Reply

Living network

Annual Financial Report
2012

Contents

This Annual Report has been translated into English from the original Italian version. In case of doubt the Italian version shall prevail.

Board of Directors and Controlling Bodies

Board of Directors

Chairman and Chief Executive Officer
Mario Rizzante

Chief Executive Officer
Tatiana Rizzante

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

Statutory Auditors

President
Cristiano Antonelli

Statutory Auditors
Paolo Claretta Assandri
Ada Alessandra Garzino Demo

Independent Auditors

Reconta Ernst & Young 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.

The Group's Financial **Highlights**

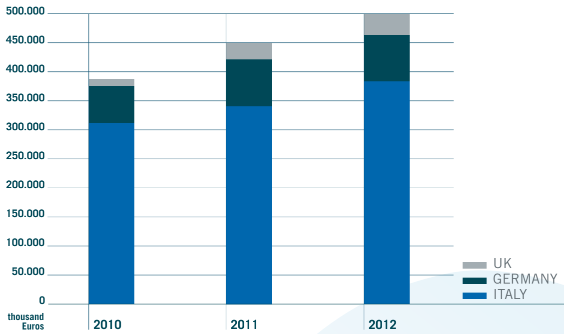
Economic figures (Euros/000)	2012	%	2011	%	2010	%
Revenues	494,831	100.0%	440,296	100.0%	384,202	100.0%
Gross operating income	62,424	12.6%	54,997	12.5%	49,215	12.8%
Operating income	52,249	10.6%	48,665	11.1%	41,570	10.8%
Income before taxes	50,265	10.2%	46,473	10.6%	40,094	10.4%
Group net income	27,094	5.5%	24,150	5.5%	20,367	5.3%

Financial figures (Euros/000)	2012	2011	2010
Group shareholders' equity	175,756	156,100	137,493
Minority interest	2,704	1,917	1,331
Total assets	475,298	423,701	372,204
Net working capital	120,477	116,172	92,655
Net invested capital	178,834	174,731	138,610
Cash Flow	31,986	4,679	25,301
Net financial position	(373)	(16,714)	214

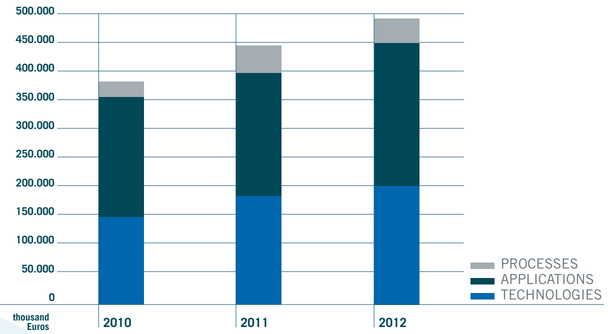
Data per single share (in Euros)	2012	2011	2010
Number of shares	9,222,857	9,222,857	9,222,857
Operating income per share	5.67	5.28	4.51
Net result per share	2.94	2.62	2.21
Cash Flow per share	3.47	0.51	2.74
Shareholders' equity per share	19.06	16.93	14.91

Other information	2012	2011	2010
Number of employees	3,725	3,422	3,149

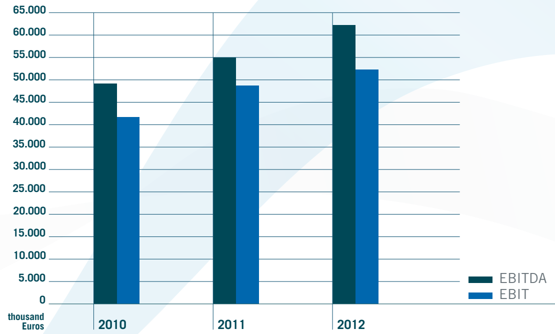
Revenue by geographic area



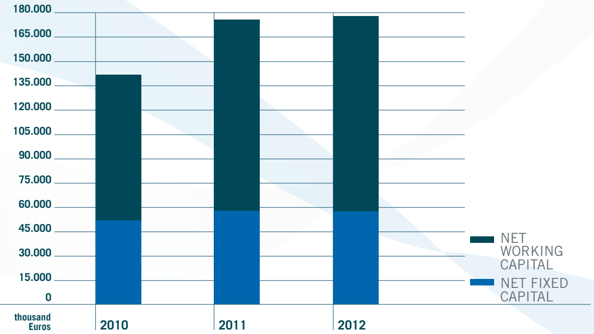
Revenue by business lines



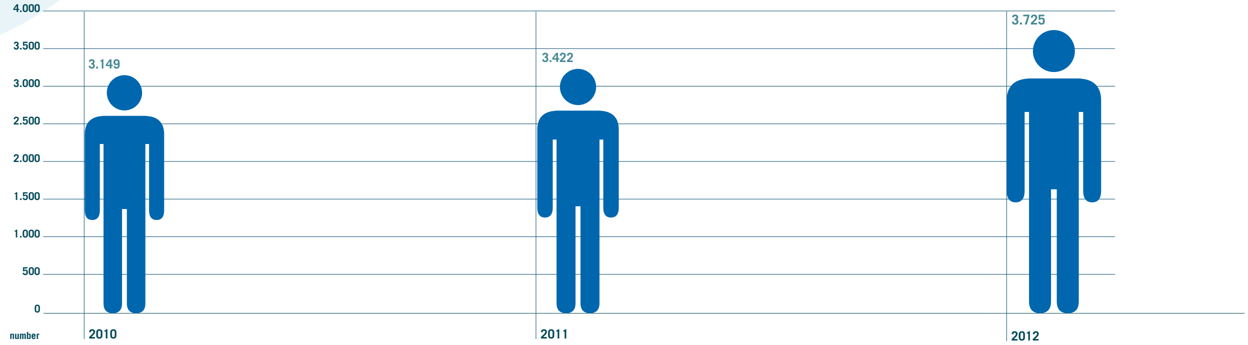
Margins



Net invested capital



Human resources



Letter to shareholders

Dear Shareholders,

For 2012, Reply has produced an excellent set of results, which compare very favourably to the general market trend. As a result of the overall economic climate throughout Europe, companies have cut investment significantly and delayed the start of many new projects. Despite this, Reply has been able to continue to grow and consolidate its position.

Reply's strength lies in an ability to interpret innovation in a practical way to meet customer needs. This attribute, along with a network-based organisational model which combines expertise in different industrial sectors with an in-depth knowledge of processes and technology, has enabled the company to tackle the current economic situation in the best possible way.

Consolidated turnover increased by 12% in 2012 against the previous twelve months, to reach a total of 498.4 million Euros, with an EBITDA of over 62 million Euros and an EBIT of over 52 million Euros.

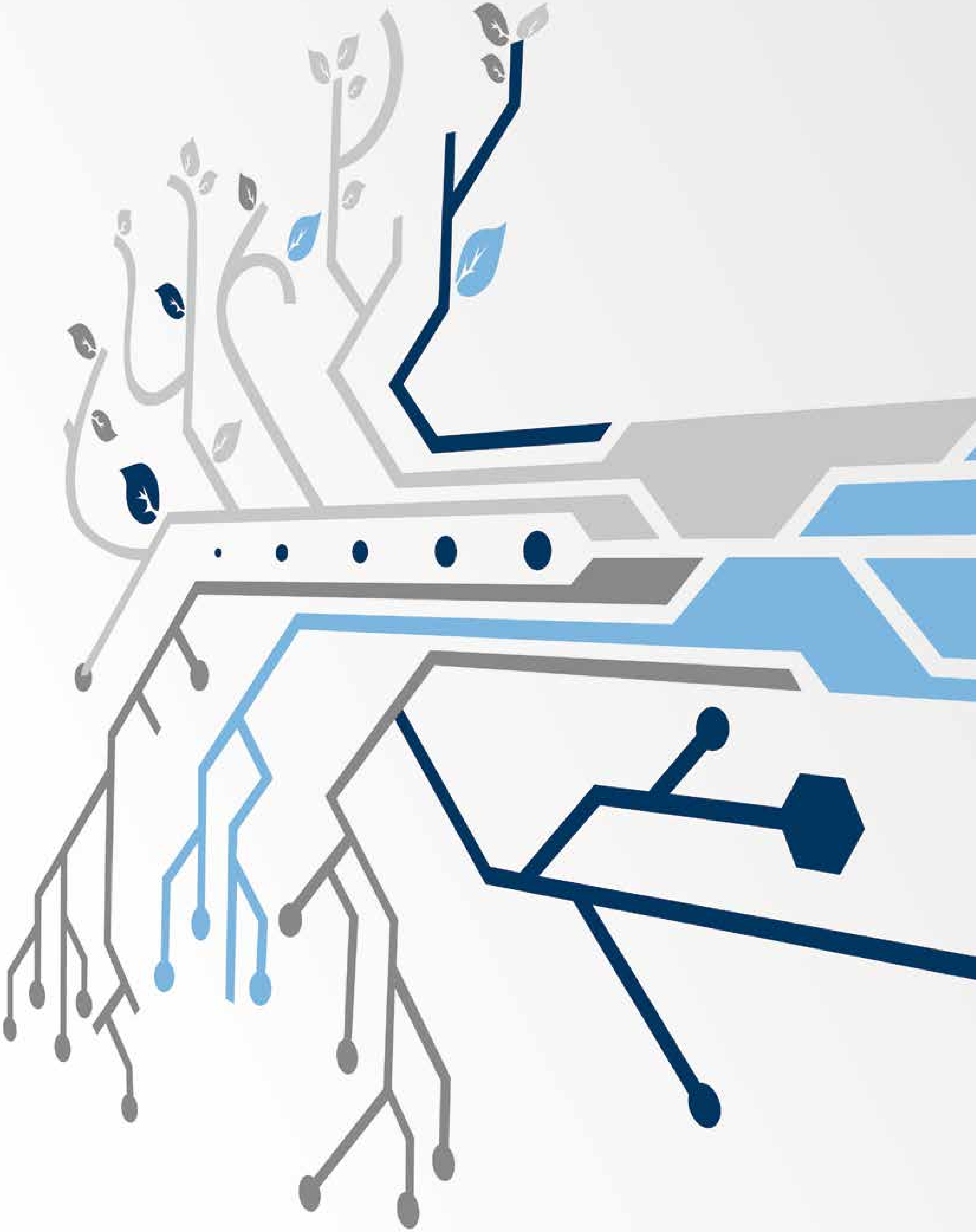
Reply enjoys a prominent position in all of the environments that are becoming crucial to the success of companies looking to compete effectively, or even just survive, across all industries.

Technology has become omnipresent and pervasive. It is part of every product, service and human relationship. The network in particular, with its immense power in terms of speed and ease of connection, is at the core of the changes that are transforming society and, consequently, driving the way in which products and services are brought to market.

Becoming a leader in all that is currently considered "innovation" (for example, Cloud Computing, Digital Media, the Internet of Things and Mobile) while also making theinvestment necessary to open up new frontiers - whether Big Data or Mobile Payments,will lead to huge growth opportunities for Reply, in an increasingly selective and competitive market.

Reply is now an international group, with a presence in Europe, the United States and Brazil. The company has managed to establish itself in highly competitive environments, thanks to the constant improvement of skills and an ability to work as a team, both within the company and with customers, all based on the values which have always been part of theGroup: ethics, honesty, transparency and reliability.

