolidated statements and any other financial communication.
The Director, together with the other executive organs, must assert in a specific report, annexed to every financial statement and to any other financial communication that the procedures set up have been abided to.
With reference to his tasks, the *Director in charge of drawing up the accounting and legal documents* has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.
The Annual General Shareholders' meeting will be asked to approve changes to the Articles of Incorporation deemed necessary in view of the new regulations introduced by Legislative Decree 303/206 in relation to the *Director in charge of drawing up the accounting and legal documents.*

Internal control committee

In accordance to art. 8.P.4 of the Corporate Governance, the Board of Directors established the internal control committee composed by Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, non-executive directors and independent director and by Mr. Fausto Forti, Lead Independent Director.
The internal control committee:

- evaluate together with the director responsible for the preparation of the company's accounting documents and the auditor, the correct utilization of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- upon the request of the executive director, express opinion on specific aspects relating to the identification of the principal risks for the company as well as on the design, implementation and management of the internal control committee;
- review the work plan prepared by the officers in charge of internal control as well as the periodic reports;
- evaluate the proposals submitted by the auditing firm for obtaining the relevant appointment, as well as the work plan prepared for the audit and the results described in the report and the letter of suggestions, if any;
- supervise the validity of the accounting audit process;
- perform any additional duties that are assigned to it by the Board of Directors;
- report to the board, at least on a half yearly basis, on the occasion of the approval of the balance sheet and the half yearly report, on the activity carried out, as well as on the adequacy of the internal control system.

The Committee meets when deemed necessary, and in any case, at least twice a year, when the half year report and the annual report is approved.
The chairman of the Board of Auditors or another auditor designated by the chairman participates in the works for the internal control and at the end of each meeting the minutes are drawn up with the Committee's proposals.
In order to carry out its duties, the Committee can request information and data from head of internal controls, the Board of Statutory Auditors and the independent auditors.
During the year the Internal Control Committee met three (3) times.

Ethic code

In 2004, the Board of Directors approved the "Ethic Code" pursuant to decree law 231/01, whose introduction represents an important step towards the constitution of a sound internal control system, even in view of the broader procedures set out under Legislative Decree 231/2001 in relation to administration responsibilities of juridical persons, the adoption of which is mandatory for all issuers that qualify for the STAR segment by 31 March 2008.
The *Ethic Code*, applicable to the Parent Company Reply S.p.A. and to the companies directly or indirectly controlled by Reply S.p.A., set out the ethic and transparency principles that guide the company's internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply's relations.
The Internal Control Committee must also verify that the principles set out by the Ethic Code are respected and that the same is periodically updated.

Director’s interests and transactions with related parties

In compliance with the Corporate Governance Code transactions carried out with related parties are preformed in a transparent manner and meet criteria of substantial and procedural fairness. Directors who have an interest, even if only potential or indirect with related parties shall:

- promptly inform the board in detail of the existence of the interest and of the related circumstances;
- abandon the board meeting when the issue is discussed.

The Board of Directors can however, under certain circumstances, allow the directors to participate.
The company has set up a Regulation of significant operations and with related parties that foresees the following.

Significant operations

Pursuant to the Corporate Governance Code, the Board of Directors has the task of reviewing and approving operations of significant economic, financial and earning value, including the most significant operations with related parties, which are subject to specific substantial procedural correctness criteria.
Decisions concerning Significant Operations cannot be taken by delegated directors
Significant operations are those that put the Company in the position to make the necessary communication to the market and accompany it with ad-hoc accounting situations according to the requirements of the market controlling body[1].
When the Company has to put in action significant operations, the delegated directors provide the Board of Directors, reasonably in advance, a summary of the analysis conducted in terms of strategic coherence, economic feasibility, and the expected benefits for the company.

Operations with related parties

Identification of related parties

Related parties are:

a) subjects which control, are controlled by (also 100%) or are under the same control as Reply S.p.A..;
b) subjects which hold an interest sufficient to exercise considerable influence over Reply S.p.A.;
c) the under signers of non competition agreements, pursuant to article 122, paragraph 1 of Legislative decree 58/1998, related to the right of vote;
d) subjects associated with Reply S.p.A;
e) subjects which have power and responsibility in the planning, management and control of Reply S.p.A. or in holdings i.e. The Board of Directors and Board of Statutory Auditors;
f) subjects’ close relatives in a), b), c), d), and e). a subject close relative means those potentially capable of influencing or being influenced by the natural person in their relationship with Reply S.p.A and may include cohabitant, and relatives up to second degree;
g) subjects controlled, jointly controlled or subject to considerable influence by any of the subjects in a), b), c), d), and e), or subjects in a), b), c), d), and e) who exercise considerable influence;

[1] Currently Consob communication no. DIS/98081334 of 19 October 1998

h) subjects who have the same majority directors as Reply S.p.A.

According to the Accounting Principle "IAS 24" control means the power to determine financial and management policies of an organization in order to enjoy the benefits of its business.

Therefore, pursuant to art. 2359 of the Italian Civil Code and to art. 93 of Legislative decree 24 no. 58 of February 1998, subsidiary (controlled) companies are:

1) the company in which the other company has the majority voting rights in the general Shareholders' meeting;
2) the company in which the other company has sufficient votes in order to have dominating influence in the general Shareholders' meeting;
3) the company, Italian or foreign, in which a subject has th right, in view of a contract or a statutory clause, to exercise a dominating influence, where the law allows such contracts or clauses;
4) the company, Italian or foreign, in which a shareholder, on the basis of agreements with other shareholders, has alone sufficient voting rights in order to have dominating influence in the general Shareholders' meeting.

Pursuant to the International accounting standard IAS 28, a company is considered an associate when the holder of the investment has a significant influence but is neither a subsidiary nor a joint venture. Significant influence means the power to participate in administration and operational decisions of the company without having control of it.

Therefore, pursuant to art. 2359 of the Italian Civil Code, associate companies are also those over which another company has significant influence; significant influence is presumed when the company, in the general Shareholders' meeting, can exercise at least one fifth of the voting rights or a tenth if the company's shares are listed.

Three different types of categories of operations with related parties has been defined and are the following:

a) Significant operations

These significant operations are with related parties. If the nature, prices or mode/timing of implementation of significant operations with related parties may affect shareholders' equity or the correctness of information (including accounting data) relating to Reply S.p.A., such operations must be made public pursuant to CONSOB regulations. These operations must be previously authorized by the Board of Directors and specific notice must be provided to CONSOB.

b) Intercompany transactions

These are defined as the transactions realized with companies whose financial statements are consolidated in reply S.p.A.'s consolidated financial statements on a line by line basis.

These transactions must previously be authorized by the Board of Directors when each have a value greater than 5.000.000 euros and are related to atypical, unusual or transactions regulated under non standard market conditions. Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 5.000.000 euros must, in any case, be specifically addressed by the Board of directors in the following board meeting.

The operations qualifying as ordinary business activities of Reply S.p.A., and are carried out at normal market conditions, therefore do not require the Board of Directors authorization.

c) Transactions with related parties

These are defined as transaction with related parties other than “group companies”.
These transactions must previously be authorized by the Board of Directors when each have a value greater than 2.000.000 euros or greater than 1.000.000 euros if related to atypical, unusual or transactions regulated under non standard market conditions.
Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 1.000.000 euros must, in any case, be specifically addressed by the Board of directors in the following board meeting.

Relations with the shareholders

The Board of Directors shall ensure that a person is identified as responsible for handling the relations with the shareholders and shall evaluate from time to time whether it would be advisable to establish a business structure responsible for such structure.
Mr. Riccardo Lodigiani has been appointed, under resolution made 15 June 2006, the person in charge of relations with Institutional Investors and with Shareholders *(Investor relator)* in order to create continuous dialogue with the said persons.
The abovementioned person must exclusively and periodically inform the Chairman and the Chief Executive Officer, Mr. Sergio Ingegnatti of his activities.

Processing of confidential information

The Chief Executive Officer and the Investor Relator handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
More specifically, all company communication to the external and all press releases are accurately draw up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer’s directions are followed.

Internal Dealing

Following the so called regulation "market abuse" enacted by Community Law 2004 (Law 18, April 2005 no. 62), which restated article 114 of legislative decree 58/1998 (TUF) and endorsed by the corresponding Consob regulation (new articles from 152-bis to 152-octies introduced in Title VII of Part III of the regulation of listed companies no. 11971/99, endorsed by Consob resolution no. 15232 of 29 November 2005, in force since April, 1 2006), a law was passed concerning the obligation to notify the public about any transactions carried out by "important persons" and people strictly associated to them in relation to financial instruments of the company.
Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was eliminated as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.
In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Important persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.
The new Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors' resolution of March 31, 2006.
More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.
The new code defines the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons".
The complete version of the Corporate Governance Code is available on the Company's website (www.reply.it).

Composition of the share capital

The company's share capital amounts to 4.641.990,60 euros comprises 8.926.905 ordinary shares with the par value of 0,52 Euros each.
Currently no other categories of shares are on the market.
The controlling shareholder is Iceberg S.A., with headquarters in Luxembourg (non listed company) and holds no. 4.507.538 shares, equal to 50.49% of the share capital.

Shareholders’ meetings

The company encourages and facilitates the participation at the Annual General Meeting providing any necessary information or explanation in order to guarantee a smooth and conscientious participation of the Shareholders.
The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at controlling the running of the meetings), as the Articles of Incorporation provide adequate provisions concerning the matter.

Members of the board of statutory auditors

Similarly to the Corporate Governance Code, article 23 of the existing Articles of Incorporation provides that, with the exception of unanimous resolutions passed by the Shareholders’ meeting, for the nomination of the members of the Board of Statutory Auditors the following procedures are adopted.
The list of candidates to the position of auditor, accompanied by detailed information on the personal traits and professional qualifications of the candidates along with the CV’s of the candidates, shall be deposited at the company’s registered office at least 20 (twenty) days before the date fixed for the shareholders’ meeting.
Nomination proposals must be accompanied by statements by the candidate that they accept candidacy, that there are no causes of ineligibility or incompatibility and that they posses the requisites for holding the post prescribed by law and the Company’s by-laws.
Twenty days prior to the Shareholders’ meeting, the list of names running for Auditors must be indicated in a specific list in progressive order and presented by the shareholders. Each shareholder can present only one list and each candidate can be elected only on one list and will be considered ineligible if fails to do so.
Only those shareholders that alone or together with other shareholders represent at least 2% of the voting shares in the General Shareholders’ meeting.
At least five days prior to the date of the first call for the Annual General Shareholders’ meeting, the shareholders must provide the certificate attesting the ownership of the Company’s shares issued by the depositors pursuant to the procedures of articles 33 an 34 of Consob Regulation no. 11768/1999 and subsequent amendments.
If more than one list is presented, for the nomination of the members of the Board of Statutory Auditors, the procedures are as follows:

a) The votes obtained on each list will be divided by one, two, three, four, five, etc., according to the progressive number of auditors to be appointed;
b) These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed;
c) The candidates with the highest percentage will be appointed.