The President
Mario Rizzante



Reply Living network

Reply is a Consultancy, System Integration and Application Management organisation, dedicated to the creation, design and implementation of solutions based on new communication channels and digital media.

It is made up of a network of highly-specialised companies, which support leading industrial groups in defining and developing business models to optimise and integrate processes, applications and devices, using new technology and communication paradigms, such as Big Data, Cloud Computing, Internet of Things and Social Media.

Reply's defining characteristics are:

- Knowledge, which is deeply rooted in technological innovation;
- Flexible structure, enabling it to anticipate market evolution and interpret new technology drivers;
- Scalable delivery methodology, with proven success;
- Network of companies, each specialising in different areas of expertise;
- Highly skilled teams, recruited from specialists graduating from top universities;
- Highly experienced management teams;
- Ongoing investment in R&D;
- Long-term relationships with customers.

Organisational model

With over 3700 employees as at 31st December 2012, Reply operates as a network, made up of individual companies, each specialising in different processes, applications and technologies and all acknowledged as centres of excellence in their relative sectors.

- Processes: For Reply, understanding and using technology means introducing a new 'process-enabling' factor. It can do this thanks to an in-depth knowledge of the market and of the different industry implementation contexts.
- Applications: Reply designs and develops applications to meet each company's core business needs.
- Technologies: Reply uses the latest technologies, in the best possible way, to create solutions that enable customers to benefit from the highest levels of operational efficiency and flexibility.

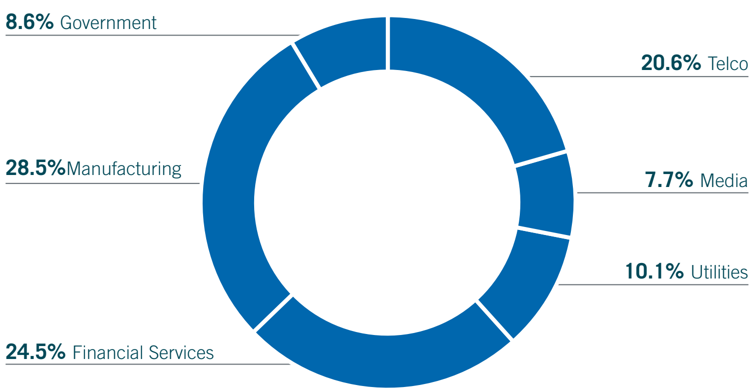
Reply's services include:

- Consultancy – related to strategy, communications, process and technology;
- System Integration - combining business consulting with high value-add, innovative technology solutions, to harness the potential of the technology;
- Application Management – encompassing the management, monitoring and continuous evolution of applications.

Market focus

Reply combines sector expertise with a wealth of experience in the service offered, together with an ability to deliver advanced technology to all market segments.

In 2012 the Group's turnover for each vertical sector was as follows:



Telco and Media

Reply is a leading technology partner in the Telecommunications and Media industry. In recent years, the operators in this market have undergone a fast-paced transformation from connectivity suppliers to providers of innovative services and digital content.

Against this background, Reply is helping customers to integrate processes and services in two main fields: Business Support Systems (BSS) and Operati7onal Support Systems (OSS), focusing in particular on the increasingly important areas of network capacity and network discovery.

Reply has developed methods and processes to help companies with the impact of the digital transformation on CRM and Billing systems - in terms of both the evolution of existing components and the introduction of new 'self-care' logic.

With an integrated consultancy, communication and design offering, based on the most advanced technologies, Reply helps companies to create, develop and manage value-added services and applications, designed specifically to enhance the user experience and provide access to Social logics over the latest generation of devices.

Financial Services

Reply is working with banks and insurance companies to develop solutions that address the most important business areas, based on a total transformation of business models, operational processes and underlying technology platforms.

Examples include:

- Multichannel retail strategies including CRM solutions and segment-oriented marketing; advanced platforms for mobile banking and online trading; the development of innovative digital products; web marketing; the development of a new generation of contact centres; and process digitalisation.
- Support for wealth management specialists, by providing tailored solutions for asset management factories and distribution networks.
- Credit, compliance and risk management, where Reply is leading the field in delivering state-of-the-art solutions in terms of the processes and systems needed to support retail credit providers (mortgages and consumer credit); modelling and measuring/controlling the various types of risk in addition to the architectures of the enabling data.

Manufacturing and Retail

Reply helps companies to transform and manage their information systems. It is involved at all stages from strategic design, through understanding and redefining core processes to the development of solutions that ensure the integration of applications throughout the entire organisation.

Reply's expertise has focused on the following key areas:

- Processes and applications for contact management and the development of the customer relationship (CRM);
- Support for supplier and purchase management processes (SRM);
- Design of manufacturing execution systems (MES);
- Distribution and the handling of production across complex logistics networks (SCM).

For retail, Reply has developed a specific offering, designed to improve operational efficiency and consolidate the customer experience; it combines ecommerce and multichannel consultancy with the design and development of solutions to integrate web, mobile, call centre and in-store set-ups.

Energy and Utilities

The energy and utilities sector is constantly changing. In recent years, the expansion of renewable sources and the adoption of new network technologies have guided the main operators' investment decisions.

Reply has developed a specific range of products to help companies in this sector to achieve their initiatives for operational, organisational and technological change. These include advanced solutions for real-time billing and energy management. Reply combines an in-depth knowledge of the market and processes with unrivalled expertise in the design, creation and management of applications to support core business activities.

Reply also helps the sellers and suppliers of electricity and gas to define new operational models through solutions that meet the requirements of major market trends, such as smart metering, smart grid and demand response.

Government and Defence

The desire to improve the quality of public services, together with the increasing 'decentralisation' of public spending means that public sector organisations must re-engineer front- and back-office processes and tools and redefine the infrastructures that support them, to ensure greater operational efficiency and flexibility.

Reply brings to the public sector and health service its extensive experience in the latest online services and the integration of applications, all delivered with the skills needed to create tailored solutions to manage relationships with individuals and companies.

In the United Kingdom, Reply works with a number of government bodies, including the Ministry of Defence (MoD). It is making a significant contribution to these organisations as they transform their logistics operations, by introducing new approaches to IT architecture, by introducing 'as a Service' practices and by radically improving data management.

Technological innovation

Technological innovation is the cornerstone of Reply's development. Reply's aim has always been to provide customers with the tools they need to increase flexibility and efficiency. Reply is committed to the ongoing research, selection and promotion of innovative solutions which will help organisations to add value within their operations.

Big Data and Analytics

By 2020, more than 50 billion 'things' will be connected online and some 900 million people will be exchanging information on social networks. Every day millions of links become billions of events and these generate billions upon billions of data items. This is the era of 'big data', where heterogeneity, high volumes, plus the need for rapid analysis and the generation of value for the customer are driving new architectures and new use paradigms.

Reply has realised, however, that big data technologies can also apply to areas where the volume of company data assets being managed is a long way short of a 'petabyte'; and research indicates that a high percentage of the major companies operating in the European markets are already managing hundreds of terabytes of data.

Reply has defined a coherent, integrated methodology to help customers to implement the architectures and models most suited to their needs. A team of analysts, business experts, statisticians and IT specialists is involved in carrying out this analysis as part of an integrated, multidisciplinary approach.

In developing new approaches, Reply has focussed particularly on the following sectors:

- Telecommunications, where design models have been created to help with "churn" analysis and the optimisation of online services to improve the quality of the end-user experience;
- Insurance, where fraud-related issues have been addressed -particularly with regard to the motor vehicle liability business; and
- Retail, specifically the problems of customer segmentation and purchase profile analysis at point of sale.

Cloud Computing

Today, cloud computing is increasingly perceived by the market as a strategic initiative, capable of increasing the company's ability to compete and improving the company's position. To enable companies to implement the cloud model most suited to theirrequirements, Reply has produced a suite of products and services, incorporating the following core elements:

- Consultancy support (from the process through to operational management) to help customers to understand, choose and develop the best technology solutions and applications;
- An end-to-end service provider, backed by partnerships with leading global vendors, including Amazon, Google, Microsoft, Oracle and Salesforce, so customers benefit from solutions tailored to their specific needs, in terms of the model type and technology adopted;
- SaaS services and solutions based on Reply's proprietary application platforms (TamTamy™, SideUp Reply™, Gaia Reply™ and Discovery Reply™).

CRM

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

Companies must now identify and implement a communication strategy that is 'peer-to-peer', rather than 'one-to-many'; an approach based both on customer value drivers (customer analytics) and on the company's own distinctive competences.
Reply has developed an integrated view of organisational processes and models which, when applied, will ensure an effective and efficient level of integration between the framework of the CRM solutions proposed and the existing company structures.

Reply is also helping an increasing number of clients to define CRM system principles, review processes, and create technology architectures and CRM system solutions - right through to the end-to-end governance of their functional and organisational processes.

And the company has identified new techniques and methods to define different means of engagement with the end customer, in order to improve customer loyalty and strengthen the customer relationship. 'Gamification' techniques are being used here.

Thanks to its experience, gained in many of the markets where end-to-end customer care is a key component of the CRM framework, Reply is able to integrate sophisticated relationship management models based on the leading technologies (such as Oracle, Microsoft, Salesforce, SAP and other best of brand solutions). It offers this on an 'as a service' basis too, when required.

Digital Communication

In recent years, the communications market has witnessed how important it has become for a brand, product or service to be represented on every digital platform. For consumers, this 'dialogue' is very different from the traditional 'display only' mode, which is not interactive and which has pervaded all markets and all brands for several decades.

As a result, creative expertise (which has always provided the real added value of an effective advertising campaign) has been joined by a need for high levels of technology and design skills; in other words, everything that brings creativity to life and makes it interactive on the new channels: internet and mobile, but also, digital point-of-sale (POS), game platforms and so on.

This new scenario demands a more effective integration of creativity and technology, and this increasingly needs to exist within a single consulting, 'ideational' and production industry.

In addition to the creation and management of every aspect of the brand image in an interactive digital context, Reply's creativity and technology skills have been applied to important sectors such as mobile, e-commerce, gaming and digital placement. These objectives are just as important for commercial brands - now and, more importantly, in the future, as the leading international communications markets have already shown.

Another important area in which Reply is helping customers is the world of social networking - now a mainstream phenomenon that has grown exponentially in recent years. Today, more than ever before, social networks represent the undisputed global arena for consumer-brand relationships.

Ecommerce

Revenue from ecommerce continues to increase, with international online sales expected to be on a par with those in physical shops by 2014. Today's shoppers are increasingly browsing products, making their purchases and being served through a series of continuous interactions and exchanges between physical and digital channels. Thus it's essential to have a well-defined and integrated multichannel strategy in order to attract customers and keep them over time.

Reply provides consultancy, supplying implementation and ongoing support services to multichannel retailers. Reply helps customers to select the most appropriate platform for their business and ensures that the solution chosen is sufficiently robust to meet the challenges posed by emerging technologies and new models of interaction while continuing to meet the needs of the end customer.

Reply has developed a set of bespoke solutions designed to increase operational efficiency across all points of contact with the customer, combining e-commerce and multichannel consultancy services with the design and development of solutions to integrate web, mobile, call centres and in-store platforms.

Internet of Things

With the increasing convergence between telco, media and consumer electronics, objects which have been totally unconnected until now (household appliances, integrated home automation installation controls, and so on) are increasingly being considered as ‘online devices’.

Leading analysts expect the European ‘Machine to Machine’ (M2M) market (the foundation of the Internet of Things (IoT)), to grow by over 15% between 2013 and 2016, with global value expected to top 213 billion Euros by the end of 2014.One of the most significant developments over the next few years will be the progressive connection, not only of computers and devices, but of a multitude of material objects, creating a network that will be increasingly more pervasive and integrated with people’s daily lives.

The Internet of Things will be applied in many different fields, from industrial applications (production processes), to logistics and mobile information apps; and from energy efficiency to remote customer care and environmental protection.

Reply, has developed HI ReplyTM, a service, device and middleware platform on which integrated applications can be based: advanced logistics, environmental safety, contactless payment and product traceability, for example. HI ReplyTM was designed and developed in Reply’s Internet of Things research and development centre.

Mobile

Thanks to its expertise in devices, in delivering a rich user experience, in working with communication protocols and its knowledge of the main telco and media processes, Reply helps customers to set up multichannel, interactive scenarios and models by creating new collaborative environments that ensure:

- Ease of access to services and information - anywhere, anytime
- Integration of wireless and wired devices
- An ‘always-on’ infrastructure to manage and distribute services and contents

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

The extension of mobile apps to every aspect of personal and professional life will be a prominent feature of this decade. It will continue to generate opportunities in practically all sectors, thanks to the increasing use of smartphones, mobile devices and the new generation of ‘things’ connected to the Internet.

Reply has developed a specific product for gaming, aimed not only at the consumer world, but also at the more complex business-to-business (B2B) environment,taking some of the logic from the video game world and applying it to non-game business processes (gamification). This brings significant benefits in terms of customer and employee engagement.

Reply is particularly keen to help companies use mobile games to promote new products and increase brand awareness (advergames) as well as using them as educational tools (edutainment).

Mobile Payments

The evolution of the mobile devices that are increasingly influencing consumers' daily lives, along with the steady growth of non-cash payment methods, makes the mobile payment sector one of the most promising areas in the next few years. Leading analysts estimated that the period 2011-2012 saw a growth of 62% in the overall value of global mobile transactions, to reach 171 billion dollars. This figure is expected to reach 617 billion dollars in 2016, based on a predicted annual growth rate of around 42%.

Reply has developed a specific solution, incorporating specialist consultancy services and technology platforms for Mobile Payments, to help financial institutions, telecommunication companies, utilities and retailers to create and supply innovative remote and proximity mobile payment services. Reply's proprietary platform, HI Credits™, uses smartphone technologies to enable personalised, contextualised payment services.

Security

2012 saw a significant development inReply's business security offering as aresult of the company increasing its presence in the financial services and telco markets, developingnew competences in consultancy services and system integration (related to the management of computer risk, the identification of threats and vulnerability, plus the design and implementation of countermeasures from a technological, procedural and organisational perspective), and in providing 'Managed Security Services'.

Significant results were also achieved in consulting and solution development, including projects for identity and access management, data protection and fraud management (identity fraud and the prevention of payment system fraud through mobile devices and social networks).

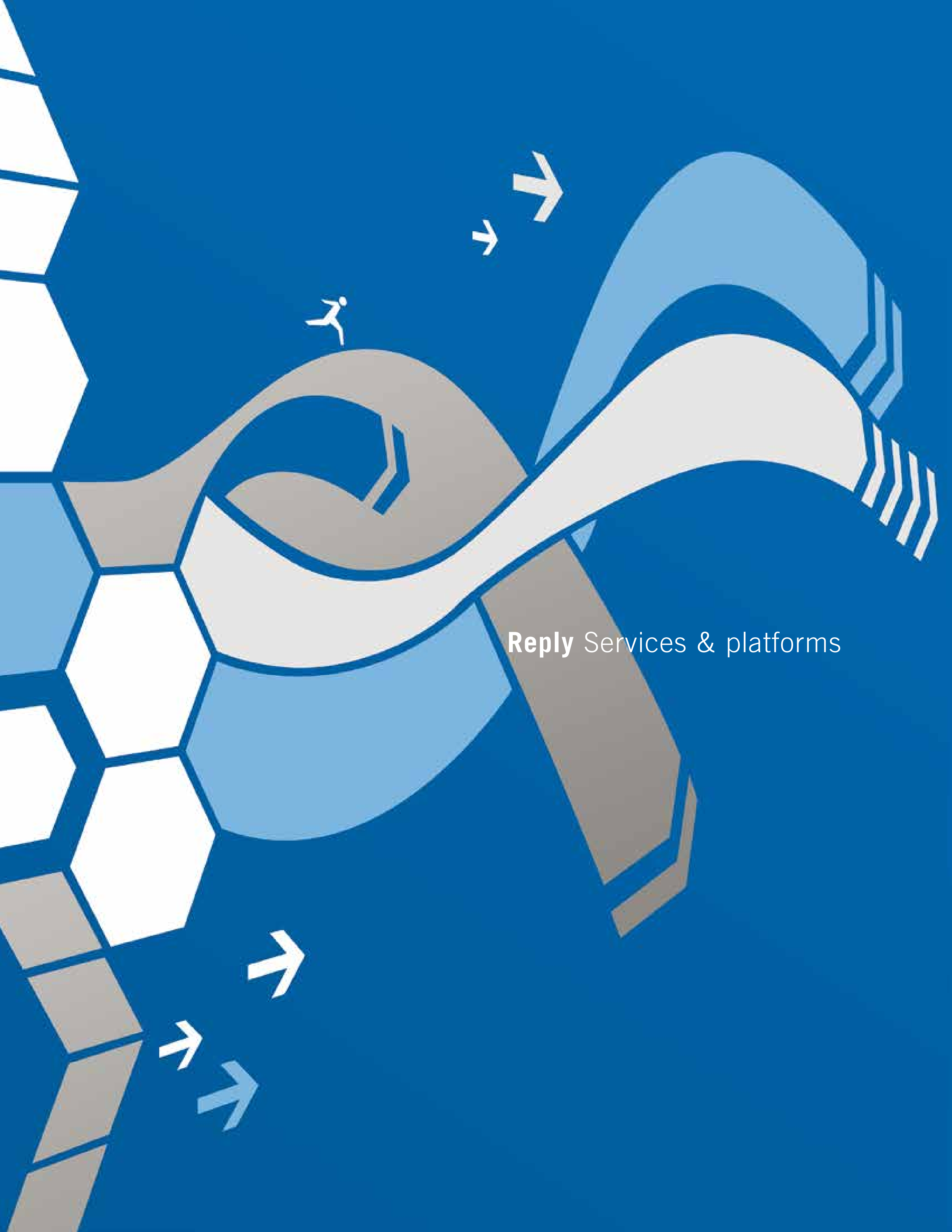
The 'Managed Security Services' distributed from Reply's Security Operation Center (SOC) were further developed in the areas of Security-as-a-Service, anti-fraud services and 'smart' IT management. There has been a particular focus on mobile device management and the cloud security framework.

Social Media

The increasingly pervasive use of social media as a communication, information and interactive channel between people offers companies new opportunities to use these paradigms, internally and externally, for employee (social), customer (business-to-consumer) and stakeholder (business-to-business) engagement.

With a range of solutions, designed to maximise social engagement and implement mechanisms for monitoring and engaging conversations and interaction within the community (social listening), Reply's solution for company social networking is based on its proprietary platform TamTamy™, which is available both on-premise and in 'Cloud' mode.

Reply has also developed a 'crowdsourcing' solution, based on Starbytes™. This meets the needs of companies wanting to develop a project, service or product by involving a dispersed group of people, who can be organised in a virtual community (crowd).



Reply Services & platforms

Reply helps its clients to take advantage of innovation, by supplying services and platforms designed to maximise the new potential offered by the Internet and by communication technologies.
Today, the web is a distributed 'information system', used to access an ever-growing amount of data, information and complex content in real-time. This use of the Internet introduces new competitive models based on 'as a service' approaches. These are enabled by three core components: software platforms; process comprehension and domain; and service management.

Reply supports customers through this innovation process, providing services and platforms that enable them to take full advantage of the potential offered by the Internet and communication technologies.

Business Process Outsourcing

Reply supplies specialist services in the following three areas:

- Finance and Administration: management of accounting transaction processes; drawing-up regular and consolidated financial statements; management of tax obligations; digitisation of accounting documents; and electronic archiving.
- Human Resources: training; ECM; career profiles; company knowledge; and management analysis dashboards.
- Pharmaceutical: management and control of pharmaceutical spending.

CFO Services

The need to use complex reporting and simulation tools to retrieve information on the company's progress and in a timely manner to create value is forcing the CFO to undergo a radical change of role. As part of its business performance management solution, Reply has identified a number of services to support CFOs through this change, as they increasingly have to handle matters that formerly came under the CEO's jurisdiction:

- Definition of company control model;
- Strategic planning and budgeting;
- Creation of consolidated financial statements;
- IPO support.

Application Management

Reply has defined an application management model, characterised by:

- A modular approach that allows the customer to purchase single service components (for example, application maintenance or operational support only), or a structured set of services;
- A flexible distribution model, designed to integrate Reply's services with the customer's processes in the best possible way, by adapting it to suit the company's specific requirements.

Click Reply™

Click Reply™ – Reply's supply chain execution platform, is designed to optimise the management of inventory, warehouse, transportation management and order fulfilment processes. A leading solution in the automotive, fashion and third-party logistics (3PL) markets, Click Reply™ is currently being used by more than 400 companies and 20,000 users throughout the world.

The solution's architecture has been developed completely 'as a service' and is based on open standards. It can be integrated with ERP, SCM and MES systems. Click Reply™ allows a wide range of devices to be used to read and write tags based on RFID technology, in addition to traditional devices for barcode reading, and direct voice recognition. This is done without using middleware. The warehouse management platform was recently completed with new modules for labour management, warehouse billing and warehouse performance.

Definio Reply™

Definio Reply™ - Reply's risk and wealth management platform, provides financial services organisations (banks, investment management companies, insurance companies, pension funds, investment and private banking foundations and family offices) with the tools they need to analyse and control financial activities managed directly and through third parties.

Discovery Reply™

Discovery Reply™ - Reply's digital asset management platform, makes the management of digital assets more efficient over the entire life-cycle, by providing innovative methods to organise work-flow; by ensuring a high level of interoperability with other company systems; and by delivering advanced multichannel content distribution services. Discovery Reply™ supports integrated models for the production, use and archiving of content through an open, flexible platform and a simple, intuitive interface. It enables the acquisition, processing, cataloguing, accessing, searching and distribution of digital assets on various delivery channels, both traditional (analog and digital TV) or IP-based (such as WebTV, Over-The-Top TV, MobileTV, Connected TV, Digital Signage).