At least one Statutory Auditor must be appointed from the minority list having received the majority votes. Therefore if the tree highest percentages are obtained by candidates from the same majority lists two or more candidates, the last Statutory Auditor to be elected must be appointed from the minority list that obtained the most votes, even though he has a lower percentage than the majority candidate with the third highest percentage.
If there is a tie in the percentages, the candidate of the list in which an auditor has not been voted will be elected, or if all the lists have voted the same number of Auditors, the candidate having received the most number of votes will be elected.
If there is a tie between the votes on a list and a tie in the percentages, the shareholders’ are called to vote again and the candidate who receives the majority of the votes will be appointed.
President of the Board of Statutory Auditors is the candidate that is elected first on the list and obtained the majority

of the votes. The Statutory Auditor, when and if the case, can be substituted by the Alternate Auditor belonging to the same list as the auditor to substitute.
The nomination of the current Board of Statutory Auditors took place on June 15, 2006.
Together with the amendment proposals, the Board of Directors will propose to the General Shareholders' meeting, amendments to the nomination procedures of the Board of Statutory Auditors.

Independent audit firm

The General Shareholders' meeting of June 10, 2004 resolved to confer auditing of the Financial Statements of the Company and the Consolidated Financial Statements as well as the limited auditing of the Half-year financial statements for the fiscal year 2004, 2005 and 2006 to the independent auditors Deloitte & Touche S.p.A.
The auditing period of the company Deloitte & Touche will terminate with the auditing of the Financial statements as at 31/12/2006 however with the modifications introduced with Law no. 262 of December 2005 and the Legislative decree no.303 of December 2006 with regards to accounting principles, the Board of Directors and Statutory Auditors have evaluated positively the extension of the term from 2007-2009, in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations.
The Board of Directors will propose to the Extraordinary Shareholders' meeting amendments to the Articles of Incorporation deemed necessary in view of the new provisions introduced by Legislative decree 303/2006.

Management and coordination activities

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

Internet Website

On the Company's website (www.reply.it, under investor resources) the following documents are avaiiable:

- articles of incorporation;
- Annual calendar of company events;
- Ethic code;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Regulations on significant operations and related party transactions.

To conclude the following Report on Corporate Governance adopted by Reply S.p.A is in compliance with the principles set forth in the "Listed Companies Code of Self-Discipline", in the version adopted in March 2006 in compliance with recommendations set forth by CONSOB.

Annexed tables include the following items:

Table 1: Board of Directors, Internal control committee and Remuneration committee
Table 2: Board of Auditors
Table 3: Other provisions of the Corporate Governance Code

Table 1: Board of Directors and Committees

Board of Directors							**Internal control committee**		**Remuneration committee**	
Office	**Members**	**Executive**	**Non-executive**	**Independent**	****	**Number of other offices**	***	****	***	****
Chairman	Mario Rizzante	Mario Rizzante			100%	N/A				
Chief executive officer	Sergio Ingegnatti	Sergio Ingegnatti			100%	N/A				
Executive director	Oscar Pepino	Oscar Pepino			100%	N/A				
Chief executive officer	Tatiana Rizzante	Tatiana Rizzante			100%	N/A				
Lead Independent Director	Fausto* Forti		Fausto Forti	Fausto Forti	100%	1	X	100%	X	100%
Non executive and independent director	Marco Mezzalama		Marco Mezzalama	Marco Mezzalama	83,33%	N/A	X	100%	X	100%
Non executive and independent director	Carlo Alberto Carnevale Maffè		Carlo Alberto Carnevale Maffè	Carlo Alberto Carnevale Maffè	91,66%	2	X	100%	X	100%
Number of meetings held in financial year under review			Board: 12	.			Internal Control Committee: 3		Remuneration Committee 5 meetings	

Note
* indicates whether the director has been nominated through lists presented by minorities.
**This column shows the number of directors or statutory auditor positions held by each director in other companies whose shares are listed on Italian or foreign regulated markets and in finance companies, banks, insurance companies and large corporations in general. A detailed listing of these positions is provided in the Annual Report on Corporate Governance.
***"X" is the column which indicates that the members of the Board belong to the Committee.
**** This column shows in percentage terms the attendance record of each director at board of Directors and Committee meetings.

Table 2: board of statutory auditors

Office	Members	Percentage of meetings of the Board of Auditors attended	Number of other offices**
President	Piergiorgio Re	100%	1
Statutory auditor	Tommaso Vallenzasca	100%	zero
Statutory auditor	Ada Alessandra Garzino Demo	100%	zero
Alternate Auditor	Alessandro Mikla		zero
Alternate Auditor	Paolo Claretta - Assandri		zero
Number of meetings attended during the financial year: 8 (eight)			
Indicate the quorum required for the submission of lists by minorities for the election of one or more Statutory Auditors (pursuant to art. 148 TUF): 2%			

Note

* indicates whether the member was nominated through lists presented by minorities.

**This column shows the number of Director or Auditor offices held by the person in other firms listed on the Italian regulated markets. The report on corporate governance contains a complete list of offices.

Table 3: other provisions of the Corporate Governance Code

	Yes	No	Brief explanation of the reasons for any in observance of the recommendations of the Code
Proxies and operations with related parties			
Has the Board of Directors assigned power and defined their:			
a) limits	X		
b) performance modalities	X		
c) and frequency of reporting?	X		
Has the Board of Directors examined and approved most significant economic, financial and asset operations (including operations with related parties)?	X		
Has the Board defined guidelines and criteria for the identification of "significant" operations?	X		
Are the above mentioned guidelines and criteria described in the report?	X		
Has the Board defined precise procedures for examining and approving operations with related parties?	X		
Are the procedures for approving operations with related parties described in the report?	X		
Procedures applying to the most recent appointment of Directors and Auditors			
Were the lists of candidates for the office The Corporate Governance system is being updated of Directors submitted at least ten days before the Meeting?	X		
Were all Director candidate recommendations The Corporate Governance system is being updated accompanied by exhaustive information?	X		
Were all Director candidate recommendations The Corporate Governance system is being updated accompanied by an indication of eligibility as independent actors?	X		
Were the lists of candidates for the office of Auditors submitted at least ten days before the Meeting?	X		
Were all Auditor candidate recommendations accompanied by exhaustive information?	X		
Meetings			
Has the Company approved any Meeting Regulations?	X		The Company does not deem necessary to adopt a Regulation for the Shareholders' meetings.
Are the Regulations attached to the report or is there an indication of where to obtain/download them from?	X		
Internal control			
Has the company appointed persons entrusted with internal control?	X		
Are those persons hierarchically independent of the persons responsible for operational sectors?	X		
Organizational department entrusted with internal control (pursuant to art. 9.3 of the Code)			
Investor relations			
Has the company appointed persons entrusted with investor relations?	X		Mr. Riccardo Lodigiani is head of Investor Relation of the Group.

Organizational department and contacts (address/telephone/fax/e-mail) of the person entrusted with investor relations Investor Relations - Dr. Pedro Martins – Piazza Duca degli Abruzzi, 2
E-mail: investor@reply.it - Reply S.p.A., Corso Francia 110, 10143 Torino; Phone no.: 011/7711594.

_Reply S.p.A.

Transition to international financial reporting standards (IAS/IFRS)

First time adoption of IFRS

In compliance with Consob communication no. 6064313 of 28 July 2006, this appendix provides the accounting principles adopted by Reply S.p.A. as of January 1, 2006 and the reconciliation statements requested by IFRS 1 of the Company in order to illustrate the effects of the transition to IFRS on the opening balance sheet at January 1, 2005, on the separate financial statements at 31 December 2005 and the reconciliation between the at that time published financial statements drawn up according to Italian accounting principles, and the corresponding figures restated in accordance with IFRS.

The 2005 restated IFRS balance sheet and income statement have been prepared in accordance with IFRS 1 – First-time Adoption of IFRS. In particular, the IFRS applicable from January 1, 2006, as published as of December 31, 2005, have been adopted, including the following:

- IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. In particular, the Company adopted derecognition requirements retrospectively from the date in which financial assets and financial liabilities had been derecognized under Italian GAAP.

- IFRS 2 – Share-based Payment, which was issued by the IASB on February 19, 2004 and adopted by the European Commission on February 7, 2005.

Moreover, the accounting principles (IFRS) applied in drawing up the Company's separate financial statements are the same as those applied in drawing up the consolidated financial statements, and have the same reference period; the assets and liabilities are consequently restated at the same values in both financial statements with the exception of consolidation adjustments.

Some changes have been made compared to the Annexed transition published in the 2006 half-year report. The corresponding comparative figures have consequently been restated. These changes had effects on net equity and the result of the period.

General principles

Reply S.p.A. applied the accounting standards in force at December 31, 2005 retrospectively to all periods presented, except for some exemptions adopted by the Company in accordance with IFRS 1, as described in the following paragraph.

These 2005 financial statements constitute the comparative data in the financial statements as of December 31, 2006.

The opening balance sheet as at January 1, 2005 compared to the financial statements as at December 31, 2004, drawn up according to Italian GAAP, include the following accounting differences:

- all assets and liabilities recognized under IFRS standards, including those not recognized under Italian GAAP, have been recognized and measured according to IFRS;
- all assets and liabilities recognized under Italian GAAP but not allowed under IFRS, have been eliminated;
- some balance sheet items have been reclassified as required by IFRS.

Optional exemptions adopted by the Reply S.p.A.

Business combinations: Reply S.p.A elected not to apply IFRS 3 - Business Combinations retrospectively to the business combinations that occurred before the date of transition to IFRS.

Employee benefits: Reply S.p.A. elected to recognize all cumulative actuarial gains and losses that existed at January 1, 2005, even if it decided to use the corridor approach for later actuarial gains and losses.

Effects on Reply S.p.A.'s financial and economic situations arising from transition to IFRS

Reconciliation statements demonstrating the effects on net equity and on net result arising from transition to IFRS are reported below. The amounts stated do not consider the related tax effect, which is summarized in the item "tax effects and other".

Following is a description of the major differences between Italian GAAP and the IFRS that had financial and/or economic effects on the Company's financial statements; their description follows the numbers indicated on the statement.

Statements including the effects of transition to IFRS and a detail of adjustments by nature are also provided for the:

- balance sheets as at 1 January 2005 and 31 December 2005;
- statements of income for the year-ended 2005.