Gaia Reply™

Gaia Reply™ is a flexible and scalable framework for the development and distribution of services and content across the different mobile devices. Gaia Reply™ integrates data from any structured source, aggregates it according to the logic required by the type of service, and makes it available on any mobile channel and device. The framework also optimises content visualisation and browsing, to ensure an ergonomic match with the characteristics of the different devices used. High levels of scalability and the availability of tools to manage the services, in addition to its flexible model, make Gaia Reply™ suitable for a variety of business needs - the development of particularly complex services (e.g. mobile banking) or the implementation of more focused services (e.g. m-sites; promotional activities; landing pages; and so on).

HI Reply™

HI Reply™ - Reply's solution for the 'Internet of Things' is a service, device and middleware platform, on which different integrated applications are based. These include mobile information apps, as well as applications to support advanced logistics, environmental safety, contactless payment and product traceability. HI Reply™ enables a simple, standard communication between web-connected 'things'. It is a union of hardware, firmware and the software components sited on the 'things' themselves. These can vary from simple sensors and actuators to more sophisticated systems such as smartphones and minicomputers.Once 'plugged into'the platform, these things become 'smart', becoming 'visible' to one anotherwith standard Internet technologies, and acquiring the basic functionalities necessary for them to function 'seamlessly' (auto-configuration, location, discovery and ontology of services present).

SideUp Reply™

SideUp Reply™ - Reply's warehouse management 'as a service' platform, optimises the management of the warehouse, supply chain visibility and proof of delivery processes. The solution, entirely based on cloud computing, can be integrated with ERP systems, ecommerce systems and MES production systems. SideUp Reply™ is particularly important for companies needing to improve the efficiency and visibility of their logistics chain in a short space of time. SideUp Reply™'s 'pay per use' model is available directly via the Internet.

Starbytes™

Starbytes™ - Reply's'crowdsourcing' platform, developed for 'cloud',has been designed for companies wanting to set up an 'Open Enterprise' model, and so gain access to the skills and expertise of a digital community to help them to develop projects, services or products. The company is able to use this direct channel, avoiding any intermediation in the supply and demand process. Starbytes™ is a base for crowd engagement, stimulating interactivity thanks to gamification techniques, managing the coming together of supply and demand through contests and competitions, and highlighting the most 'merit-worthy' people by means of feedback and ranking systems.

TamTamy™

TamTamy™ - Reply's enterprise social network platform, meets the social media needs of businesses by providing them with a set of technologies, functionality and tools designed to help them to achieve their strategic goals. In a single configurable, platform, that can be integrated and customised, TamTamy™ combines the most commonly used community instruments (wikis, blogs, forums, bookmarking, multimedia content sharing, idea generation, RSS, and so on) with a series of basic services such as identity and presence management, categorisation, rating, tagging, searching, real-time messaging, and a suggestion engine based on the user profile.

Partnership / Research and Development

Reply believes that research and the ongoing innovation of its assets are fundamental to its ability to help customers to adopt new technologies.

To enable it to offer the most appropriate solutionsto companies, Reply has established partnerships with major international suppliers; indeed Reply boasts the highest level of certification from leading providers of enterprises technologies, including:

Microsoft

As a Microsoft Certified Partner and Microsoft National System Integrator, Reply pursues a policy of continuous innovation as regards Microsoft solutions. This has been proved by the number of Gold certifications obtained, including Windows 8, Windows Server 2012, Office and SharePoint 2013, SQL Server 2012, Microsoft .NET Framework, Dynamics CRM/AX/NAV, Exchange 2013, Lync 2013 and System Center 2012. As regards business solutions, in 2012 Reply strengthened its leading position in CRM/ERP Microsoft Dynamics solutions, and established itself as top Italian partner for Dynamics CRM. Reply has one of the main centres of expertise on Windows Azure and Office 365.

Oracle

As an Oracle Platinum Partner, Reply has always followed the evolution of Oracle's solutions, for technology and product, and it has established one of the main European Competence Centres capable of combining a complete coverage of the stack with application suites and the main integrated solutions for industry. In 2012, Reply successfully introduced Oracle's cloud computing application solutions to the market, carrying out one of the first projects based on Oracle RightNow. Reply has also been an active participant in beta test programmes for the Oracle Cloud Environment (database and middleware) and, with Italy's only DEMOground at its offices in Milan, Reply has worked with Oracle on a number of initiatives, to enable customers to test out Oracle applications (for example, CRM Siebel), integrated with the new 'engineered systems', such as Exadata and Exalogic.

SAP

Reply uses its breadth of international experience in developing applications based on the SAP product suite, to help businesses to optimise activities and processes, taking an integrated approach to the design and development of company information systems. Reply's skills cover traditional enterprise processes and company-wide functions such as the supply chain, customer and supplier relationships and financial services.

In addition, its extensive experience in using SAP business intelligence tools enables Reply to help customers to define and develop reporting structures, control dashboards and simulation and design functionality.

The technology and design domain is important here. Based on the SAP NetWeaver infrastructure and in-memory SAP HANA technology, this domain is able to address application integration and people/knowledge integration issues, using an 'as a service' approach based on SOA principles. Its expertise in the use of SAP's mobile technology is a distinguishing feature of Reply's SAP offering.

Amazon

Reply is one of the leading European partners of Amazon Web Services (AWS), the Amazon division that distributes infrastructure-as-a-service (IAAS). Working with the infrastructures and components made available by AWS and distributed to companies, Reply has completed numerous projects in both B2B and B2C scenarios. It provides end-to-end support: from consultancy to the selection of the Cloud model best suited to the needs of the individual company; from the creation and integration of custom applications and platforms; to maintenance and management services based on pay per use models.

Google

An important Google partner in Italy, Reply helps companies to introduce Google Enterprise solutions. Based on this application, architectural and infrastructural domain, Reply integrates new Google paradigms into business contexts. These paradigms, based on public cloud architectures, mean that extended social networking and collaboration models can be introduced, enabled by the integration of products such as Gmail, Google Apps and Google Maps.

Hybris

In January 2013, for the second year running, Reply was named Hybris' 'Global Partner of the Year' as a result of high-profile multichannel ecommerce projects carried out for leading retailers. Hybris' only Platinum Elite partner, Reply was given this prestigious award and is now one of Hybris' most important partners in Europe, North America and Asia Pacific.

Salesforce

Reply is one of Europe's leading Salesforce.com specialists, with more than 90 projects and applications posted on Salesforce.com Appexchange. Customers include some of the most important industrial and media groups in Europe. Using Salesforce.com technologies, Reply combines cloud expertise with specific process, market and integration know-how, focusing in particular on Social, data migration and data integration, both with 'as a service' components (Service, Sales, Marketing Cloud), and with Force.com and Heroku platforms.

Development and evolution of proprietary platforms

Reply is committed to R&D activities, concentrating resources in two areas: the development and evolution of proprietary platforms; and an ongoing process of seeking out, selecting and learning about new technologies. The aim is to bring to market innovative solutions, capable of adding value within companies.

Click Reply™

The 2012 Click Reply™ road map saw product development aimed at consolidating the Voice Recognition module for the most common warehouse processes, as well as completing the development of three new modules to optimise logistic-operational processes: Warehouse Billing for billing warehouse processes; Labour Management for analysing warehouse activity execution times; and Warehouse Performance for measuring and controlling warehouse performance.

Discovery Reply™

From 2012 onwards, the Discovery Reply™ platform has also been available in Cloud mode. The multichannel delivery layer was enhanced to allow contents to be used via Web, Mobile and TV. For WebTV and digital signage channels, the 'Video on Demand' and 'Live Streaming' functions were enhanced with use and interaction modes typical of social media. The presentation layer was also improved with the integration of Facebook, Twitter and YouTube.

Definio Reply™

In 2012, the Definio Reply™ platform was consolidated into version 4.0. This new version involved a complete renewal of the user interface. From a functional point of view, Definio Reply™ saw a total review of rate structure management to enable it to better meet market requirements. Rates are now 'natively integrated' with fixed or variable spreads (CDS), or spreads relying on several parameters. The Advanced Reporting module has been consolidated, compared with the first version in 2011, and now has a scheduler and a library dedicated to the extraction of complex data for reporting. The risk module has been improved too, index-linked and convertible bonds are now managed more efficiently.

Gaia Reply™

Developments in 2012 were mainly aimed at standardising the mechanism used to manage the sending of 'push' notifications to mobile client applications.

To simplify the development and management of a service to do this, a 'Notification Gateway' was created to support Apple APNS, Google C2DM and Google GCM protocols allowing the notifications to be sent to different platforms via a common interface.

HI Reply™

In 2012, Reply's Mobile Payments solutions, based on Hi Reply™ and using NFC technology, were integrated into the mobile payments services of companies operating throughout the industry. These included banks, cash register producers, merchants, telco operators and companies investing in mobile payments as a means to add innovation to their services. Future developments will include mobile location based advertising solutions as a way of creating innovative, new communication channels between companies and their customers; digital broadcast advertising solutions, which can be integrated with product placement and audio watermark technologies to make television advertising more innovative; and solutions for energy efficiency, where the correlation between physical parameters and context knowledge are of prime importance for the market in general and the energy market in particular.

SideUp Reply™

Developments in 2012 focused on the expansion of new logistics services in Cloud mode and extending the range of 'as a service' offerings. Supplier Visibility was improved with the release of the Supply Chain Replenishment module, which helped companies and suppliers to manage supplies on a collaborative basis. Work began too on the development of a second module, designed to allow customers to take advantage of the opportunities offered by SaaS, applied to the management of logistics processes for inbound transportation. In addition to the development of more functionality, the mobile technology platform also saw investment. This process will conclude in 2013 and will enable the SideUp Reply™ modules to be fully exploited - not just on Windows Mobile and CE devices, but also on Smartphones and Tablets with Android operating systems.

Starbytes™

Available to Italian companies in July 2012, by the end of 2012 Starbytes™ could boast around 36,000 registered members, including ICT professionals and designers. Development plans for Starbytes™ in 2013 include the integration of new gamification techniques to increase crowd engagement and manage new types of requests, first and foremost for social network sharing and viral marketing. For the bigger companies, Reply acts as an enabler for 'crowdsourcing', through dedicated, bespoke end-to-end services which incentivise both the Starbytes™ technological platform and interested crowds.

TamTamy™

Reply continued the development of the TamTamy™ platform during 2012 to make it more flexible, given the increasingly numerous and varied scenarios in which it is used. Considerable attentionhas been given to the user interface; to its easy to use set-up; to the provision of mechanisms which enable users to be updated on activities which are relevant to them; and to the possibility to actively contribute when used on mobile devices.Further investment is planned for 2013 and the platform will continue to be enhanced (in terms of functionality, services and 'integratability', in line with the 'perpetual Beta' approach adopted by Reply for the development of TamTamy™.

The value of people

Reply is founded on the expertise of its people; all professionals, drawn from the best universities and technical institutes in the sector. Reply's women and men bring the 'brand' to life for customers and partners and represent its image.

Reply continually invests in human resources, creating mutually beneficial relationships and collaborative ventures with various universities in order to strengthen its staff with high-profile personnel.

The company is primarily looking for young graduates and has a particular interest in graduates in Computing, Computer Engineering, Electronic Engineering, Telecommunications Engineering, Engineering Management, Economics and Business. Reply's relationship with the universities also extends to offering internships, sponsoring theses and company participation in lectures and seminars.

Reply people are characterised by enthusiasm, expertise, team spirit, initiative, methodology and an ability to understand context and communicate proposed solutions clearly. The continuous drive to conceptualise, experiment and explore new solutions shown by Reply people enables innovative processes to be completed quickly and efficiently.

Joining the Reply world means having a great opportunity to express one's potential, within an organisation based on knowledge, ethics, trust, honesty and transparency.

These are indispensable values in a culture of continuous improvement and ever increasing focus on quality. Reply Group managers work hard every day to maintain the principles which underpin Reply and which have supported the company throughout its growth.

The Reply team

- → Sharing customer objectives
- → Professionalism and rapid implementation
- → Knowledge and flexibility

Expertise: knowledge, study, attention to quality, seriousness and 'valorisation' of results.
Team: collaboration, transference of ideas and knowledge, sharing objectives and results, respecting personal characteristics.
Customer: sharing objectives, customer satisfaction, diligence, professionalism, sense of responsibility, integrity.
Innovation: imagination, experimentation, courage, study and research into improvement.
Speed: method, experience in project management, collaboration, commitment to reaching customer results and objectives.

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Report on Operations

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

The Reply Group adapts specific procedures in managing risk factors that can have an influence on the group results. Such procedures are a result of an enterprise management that has always aimed at maximizing value for its stakeholders putting into place all necessary measures to prevent risks related to the Group activities.
Reply S.p.A., as Parent Company, is exposed to the same risks and uncertainties as those to which the Group is exposed, and which are listed below.
The risk factors described in the paragraphs below must be jointly read with the other information disclosed in the Annual Report.

External risks

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

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

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

Risks associated with increasing client needs
The Group's solutions are subject to rapid technological changes that, together with the increasing needs of customers and their need to improve informatics, which results in a request of increasingly complex development activities, sometimes requires excessive efforts that are not proportional to the economic aspects. This in some cases could cause negative effects on the Group's activities and on the Group's economic, financial and earnings position.

Risks associated with segment regulations

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

Internal risks

Risks associated with key management

The Group's success is largely dependent on some key figures who have made a decisive contribution to its development, such as the Chairman and the Executive Directors of the Parent Company Reply S.p.A.
Reply also has a leadership team (Senior Partner, Partner) with many years of experience in the segment, who have a key role in the management of the Group's business.
The loss of any of these key figures without an adequate replacement or the inability to attract and retain new, qualified personnel could therefore have an adverse effect upon the Group's business prospects, earnings and financial position.
Management deems that in any case the Company has a sufficient operational and managerial structure capable of guaranteeing continuity in the running of the business.

Risks associated with relationship with client

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

Risks associated with internationalization

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

Risks associated with contractual obligations

The Group develops solutions with a high technological content of significant value; the underlying related contracts can provide for the application of penalties in relation to timeliness and the qualitative standards agreed upon.
The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.
The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount deemed to be adequate in respect of the actual risk.
Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardized.

Financial risks

Credit risk

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

Liquidity risk

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The cash flows, funding requirements and liquidity of the Group companies are monitored or centrally managed under the control of the Group Treasury. The aim is to guarantee the efficiency and effectiveness of the management of capital resources (maintaining an adequate level of minimum reserves of liquidity that are readily convertible to cash and *committed* credit).
The difficult economic market and capital context necessitates special attention being given to the management of liquidity risk, and in that sense particular emphasis is placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing 2013, which promises to be difficult. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Risks associated with fluctuations in currency and interest rates

The exposure to interest rate risk arises from the need to fund operating activities and M&A investments, as well as the necessity to deploy available liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The interest rate risk to which the Group is exposed derives from bank loans; to mitigate such risks, the Group has used derivative financial instruments designated as "cash flow hedges".
The use of such instruments is disciplined by written procedures in line with the Group's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

Review of the Group's economic and financial position

Foreword

The Financial Statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated Financial Statements as at 31 December 2012, to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

Trend of the period

In 2012 the consolidated turnover of the Reply Group amounted to 494.8 million Euros, an increase of 12.4% compared to 440.3 million Euros in 2011.
EBITDA amounted to 62.4 million Euros (55.0 million Euros in 2011), with EBIT of 52.2 million Euros (48.7 million Euros in 2011).
EBIT amounted to 55.6 million Euros (+14.2% with respect to 2011), net of recording in the Income Statement the difference of additional revenue, amounting to 3.3 million Euros, due to the improved trend, compared to the original plan, of the company Portaltech Reply, specialized in multichannel e-commerce strategies and solutions.
The net result was 27.1 million Euros (24.2 million Euros in 2011).
As at 31 December 2012, the Group's net financial position was negative by 0.4 million Euros, a clear improvement compared to the negative value of 16.7 million Euros as at 31 December 2011.
Reply achieved results in 2012 that were significantly greater than the market trend. The general economic situation in Europe has led companies to significantly reduce investments and to extend new projects over time. In spite of this, Reply was able to grow and further strengthen itself.
Reply's strength lies in its ability to transform innovation into functional solutions that serve client needs. This characteristic, together with a network model that unites specialist expertise in various industry sectors with in-depth knowledge of processes and technologies, has enabled us to cope with the current economic situation.

Reclassified consolidated Income statement

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)	**2012**	**%**	**2011**	**%**
Revenues	**494,831**	**100**	**440,296**	**100**
Purchases	(10,894)	(2.2)	(8,703)	(2.0)
Personnel	(239,258)	(48.4)	(215,056)	(48.8)
Services and other costs	(180,240)	(36.4)	(160,435)	(36.4)
Other unusual operating income/(expenses)	(2,015)	(0.4)	(1,105)	(0.3)
Operating costs	**(432,407)**	**(87.4)**	**(385,299)**	**(87.5)**
Gross operating margin (EBITDA)	**62,424**	**12.6**	**54,997**	**12.5**
Amortization, depreciation and write-downs	(6,855)	(1.4)	(6,332)	(1.4)
Other unusual income/(expenses)	(3,319)	(0.7)	0	0.0
Operating income (EBIT)	**52,249**	**10.6**	**48,665**	**11.1**
Financial income/(expenses)	(1,984)	(0.4)	(2,192)	(0.5)
Result before tax of continuing operations	**50,265**	**10.2**	**46,473**	**10.6**
Income tax	(22,006)	(4.4)	(21,327)	(4.8)
Net result of continuing operations	**28,259**	**5.7**	**25,146**	**5.7**
Non controlling interests	(1,164)	(0.2)	(996)	(0.2)
Group net result	**27,094**	**5.5**	**24,150**	**5.5**

Key events of 2012 are summarized below:

→ February 2012: Portaltech Reply, a company of the Reply Group specialized in consulting and the implementation of e-commerce strategies and solutions, received the Partner EMEA award for 2011 from Hybris, an International leader in the multichannel e-commerce solutions market. Further, Portaltech Reply won the Global Partner of the Year award, thus emerging even among the partners of North America and the Asia-Pacific area. Hybris also assigned Portaltech Reply the level of Platinum Elite partnership, a level never achieved before by any partner at a world-wide level.

→ April 2012: @logistics Reply, a company of the Reply Group specialized in the design and development of integrated solutions for Supply Chain Execution, has been included by Gartner, a world leader in the analysis of the ICT market, in its "Magic Quadrant for Warehouse Management Systems 2012". In @logistics Reply, Gartner recognises a qualified presence in the European market, a significant number of customers in the Automotive, Food, Pharmaceutical, Telco and Fashion sectors, a qualified offer both on-premises (Click Reply) as well as on demand (SideUp Reply), and many years of expertise in advanced logistics processes.

→ July 2012: Reply presents HI Shop, the proximity marketing application that allows users, using their smartphone, to experience an entirely innovative purchase experience, allowing companies to open a new communications channel with their clients that is direct and personalized. HI Shop uses the technologies and components made available by HI Reply, the Reply platform for the Internet of Things, and opens new possibilities of use for multi-channel shopping solutions on smartphones.

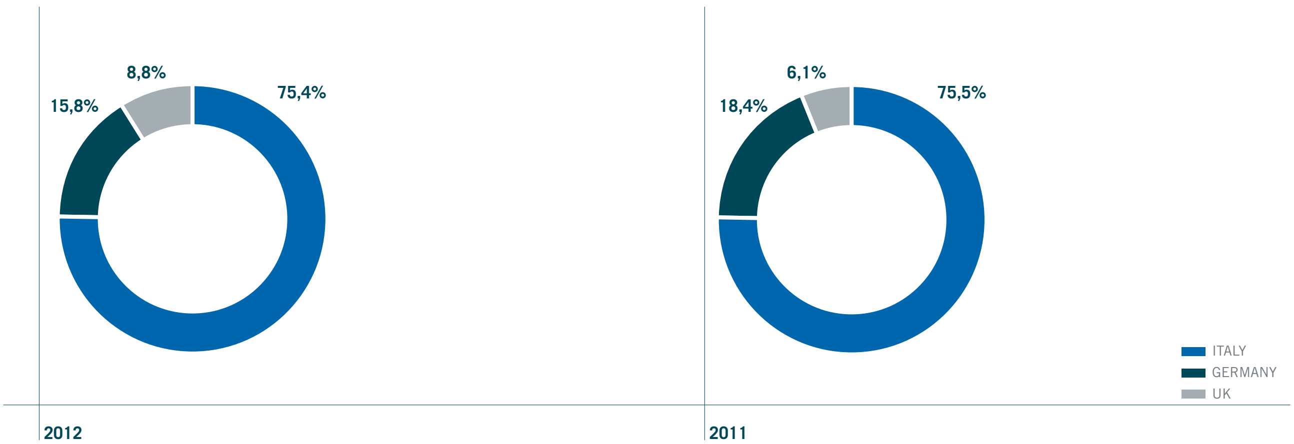
→ August 2012: Reply reinforces its presence in cloud computing by acquiring 100% of the shares of Arlanis Software AG, a German company specialized in consulting and data integration services, a leader in continental Europe in Saleforce.com solutions. Arlanis, with more than 8 years of experience, is specialized in Social Business Applications, CRM, data migration and integration. As a result of this purchase, Reply strengthened its offer in cloud computing for Social Enterprise.

→ October 2012: Olivetti chooses HI Credits, Reply's mobile remote payment solution for cash systems. Specifically, the new solution will be used by integrated Nettun@ 3000 and Explor@ systems, which are a versatile response to the needs of stores and the restaurant industry. The cash systems that use this technology print QRcode HiCredits on the receipts for totally secure payment through the customer's smartphone.