Reconciliation of shareholders' equity (thousand euros)	**01/01/2005**	**31/12/2005**
Net equity stated according to national accounting standards	**52.682**	**56.078**
1 Treasury shares	(350)	(224)
2 Goodwill	15	29
3 Start up and expansion costs	(84)	(64)
4 Trademark	343	500
5 Directors' fees	-	-
6 Employee benefits	30	46
7 Stock Options	-	-
8 Derivative financial instruments	(75)	(17)
9 Financial loans	(12)	-
10 Options and minority shares	-	-
11 Gain/losses on treasury shares	-	-
12 Reversal of accrual of dividends	(3.500))	(4.200)
13 Tax effects and other	(83)	(183)
Total IAS / IFRS adjustments	**(3.716)**	**(4.113)**
Net equity stated according to IAS / IFRS	**48.966**	**51.965**

Reconciliation of net result (thousand euros)		31/12/2005
Net result stated according to national accounting standards		**4.421**
1	Treasury shares	-
2	Goodwill	14
3	Start up and expansion costs	20
4	Trademark	157
5	Directors' fees	(315)
6	Employee benefits	16
7	Stock Options	(140)
8	Derivative financial instruments	-
9	Financial loans	12
10	Options and minority shares	-
11	Gain/losses on treasury shares	(112)
12	Reversal of accrual of dividends	(700)
13	Tax effects and other	(100)
Total IAS / IFRS adjustments		(1.048)
Net result stated according to IAS / IFRS		**3.273**

1. Treasury shares

According to Italian GAAP, the Parent Company recognizes treasury shares as assets and the related adjustments, gains and losses arising from their disposal in the statement of income. As per IFRS treasury shares must be stated in net equity and all changes in treasury shares must be recognized in net equity instead of in the income statement; for transition purposes therefore treasury shares were reclassified in net equity.

2. Goodwill

Intangible assets purchased or internally generated are recognized as assets, according to IAS 38, when it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.

These assets are recognized at acquisition or production cost and amortized on a straight line basis over the estimated useful lives, if they have a finished useful life.

Intangible fixed assets having an undefined useful life are assessed annually or each time there is an indication of a probable impairment in order to determine whether there is a real impairment.

Other intangible assets recognized following an acquisition of a company are stated separately from goodwill, if their fair value can be measured reliably.

3. Start up and expansion costs

In accordance with international accounting standards, start-up and expansion costs, that under Italian GAAP are capitalized and amortized, are written off directly against net equity as at January 1, 2005.

4. Listing expenses

According to Italian GAAP, listing expenses are capitalized and amortized, under IFRS such expenses were deducted in net equity as at 1 January 2005.

5. Directors fees

Reply S.p.A. as allowed under Italian GAAP, recognizes directors' fees, distributed upon shareholders' resolutions, as allocation of net profit without effects on result for the period.
Under IFRS directors' fees are recognized in the income statement in relation to when the fees are payable. Consequently, for transition purposes, directors' fees have been recognized when they become payable.

6. Employee benefits

With the adoption of IFRS, TFR is considered a defined benefit obligation to be accounted for in accordance with IAS 19 and consequently has been recalculated applying the Projected Unit Credit Method.
The Company elected to recognize all cumulative actuarial gains and losses that existed at January 1, 2005 with a positive impact on stockholders' equity opening balance.
The Company has decided to use the corridor approach for actuarial gains and losses that will arise after January 1, 2005.

7. Stock Options

According to Italian GAAP, neither obligations nor costs are recognized for share-based payments.
Under IFRS 2 – Share-based payments, stock options measured at fair value must be entirely recognized at the income statement at the grant date; changes in fair value subsequent to the grant date do not have effect on the original measurement. Costs for payments corresponding to the fair value of the rights are recognized as personnel expenses in equal portions over the grant date and vesting period, with a counter balance in net equity.
The Company has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 as provided by the temporary provisions of IFRS 2, no costs are recognized for share-based payments prior to 7 November 2002.

8. Derivative financial instruments

Beginning in 2001 the Company adopted – to the extent that it is consistent and not in contrast with general principles set forth in the Italian law governing financial statements – IAS 39 Financial Instruments: Recognition and Measurement. In particular, taking into account the restrictions under Italian law, the Company maintained that IAS 39 was applicable only in part and only in reference to the designation of derivative financial instruments as "hedging" or "non-hedging instruments" and with respect to the symmetrical accounting of the result of the valuation of the hedging instruments and the result attributable to the hedged items ("hedge accounting").

The transactions which, according to the Company's policy for risk management, are able to meet the conditions stated by the accounting principle for hedge accounting treatment, are designated as hedging transactions; the others, although set up for the purpose of managing risk exposure (inasmuch as the Company's policy does not permit speculative transactions), have been designated as "trading".

The main differences between Italian GAAP and IFRS may be summarized as follows:

Under IFRS, derivative financial instruments designated as "hedging instruments" can be distinguished as follows:

a) In the case of a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value shall be recognized in the income statement and the gain or loss on hedged item attributable to the hedge risk shall adjust the carrying amount of the hedged item and be recognized in the income statement. Consequently, no impact arises on net income (except for the ineffective portion of the hedge, if any) and on net equity, while adjustments impact the carrying values of hedging instruments and hedged items.

a) In the case of a cash flow hedge (hedging of future flows), the portion of gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity; the ineffective portion of the gain or loss shall be recognized in the income statement. Consequently, with reference to the effective portion, only a difference on net equity arises between Italian GAAP and IFRS.

9. Financial liabilities

Additional charges on financial liabilities are recognized at the income statement in the year in which incurred with the exception of those capitalized as an activity that justifies capitalization.

10. Options on minority rights

The option to buy or sell minority shares of the subsidiaries, are accounted for in accordance with IAS 32, evaluating, according to the situation, the existence and determinability of the amount owed to minority shareholders if the right were to be exercised.

11. Gains/losses on treasury shares

Gains or losses resulting from the negotiation of treasury shares, that according to Italian accounting principles are recognized at the income statement, are posted to a reserve in net equity under IFRS.

12. Reversal of accrual of dividends

Dividends, which distribution is approved after the balance sheet date, are not recorded as assets and therefore dividends accrued on an accrual based accounting method were reversed.