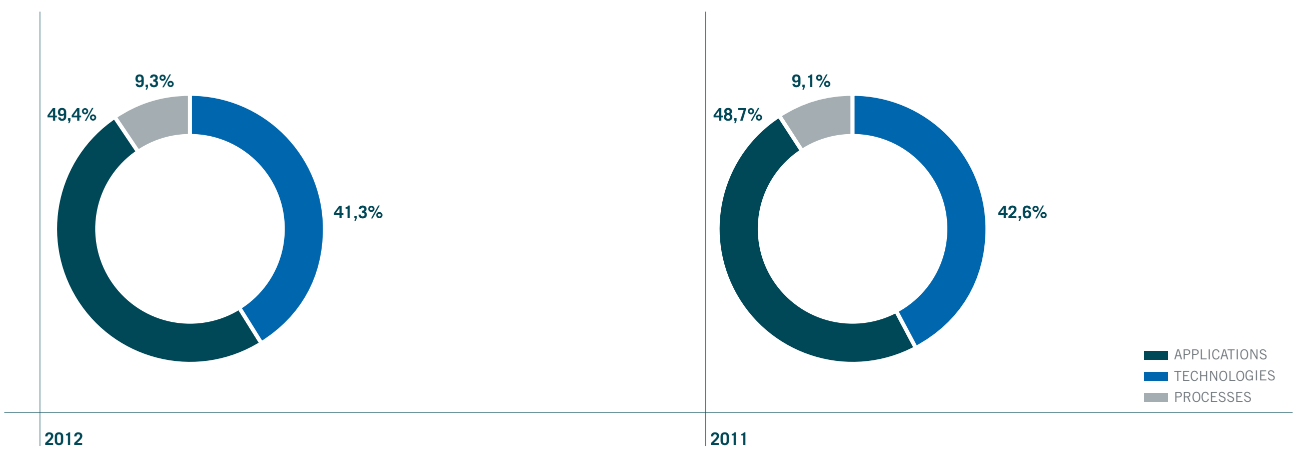
→ November 2012: Reply incorporates Pay Reply, a company specialized in consulting services and the development of technological platforms for remote and proximity payments. Reply continues to invest in mobile payments with Pay Reply, which uses HI Credits' asset technology, the proprietary platform launched one year ago that enables mobile payment services and currently the basis of some of the major market projects.

→ December 2012: Reply acquires Avvio Design Associates Ltd. The English company is specialized in consulting and the implementation of strategies and solutions for Brand Engagement and Internal Communications, based on Corporate Social Networking. By means of such acquisition, Reply intends to further strengthen its position in the English market, where it is already present with a highly specialized network of companies.

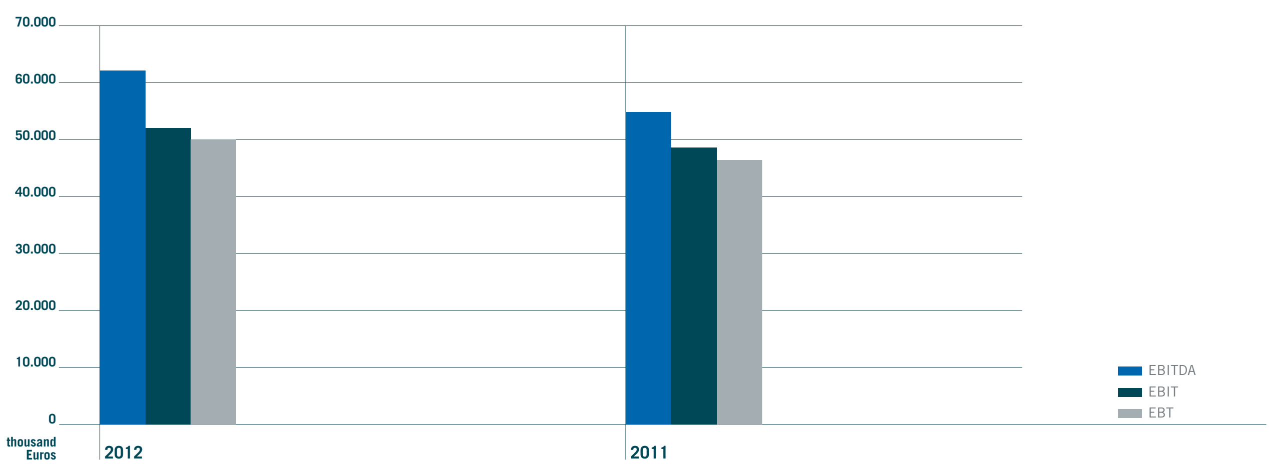
Revenue by geographic area



Revenue by business lines



Trend in the principle economic indicators



Analysis of the financial structure

The Group's financial structure is set forth below as at 31 December 2012, compared to 31 December 2011:

(thousand Euros)	31/12/2012	%	31/12/2011	%	Change
Current operating assets	280,451		255,722		24,729
Current operating liabilities	(159,974)		(139,550)		(20,424)
Net working capital (A)	**120,477**		**116,172**		**4,305**
Non current assets	136,689		126,254		10,435
Non current financial liabilities	(78,332)		(67,695)		(10,637)
Fixed capital (B)	**58,357**		**58,559**		**(202)**
Net invested capital (A+B)	**178,834**	**100.0**	**174,731**	**100.0**	**4,103**
Shareholders' equity (C)	178,461	99.8	158,017	90.4	20,444
NET FINANCIAL POSITION (A+B-C)	**373**	**0.2**	**16,714**	**9.6**	**(16,341)**

Net invested capital as at 31 December 2012 amounted to 178,834 thousand Euros and was financed by Shareholders' equity for 178,461 thousand Euros and by a financial debt of 373 thousand Euros.

The following table provides a breakdown of net working capital:

(thousand Euros)	31/12/2012	31/12/2011	Change
Work-in-progress	15,428	10,184	5,244
Trade receivables	237,700	219,764	17,936
Other operating assets	27,323	25,774	1,549
Current operating assets (A)	**280,451**	**255,722**	**24,729**
Trade payables	56,656	48,005	8,651
Other current liabilities	103,318	91,545	11,773
Current operating liabilities (B)	**159,974**	**139,550**	**20,424**
Net working capital (A-B)	**120,477**	**116,172**	**4,305**
% return on revenues	*24.3%*	*26.4%*	

Net financial position and cash flows statement

(thousand Euros)	**31/12/2012**	**31/12/2011**	**Change**
Cash and cash equivalents, net	18,610	6,394	12,216
Current financial assets	1,315	345	970
Due to banks	(9,150)	(7,798)	(1,352)
Other providers of finance	(572)	(177)	(396)
Short-term financial position	**10,203**	**(1,236)**	**11,439**
Non current financial assets	2,851	936	1,915
Due to banks	(12,778)	(16,141)	3,363
Other providers of finance	(649)	(273)	(376)
M/L term financial position	**(10,576)**	**(15,478)**	**4,902**
Total net financial position	**(373)**	**(16,714)**	**16,341**

In 2012 deposits were reclassified among financial assets of the net financial position for an amount equal to 2,504 thousand Euros. In 2011 such reclassification would have resulted in an improvement of the net financial position amounting to 501 thousand Euros.

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

(thousand Euros)	**31/12/2012**
Cash flows from operating activities (A)	31,986
Cash flows from investment activities (B)	(13,032)
Cash flows from financial activities (C)	(6,738)
Change in cash and cash equivalents (D) = (A+B+C)	**12,216**
Cash and cash equivalents at beginning of period (*)	6,394
Cash and cash equivalents at year end (*)	18,610
Total change in cash and cash equivalents (D)	**12,216**

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

The complete consolidated cash flow statement and the details of cash and other cash equivalents net are set forth below in the financial statements.

Significant operations in 2012

Acquisition of Arlanis Software AG

Reply S.p.A. strengthened its presence in cloud computing by acquiring, in August 2012, 100% of the shares of Arlanis Software AG, a German company specialized in consulting and data integration services, a leader in continental Europe in Saleforce.com solutions.
The total value of the acquisition amounted to 2.0 million Euros. Furthermore, an Earn Out is foreseen subordinated to predetermined parameters which will be paid over a three year period.
Arlanis, Premium Consulting Partner of Salesforce.com, with more than 8 years of experience in Enterprise Cloud Computing and salesforce.com solutions, is specialized in Social Business Applications, CRM, data migration and integration. Arlanis has some of the most important European industrial and media groups among its clients.
Through this acquisition, Reply has strengthened its presence in Cloud Computing and the offer for Social Enterprise. Specifically, Reply currently has one of the most important European realities specialized in Salesforce.com, with more than 90 projects and applications published on Salesforce.com Appexchange.
The acquisition of Arlanis is part of the Group's development strategy, which is heavily oriented towards innovation. With Arlanis, in particular, Reply has acquired high level specialist skills in an area that currently has one of the highest growth rates and where companies are increasingly focusing their investments. The ability to join specialist skills in cloud computing with specific know how of market processes and integration represents a strategic resource for the Group.

Acquisition of Avvio Design Associates Ltd

Reply S.p.A. strengthened its presence in Europe through the acquisition in December 2012 of 100% of the shares of Avvio, an English company specialized in consulting and the implementation of strategies and solutions for Brand Engagement and Internal Communications, based on Corporate Social Networking.
The total value of the acquisition amounted to 1.2 million Pounds Sterling paid in cash, and provides for an Earn Out subordinated to some predetermined parameters to be paid over a three year period.
Avvio has some of the major English and International groups among its clients such as BP, City Link, Coca-Cola Enterprises, Direct Line, Marks and Spencer, Michelin, Nationwide, News Corporation, RBS, Rolls-Royce, BSKYB and Vodafone.
Reply has strengthened its digital media position through this acquisition, with particular reference to social media and social networking.
By means of this acquisition, Reply intends to further strengthen its position in the English market, where it is already operating through a network of highly specialized companies in the fields of Mobile, Telecommunications, Architectures, Supply Chain Execution, Risk Management and Regulatory Compliance.
The increasing spread of social media as a channel of communication, information and interaction among people offers new opportunities to companies to use these paradigms, both internally and externally. With Avvio, Reply has acquired highly specialized expertise in the use of these new communication strategies in the business environment.

A centre of specialized excellence in the areas of Internal Communication and Social Media undoubtedly represents a strategic contribution for the Group's future development, and Avvio, with its consolidated experience in this sector, is in perfect synergy with the expertise in Social Networking and Mobile that Reply already possesses.

Corporate reorganization

On 14 December 2012, Reply S.p.A.'s Board of Directors approved the initiation of the merger project that will result in the merger of Reply Deutschland AG – a 81.11% subsidiary listed on the Stock Exchange of Frankfurt (Prime Standard) – with Reply S.p.A. The transaction will be completed in 2013.
Regardless of the merger, Reply S.p.A.'s control structure will remain substantially unvaried, with the continuation of Alika S.r.l.'s control.