13. Tax effects and other minor adjustments

This adjustment includes the combined effect of the net deferred tax effects, after allowance, on the above mentioned IFRS adjustments, as well as other minor differences between Italian GAAP and IFRS relating to the recognition of tax assets and liabilities.

In addition, the following adjustments were made that did not have effects on net equity:

- advances to suppliers were stated in deduction to trade payables;
- reserves for risks were subdivided according to when the correlated liability is expected to occur.

_**Reply** S.p.A.

Effects on the balance sheet at January 1, 2005 arising from adoption of IFRS

(thousand euros)	According to Italian accounting principles	Reclassifications	IAS/IFRS adjustments	IAS/IFRS
Tangible fixed assets	432	162	32	626
Goodwill	72	-	15	87
Other intangible assets	591	(324)	259	526
Equity investments	20.914	-	-	20.914
Other financial assets	28.442	-	-	28.442
Non-current assets	**50.451**	**(162)**	**306**	**50.595**
Inventories	-	-	-	-
Trade receivables	36.217	-	-	36.217
Other receivables and current assets	9.315	(104)	(3.500)	5.711
Deferred tax assets	816	-	60	876
Financial assets	350	-	(350)	-
Cash and cash equivalents	7.322	-	-	7.322
Current assets	**54.020**	**(104)**	**(3.790)**	**50.126**
TOTAL ASSETS	**104.471**	**(266)**	**(3.484)**	**100.721**
Share capital	4.346	-	-	4.346
Other reserves	45.336	-	(4.216)	41.120
Net result	3.000	-	500	3.500
Total shareholders' equity	**52.682**	**-**	**(3.716)**	**48.966**
Financial liabilities	12.094	(162)	-	11.932
Employee benefits	514	-	(30)	484
Deferred tax liabilities	42	-	10	52
Other provisions	-	-	-	-
Non-current liabilities	**12.650**	**(162)**	**(20)**	**12.468**
Financial liabilities	-	-	119	119
Trade payables	33.532	(104)	-	33.428
Other payables and current liabilities	5.607	-	-	5.607
Deferred tax liabilities	-	-	133	133
Other provisions	-	-	-	-
Current liabilities	**39.139**	**(104)**	**252**	**39.287**
TOTAL SHAREHOLDERS' EQUITY AND EQUITY	**104.471**	**(266)**	**(3.484)**	**100.721**

_**Reply** S.p.A.

Effects on the balance sheet at January 1, 2005 arising from adoption of IFRS

(thousand euros)	Italian GAAP	Riclass.	Total Azioni IAS/IFRS adjustments	1 Treasury shares	2 IAS 38/IFRS 3 goodwill	3 IAS 38 start-up expenses	4 IAS 38 Trademark
Tangible fixed assets	432	162	32	-	-	-	-
Goodwill	72	-	15	-	15	-	-
Other intangible assets	591	(324)	259	-	-	(84)	343
Equity investments	20.914	-	-	-	-	-	-
Other financial assets	28.442	-	-	-	-	-	-
NON-CURRENT ASSETS	**50.451**	**(162)**	**306**	**-**	**15**	**(84)**	**343**
Inventories	-	-	-	-	-	-	-
Trade receivables	36.217	-	-	-	-	-	-
Other receivables and current assets	9.315	(104)	(3.500)	-	-	-	-
Deferred tax assets	816	-	60	-	-	-	-
Financial assets	350	-	(350)	(350)	-	-	-
Cash and cash equivalents	7.322	-	-	-	-	-	-
CURRENT ASSETS	**54.020**	**(104)**	**(3.790)**	**(350)**	**-**	**-**	**-**
TOTAL ASSETS	**104.471**	**(266)**	**(3.484)**	**(350)**	**15**	**(84)**	**343**
Share capital	4.346	-	-	-	-	-	-
Other reserves	45.336	-	(4.216)	(350)	15	(84)	343
Net result	3.000	-	500	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	**52.682**	**-**	**(3.716)**	**(350)**	**15**	**(84)**	**343**
Financial liabilities	12.094	(162)	-	-	-	-	-
Employee benefits	514	-	(30)	-	-	-	-
Deferred tax liabilities	42	-	10	-	-	-	-
NON-CURRENT LIABILITIES	12.650	(162)	(20)	-	-	-	-
Financial liabilities	-	-	119	-	-	-	-
Trade payables	33.532	(104)	-	-	-	-	-
Other payables and current liabilities	5.607	-	-	-	-	-	-
Deferred tax liabilities	-	-	133	-	-	-	-
CURRENT LIABILITIES	**39.139**	**(104)**	**252**	**-**	**-**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND EQUITY	**104.471**	**(266)**	**(3.484)**	**(350)**	**15**	**(84)**	**343**

5 IAS 19 Directors fees	6 IAS 19 Employee benefits	7 IFRS 2 Stock Options	8 IAS 32,39 Financial instruments	9 IAS 23 Financial loans	10 IAS 32 Minority shares	11 Reversal of dividends accrued	12 Tax effects and other	IAS/IFRS
-	-	-	-	32	-	-	-	626
-	-	-	-	-	-	-	-	87
-	-	-	-	-	-	-	-	526
-	-	-	-	-	-	-	-	20.914
-	-	-	-	-	-	-	-	28.442
-	**-**	**-**	**-**	**32**	**-**	**-**	**-**	**50.595**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	36.217
-	-	-	-	-	-	(3.500)	-	5.711
-	-	-	-	-	-	-	60	876
-	-	-	-	-	-	-	-	-
-	-		-	-	-	-	-	7.322
-	**-**	**-**	**-**	**-**	**-**	**(3.500)**	**60**	**50.126**
-	**-**	**-**	**-**	**32**	**-**	**(3.500)**	**60**	**100.721**
-	-	-	-	-	-	-	-	4.346
-	30	-	(75)	(12)	-	(4.000)	(83)	41.120
-	-	-	-	-	-	500	-	3.500
-	**30**	**-**	**(75)**	**(12)**	**-**	**(3.500)**	**(83)**	**48.966**
-	-	-	-	-	-	-	-	11.932
-	(30)	-	-	-	-	-	-	484
-	-	-	-	-	-	-	10	52
-	(30)	-	-	-	-	-	10	12.468
-	-	-	75	44	-	-	-	119
-	-	-	-	-	-	-	-	33.428
-	-	-	-	-	-	-	-	5.607
-	-	-	-	-	-	-	133	133
-	**-**	**-**	**75**	**44**	**-**	**-**	**133**	**39.287**
-	**-**	**-**	**-**	**32**	**-**	**(3.500)**	**60**	**100.721**

_**Reply** S.p.A.

Effects on the balance sheet at December 31, 2005 arising from adoption of IFRS

(thousand euros)	According to Italian accounting principles	Reclassifications	IAS/IFRS adjustments	IAS/IFRS
Tangible fixed assets	493	137	-	630
Goodwill	58	-	29	87
Other intangible assets	750	(467)	436	719
Equity investments	23.676	-	6.370	30.046
Other financial assets	443	-	-	443
Non-current assets	**25.420**	**(330)**	**6.835**	**31.925**
Inventories	-	-	-	-
Trade receivables	48.385	-	-	48.385
Other receivables and current assets	12.644	(454)	(4.200)	7.990
Deferred tax assets	649	-	29	678
Financial assets	31.703	-	(224)	31.479
Cash and cash equivalents	10.763	-	-	10.763
Current assets	104.144	(454)	(4.395)	99.295
TOTAL ASSETS	**129.564**	**(784)**	**2.440**	**131.220**
Share capital	4.374	-	-	4.374
Other reserves	47.283	-	(2.965)	44.318
Net result	4.421	-	(1.148)	3.273
Shareholders' net equity	**56.078**	**-**	**(4.113)**	**51.965**
Financial liabilities	8.000	(330)	-	7.670
Employee benefits	672	-	(46)	626
Deferred tax liabilities	101	-	15	116
Other provisions	-	-	-	-
Non-current liabilities	**8.773**	**(330)**	**(31)**	**8.412**
Financial liabilities	5.240	-	17	5.257
Trade payables	55.322	(454)	-	54.868
Other payables and current liabilities	4.151	-	6.370	10.521
Deferred tax liabilities	-	-	197	197
Other provisions	-	-	-	-
Current liabilities	**64.713**	**(454)**	**6.584**	**70.843**
TOTAL SHAREHOLDERS' EQUITY AND EQUITY	**129.564**	**(784)**	**2.44**	**131.220**

_**Reply** S.p.A.

Effects on the balance sheet at December 31, 2005 arising from adoption of IFRS

(thousand euros)	Italian GAAP	Riclass.	Total IAS/IFRSe adjustments	1 Treasury shares	2 IAS 38/IFRS 3 goodwill	3 IAS 38 start-up. expenses	4 IAS 38 Trademark
Tangible fixed asset	493	137	-	-	-	-	-
Goodwill	58	-	29	-	29	-	-
Other intangible assets	750	(467)	436	-	-	(64)	500
Equity investments	23.676	-	6.370	-	-	-	-
Other financial assets	443	-	-	-	-	-	-
Non-current assets	**25.420**	**(330)**	**6.835**	**-**	**29**	**(64)**	**500**
Trade receivables	48.385	-	-	-	-	-	-
Other receivables and current assets	12.644	(454)	(4.200)	-	-	-	-
Deferred tax assets	649	-	29	-	-	-	-
Financial assets	31.703	-	(224)	(224)	-	-	-
Cash and cash equivalents	10.763	-	-	-	-	-	-
Current assets	**104.144**	**(454)**	**(4.395)**	**(224)**	**-**	**-**	**-**
TOTAL ASSETS	**129.564**	**(784)**	**2.440**	**(224)**	**29**	**(64)**	**500**
Share capital	4.374		-	-	-	-	-
Other reserves	47.283	-	(2.965)	(224)	15	(84)	343
Net result	4.421	-	(1.148)	-	14	20	157
Total shareholders' equity	**56.078**	**-**	**(4.113)**	**(224)**	**29**	**(64)**	**500**
Financial liabilities	8.000	(330)	-	-	-	-	-
Employee benefits	672	-	(46)	-	-	-	-
Deferred tax liabilities	101	-	15	-	-	-	-
Non-current liabilities	**8.773**	**(330)**	**(31)**	**-**	**-**	**-**	**-**
Financial liabilities	5.240	-	17	-	-	-	-
Trade payables	55.322	(454)	-	-	-	-	-
Other payables and current liabilities	4.151	-	6.370	-	-	-	-
Deferred tax liabilities	-	-	197	-	-	-	-
Current liabilities	**64.713**	**(454)**	**6.584**	**-**	**-**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND EQUITY	**129.564**	**(784)**	**2.440**	**(224)**	**29**	**(64)**	**500**