Reply on the stock market

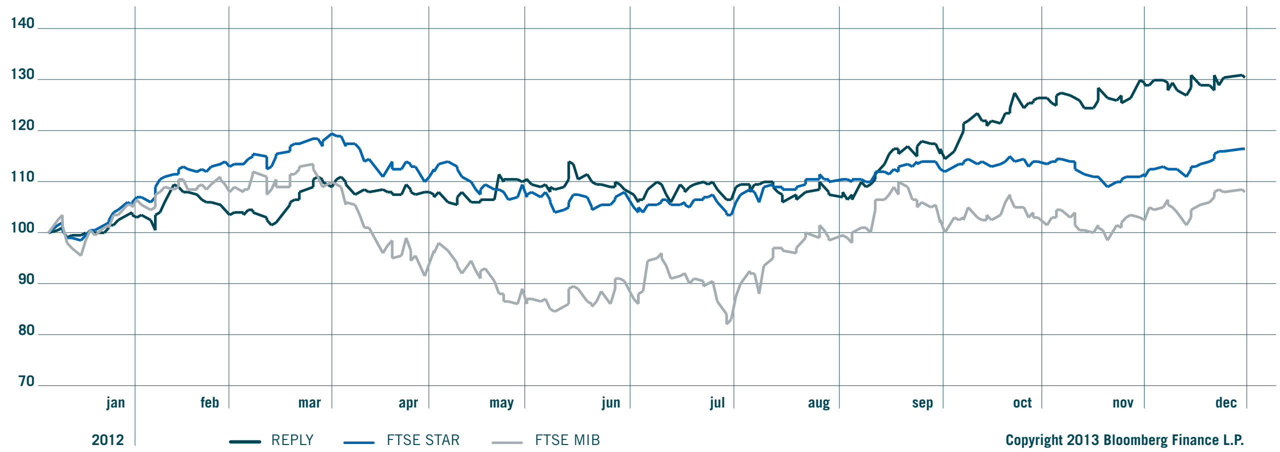
Financial communication

Reply maintains a constant dialogue with individual shareholders, institutional investors and financial analysts through its Investor Relations function, which actively provides information to the market to consolidate and enhance confidence and the level of understanding of the Group and its businesses.
During the course of 2012 as well, the Company's relationship with the market, which was particularly strengthened in Germany, a country in which there was truly significant interest in the Group, was the result- to some extent - of the rebranding of the subsidiary listed on the Frankfurt exchange, the intense activity of meetings carried out during previous years, and the particular vivaciousness of German institutional investors. In the past year as well, Reply participated and organized numerous roadshows and conferences in the major European and Italian financial markets.
These activities led to the admission among major shareholders of a German fund, supported by the trust fund BNY Mellon Service Kapitalanlage, which progressively increased its shareholding in 2012 alongside some historical institutional investors with holdings exceeding 2% such as Highdere International Investors Limited. A review of the composition of ownership confirms the interest of Italian and foreign institutional investors, which currently hold a significant part of Reply's share capital.
Additional, updated information is available in the Investor Relations section of the Group's website www.reply.eu which provides historic financial data and highlights, official communications and real-time trading information on Reply shares.

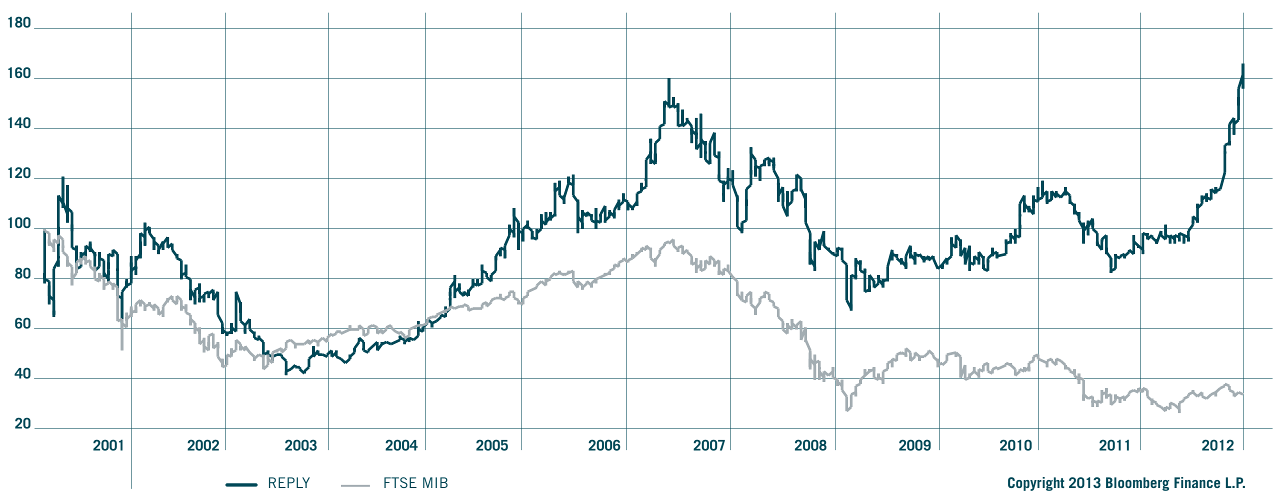
Trend of the Reply Share

In 2012 Borsa Italiana's capitalization grew just over 9%, even though it remained below the MSCI World Index, i.e. the most complete stock market index in the world, which grew by 12.2% compared to 2011.
At the end of the year listed companies as a whole totalled 364.1 billion Euros, equal to 22.5% of the Gross Domestic Product (333.3 billion Euros, equal to 20.7% of the GDP at the end of 2011).
At year end, there were 323 listed companies on the Italian stock market, of which 296 on the major list, eight less in respect of 2011. Initial Public Offerings (IPO) were still rare, only six in 2012 (9 in 2011, 10 in 2010), of which only Brunello Cucinelli on the Electronic Share Market (MTA). Thirteen companies were instead revoked.
More specifically, the FTSE MIB index grew by 9.79%, reaching an annual high of 14,059 points on 19 March and a minimum of 1,750 points on 25 July. The FTSE Italia All Share was up by 8.74% compared to the end of 2011 (annual high of 18,153 points on 19 March and annual minimum of 13,427 points on 24 July).
Within the stock market, special mention is to be made to the PMI division, and more specifically to the STAR segment, that over-performed the major indexes this year as well: the FTSE Italia STAR index grew on an annual basis of 15.80% (annual maximum of 11,208 points on 26 March 2012; Annual minimum of 9,229 points on 9 January 2012).

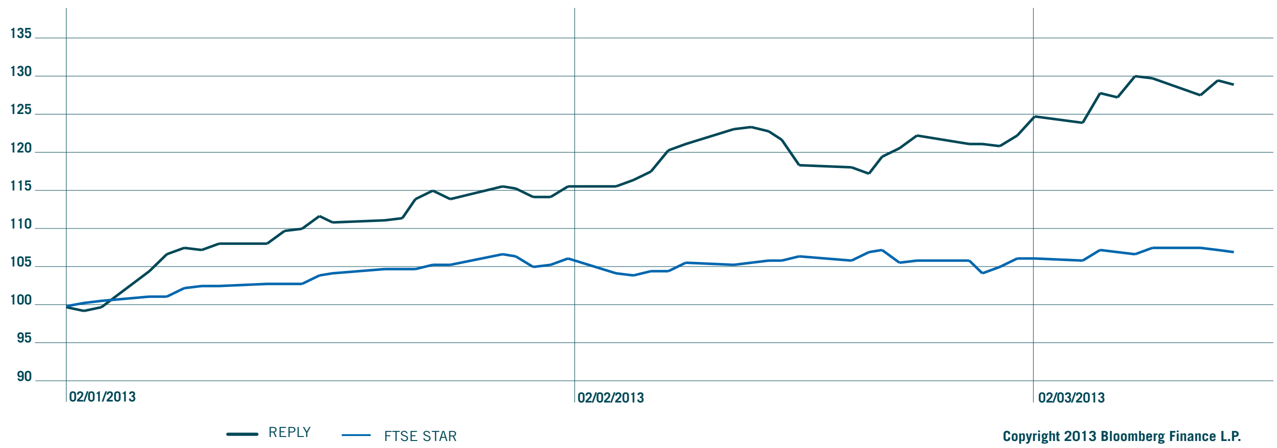
In this context, the Reply share had one of the best trends of the Italian stock market, with a growth of 30.2% on an annual basis (increasing from 16.09 Euros to 20.95 Euros per share). Specifically, commencing in March 2012, the share consistently outperformed the Italian market (FTSE MIB index), and commencing in September it regularly outperformed even the trend of the most dynamic market division, the Star index.



Moreover, expanding the performance analysis of the share since it was listed through the present, compared to the entire Italian stock market, Reply has outperformed Piazza Affari over the last twelve years, with a positive gap of nearly 100 percentage points.



Further, Reply's excellent performance also continued during the first part of 2013, with the share gaining another 15%, with a positive gap of more than 20 points with respect to the Star index.



The Parent Company Reply S.p.A.

Foreword

The tables presented and discussed below were prepared on the basis of the financial statements as at 31 December 2012, to which reference should be made, prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.

Reclassified income statement

The Parent Company Reply S.p.A. mainly carries out the operational, co-ordination and the technical and quality management services for the Group companies as well as the administration, finance and marketing activities.
As at 31 December 2012 the Parent Company had 95 employees (98 employees in 2011).
Reply S.p.A. also carried out commercial *fronting* activities for some major customers, whereas *delivery* is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group's overall economic trend and the *performances* of the markets in which it operates. Such activity is instead reflected in the item *Revenue from fronting* of the Income Statement set forth below.

The company's income statement is summarized as follows:

(thousand Euros)	**2012**	**2011**	**Change**
Revenues from operating activities	37,023	33,069	3,954
Other revenue	220,210	196,507	23,704
Purchases, services and other costs	(246,954)	(220,710)	(26,244)
Other unusual operating income/(expenses)	(15,833)	(13,652)	(2,181)
Amortization, depreciation and write-downs	(800)	(799)	(1)
Operating income	**(6,353)**	**(5,585)**	**(768)**
Net financial Income/(Expenses)	474	(251)	726
Income from equity investments	26,686	21,668	5,018
Loss on equity investments	(5,670)	(3,555)	(2,115)
Income before taxes	**15,138**	**12,277**	**2,861**
Income tax	1,088	872	217
NET RESULT	**16,226**	**13,149**	**3,077**

Revenues from operating activites mainly refer to charges for:

- Royalties on the Reply trademark for 11,731 thousand Euros (10,307 thousand Euros in 2011);
- Activities carried out centrally for the subsidiary companies for 17,482 thousand Euros (17,219 thousand Euros in 2011);
- Management services for 5,548 thousand Euros (5,531 thousand Euros in 2011).

Operating income 2012 marked a negative result of 6,353 thousand Euros after having deducted amortization expenses of 800 thousand Euros (of which 645 thousand Euros referred to intangible assets and 154 thousand Euros to tangible assets).

The result of financial management, equivalent to 474 thousand Euros, included earned interest of 2,218 thousand Euros and interest expenses of 1,774 thousand Euro, mainly related to loans for M&A transactions. Such result also includes net positive exchange rate differences amounting to 26 thousand Euros.

Income from equity investments which amounted to 26,686 thousand Euros refer to dividends received from subsidiary companies in 2012.

Losses on equity investments refer to write-downs and losses reported in the year by some subsidiary companies that were considered to be unrecoverable.

Net income for the year ended 2012, amounted to 16,226 thousand Euros after income taxes of 1,088 thousand Euros.

Financial structure

Reply S.p.A.'s financial structure as at 31 December 2012, compared to that as at 31 December 2011, is provided below:

(thousand Euros)	31/12/2012	31/12/2011	Change
Tangible assets	201	203	(2)
Intangible assets	1,349	1,258	91
Equity investments	125,267	124,021	1,247
Other intangible assets	1,679	1,118	560
Non current financial liabilities	(26,808)	(23,948)	(2,860)
Non current assets	**101,689**	**102,652**	**(963)**
Net working capital	**4,306**	**11,384**	**(7,078)**
INVESTED CAPITAL	**105,995**	**114,036**	**(8,041)**
Total shareholders' equity	124,121	112,932	11,189
Net financial position	(18,126)	1,184	(19,310)
TOTAL	**105,995**	**114,115**	**(8,120)**

Net invested capital as at 31 December 2012 amounted to 105,995 thousand Euros and was financed by Shareholders' equity for 124,121 thousand Euros, and available overall funds of 18,126 thousand Euros.
Changes in balance sheet items are fully analyzed and detailed in the explanatory notes to the financial statements.