5 IAS 19 Directors fees	6 IAS 19 Employee benefits	7 IFRS 2 Stock Options	8 IAS 32,39 Financial instruments	9 IAS 23 Financial loans	10 IAS 32 Options on Minority shares	11 Gains/losses on treasury shares	12 Reversal of dividends accrued	13 Tax effects and other	IAS/IFRS
-	-	-	-	-	-	-	-	-	630
-	-	-	-	-	-	-	-	-	87
-	-	-	-	-	-	-	-	-	719
-	-	-	-	-	6.370	-	-	-	30.046
-	-	-	-	-	-	-	-	-	443
-	**-**	**-**	**-**	**-**	**6.370**	**-**	**-**	**-**	**31.925**
-	-	-	-	-	-	-	-	-	48.385
-	-	-	-	-	-	-	(4.200)	-	7.990
-	-	-	-	-	-	-	-	29	678
-	-	-	-	-	-	-	-	-	31.479
-	-	-	-	-	-	-	-	-	10.763
-	**-**	**-**	**-**	**-**	**-**	**-**	**(4.200)**	**29**	**99.295**
-	**-**	**-**	**-**	**-**	**6.370**	**-**	**(4.200)**	**29**	**131.220**
-	-	-	-	-	-	-	-	-	4.374
315	30	140	(17)	(12)	-	112	(3.500)	(83)	44.318
(315)	16	(140)	-	12	-	(112)	(700)	(100)	3.273
-	**46**	**-**	**(17)**	**-**	**-**	**-**	**(4.200)**	**(183)**	**51.965**
-	-	-	-	-	-	-	-	-	7.670
-	(46)	-	-	-	-	-	-	-	626
-	-	-	-	-	-	-	-	15	116
-	**(46)**	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**8.412**
-	-	-	17	-	-	-	-	-	5.257
-	-	-	-	-	-	-	-	-	54.868
-	-	-	-	-	6.370	-	-	-	10.521
-	-	-	-	-	-	-	-	197	197
-	**-**	**-**	**17**	**-**	**6.370**	**-**	**-**	**197**	**70.843**
-	**-**	**-**	**-**	**-**	**6.370**	**-**	**(4.200)**	**29**	**131.220**

_Reply S.p.A.

Effects on the income statement at December 31, 2005 arising from adoption of IFRS

(thousand euros)	According to Italian accounting principles	Reclassifications	IAS/IFRS adjustments	IAS / IFRS
Revenue	78.099	-	-	78.099
Other revenue	1.815	-	-	1.815
Purchases	(630)	-	-	(630)
Personnel	(5.701)	-	(439)	(6.140)
Services and other expenses	(73.343)		(1)	(73.344)
Other unusual operating income/expenses	-	200	-	200
Amortization, depreciation and write-downs	(768)	130	192	(446)
Operating income	**(528)**	**330**	**(248)**	**(446)**
Financial income/(expenses)	5.144	(130)	(800)	4.214
Extraordinary income/(expenses)	200	(200)	-	-
Result before taxes	**4.816**	**-**	**(1.048)**	**3.768**
Income tax	(395)	-	(100)	(495)
NET RESULT	**4.421**	**-**	**(1.148)**	**3.273**

_**Reply** S.p.A.

Effects on the income statement at December 31, 2005 arising from adoption of IFRS

(thousand euros)	Italian GAAP	Riclass.	Total IAS/IFRS adjustments	1 Treasury shares	2 IAS 38/IFRS 3 goodwill	3 IAS 38 start-up expenses	4 IAS 38 Trademark
Revenue	78.099	-	-	-	-	-	-
Other revenue	1.815	-	-	-	-	-	-
Purchases	(630)	-	-	-	-	-	-
Personnel	(5.701)	-	(439)	-	-	-	-
Services and other expenses	(73.343)	-	(1)	-	-	(1)	-
Other unusual operating income/expenses	-	200	-	-	-	-	-
Amortization, depreciation and write-downs	(768)	130	192	-	14	21	157
Operating income	**(528)**	**330**	**(248)**	**-**	**14**	**20**	**157**
Financial income/(expenses)	5.144	(130)	(800)	-	-	-	-
Extraordinary income/(expenses)	200	(200)	-	-	-	-	-
Result before taxes	**4.816**	**-**	**(1.048)**	**-**	**14**	**20**	**157**
Income taxes	(395)	-	(100)	-	-	-	-
NET RESULT	**4.421**	**-**	**(1.148)**	**-**	**14**	**20**	**157**

5 IAS 19 Directors fees	6 IAS 19 Employee benefits	7 IFRS 2 Stock Options	8 IAS 32,39 Financial instruments	9 IAS 23 Financial loans	10 IAS 32 Options on Minority shares	11 Gains/losses on treasury shares	12 Reversal of dividends accrued	13 Tax effects and other	IAS/IFRS
-		-	-	-	-	-	-	-	78.099
-	-	-	-	-	-	-	-	-	1.815
-	-	-	-	-	-	-	-	-	(630)
(315)	16	(140)	-	-	-	-	-	-	(6.140)
-	-	-	-	-	-	-	-	-	(73.344)
-	-	-	-	-	-	-	-	-	200
-	-	-	-	-	-	-	-	-	(446)
(315)	**16**	**(140)**	**-**	**-**	**-**	**-**	**-**	**-**	**(446)**
-	-	-	-	12	-	(112)	(700)	-	4.214
-	-	-	-	-	-	-	-	-	-
(315)	**16**	**(140)**	**-**	**12**	**-**	**(112)**	**(700)**	**-**	**3.768**
-	-	-	-	-	-	-	-	(100)	(495)
(315)	**16**	**(140)**	**-**	**12**	**-**	**(112)**	**(700)**	**(100)**	**3.273**

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