Net financial position

The Parent Company's net financial position as at 31 December 2012, compared to 31 December 2011, is detailed as follows:

(thousand Euros)	**31/12/2012**	**31/12/2011**	**Change**
Cash and cash equivalents, net	(6,410)	(17,733)	11,323
Loans to subsidiaries	50,324	45,632	4,692
Other short-term financial assets	834	-	834
Due to banks	(9,163)	(7,654)	(1,509)
Due to subsidiaries	(17,053)	(12,108)	15,339
Short-term financial position	**18,532**	**8,137**	**10,395**
Loans to subsidiaries	13,734	10,910	2,824
Long-term financial assets	357	-	357
Due to banks	(11,996)	(15,231)	3,234
Due to subsidiaries	(2,500)	(5,000)	2,500
M/L term financial position	**(406)**	**(9,321)**	**8,915**
Total net financial position	**18,126**	**(1,184)**	**19,310**

Change in the net financial position is analyzed and illustrated in the explanatory notes to the financial position.

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

In accordance with Consob Communication no. DEM/6064293 dated 28 July 2006, Shareholders' equity and the Parent Company's result are reconciled below with the related consolidated amounts.

(thousand Euros)	**31/12/2012**		**31/12/2011**	
	Total shareholders' equity	**Result**	**Total shareholders' equity**	**Result**
Reply S.p.A.'s separate financial statements	**124,121**	**16,226**	**112,932**	**13,149**
Results of the subsidiary companies	112,649	39,531	104,109	36,481
Carrying value of investments in consolidated companies	(57,027)	-	(58,454)	-
Elimination of dividends from subsidiary companies	-	(26,726)	-	(22,083)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(1,283)	(773)	(570)	(2,401)
Non controlling interests	(2,704)	(1,164)	(1,917)	(996)
Net Group consolidated financial statement	**175,756**	**27,094**	**156,100**	**24,150**

Corporate Governance

The Corporate Governance system adopted by Reply adheres to the Corporate Governance Code for Italian Listed Companies issued by Borsa Italiana S.p.A. in March 2006, which was updated in December 2011, with the additions and amendments related to the specific characteristics of the Group.

During the meeting held in March 2012, The Board of Directors, at the proposal of the Remuneration Committee, established a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob which took effect on 31 December 2011. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders' Meeting called to approve the 2012 Financial Statements.

In accordance with legal and regulatory requirements, the Company prepares an annual Report on Corporate Governance, which provides a general description of the Group's corporate governance system together with information on its ownership structure and adherence to the Corporate Governance Code, including the key governance practices implemented and the characteristics of the internal control and risk management system, including in relation to financial reporting.
The above Report is available in the Corporate Governance section of the website www.reply.eu.
The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. www.borsaitaliana.it.

Other information

Research and development activities

Reply offers services and solutions with high technological standards in a market where innovation is of primary importance.
Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.
Reply dedicates resources to Research and Development activities and concentrates on two sectors:

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

Reply has important partnerships with major global vendors so as to offer the most suitable solutions to different company needs. Specifically, Reply boasts the highest level of certification amongst the technology leaders in the Enterprise sector, among which:

- Microsoft
- Oracle
- SAP
- Amazon
- GOOGLE
- Hybris
- Salesforce

Research and development activities are fully described in the Corporate information of “Reply Living Network”.

Human resources

Human resources constitute a primary asset for Reply which bases its strategy on the quality of products and services and places continuous attention on the growth of personnel and in-depth examination of professional necessities with consequent definitions of needs and training courses.
Reply Group is comprised of professionals coming from the best universities and polytechnics. The Group intends to continue investing on human resources by bonding special relations and collaboration with major universities with the scope of attracting highly qualified personnel.
The people who work at Reply are characterized by *enthusiasm, expertise, methodology, team spirit, initiative, the capability of understanding* the context they work in and of *clearly communicating the solutions proposed.* The

capability of imagining, experimenting and studying new solutions allows innovation to occur more rapidly and efficiently.
The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.
At the end of 2012, the Group had 3,725 employees compared to 3,422 in 2011. During the year, 694 were employed and approximately 427 left the Group, while change in consolidation counts for 58 employees.

Security Planning Document

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

Transactions with related parties and Group companies

During the period, there were no transactions with related parties, including intergroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.
The company in the notes to the financial statements and consolidated financial statements provides the information required pursuant to Art. 154-ter of the TUF [Consolidated Financial Act] as indicated by Consob Reg. no. 17221 of 12 March 2010, indicating that there were no significant transactions concluded during the period.
Information on transactions with related parties as per Consob communication of 28 July 2006 is disclosed at the Note to the Consolidated financial statements and Notes to the financial statements.

Treasury shares

At the balance sheet date, the parent company holds no. 235,813 treasury shares, amounting to 3,605,254, Euros, a nominal value of 122,623 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount. during the year Reply S.p.A. acquired no. 32,100 treasury shares for a total out payment amounting to a 532,414 Euros and disposed of 7,201 shares.
At the balance sheet date the Company does not hold shares of other holding companies.

Financial instruments

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

Events subsequent to 31 December 2012

No significant events have occurred subsequent to 31 December 2012.

Outlook on operations

Today Reply has a distinctive positioning in all those areas that are increasingly crucial, within companies of any industry, for ensuring competitiveness and survival.

Its leadership in all the most innovative areas - Cloud Computing, Digital Media, Mobile and Internet of Things, along with the continued investment to move to the new frontiers, Big Data, or mobile payments, open many further opportunities for growth in an increasingly selective and competitive market.

The competitive position and financial and economic strength of the Reply Group will enable it to continue along the path of growth, both on the European market and overseas.

Motion for approval of the Financial statements and allocation of the net result

The financial statements at year end 2012 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 16,226,110 Euros and shareholders' equity amounted to 124,120,973:

(in Euros)	31/12/2012
Share capital	4,795,886
Share premium reserve	20,622,992
Legal reserve	959,177
Reserve for treasury shares on hand	3,605,255
Other reserves	77,911,554
Total share capital and reserves	**107,894,863**
Net result	16,226,110
Total	**124,120,973**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2012 showing a net result of 16,226,110 Euros, proposes that the shareholders resolve:

- To approve Reply S.p.A.'s separate statements recording a net result of 16,226,110 Euros;
- To approve the motion to allocate the net result of 16,226,110 Euros as follows:
  - To the Legal Reserve for 1,560 Euros up to the limit of one fifth of the share capital in accordance with Art. 2430 of the Italian Civil Code;
  - Dividends to the shareholders', in the amount of 0.57 Euros per ordinary share- excluding treasury shares in which the dividend will be assigned to Extraordinary reserve excluding any treasury shares which dividend will be brought forward - having the right and that are in circulation at the record date, determined in accordance with Art. 83-terdecies of Legislative Decree no. 58/1998 and set on 29 May 2013, with payment of the dividend on 30 May 2013;
  - The residual amount, that is variable in relation to the treasury shares acquired and the floating shares at the record date of 29 May 2013, brought forward and stated at Extraordinary reserve;
- To approve, in accordance with article 22 of the Company's by-laws, even explicitly, the motion to allocate to Directors with operating functions a dividend in the profits of the parent amounting to 2,500,000.00, corresponding to about 3.9% of the 2012 consolidated gross operating margin (prior to the distribution of dividends to Directors with operating functions), amounting to 64,924 thousand Euros, which will be paid taking into account the related provision in the financial statements in accordance with IAS/IFRS International Accounting Standards, ratifying as necessary its budget allocation.

Turin, 14 March 2013

For the Board of Directors
The Chairman
Dott. Mario Rizzante

Consolidated Financial Statements
as at 31 December 2012

Reply Consolidated income statement(*)

(thousand Euros)	Note	2012	2011
Revenues	5	494,831	440,296
Other revenues		11,563	7,171
Purchases	6	(10,894)	(8,703)
Personnel	7	(239,258)	(215,056)
Services and other costs	8	(191,803)	(167,606)
Amortization, depreciation and write-downs	9	(6,855)	(6,332)
Other unusual operating income/(expenses)	10	(5,334)	(1,105)
Operating income		**52,249**	**48,665**
Financial income/(expenses)	11	(1,984)	(2,192)
Result before tax of continuing operations		**50,265**	**46,473**
Income tax	12	(22,006)	(21,327)
Net result of continuing operations		**28,259**	**25,146**
Non controlling interest		(1,164)	(996)
Group net result		**27,094**	**24,150**
Net result per share	*13*	*3.01*	*2.67*
Diluted net result per share	*13*	*2.97*	*2.63*

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 34.

Reply Consolidated statement of comprehensive income

(thousand Euros)	Note	2012	2011
Profit of the period (A)		**28,258**	**25,146**
Gain/(Losses) on ("*cash flow hedge*")	24	(73)	237
Gain/(Losses) on exchange differences on translating foreign operations	24	115	(240)
Actuarial gains/(losses) from employee benefit plans	24	(1,194)	(377)
Total other comprehensive net of tax (B)		**(1,152)**	**(380)**
Total comprehensive income (A)+(B)		**27,106**	**24,766**
Total comprehensive income attributable to:			
Owners of the parent		25,942	23,787
Non-controlling interests		1,164	979

Reply Consolidated statement of financial position(*)

(thousand Euros)	**Note**	**31/12/2012**	**31/12/2011**
Tangible assets	14	11,562	10,361
Goodwill	15	105,195	96,646
Other intangible assets	16	5,960	6,180
Equity investments	17	23	58
Other financial assets	18	5,724	4,430
Deferred tax assets	19	11,076	9,519
Non current assets		**139,540**	**127,194**
Work-in-progress	20	15,428	10,184
Trade receivables	21	237,700	219,764
Other receivables and current assets	22	27,323	25,774
Other financial assets	18	1,315	341
Cash and cash equivalents	23	53,992	40,444
Current assets		**335,758**	**296,507**
TOTAL ASSETS		**475,298**	**423,701**
Share capital		4,796	4,796
Other reserves		143,866	127,154
Group net result		27,094	24,150
Group shareholders' equity	**24**	**175,756**	**156,100**
Non controlling interest	24	2,704	1,917
SHAREHOLDERS' EQUITY		**178,461**	**158,017**
Payables to minority shareholders and corporate transactions	25	40,190	32,307
Financial liabilities	26	13,427	16,414
Employee benefits	27	18,035	15,740
Deferred tax liabilities	28	9,945	8,404
Provisions	29	10,162	11,244
Non current liabilities		**91,759**	**84,109**
Financial liabilities	26	45,104	42,025
Trade payables	30	56,656	48,005
Other current liabilities	31	102,160	90,868
Provisions	29	1,159	677
Current liabilities		**205,078**	**181,575**
TOTAL LIABILITIES		**296,837**	**265,684**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**475,298**	**423,701**

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of financial position are reported in the Annexed tables herein and fully described in Note 34.

Reply Statement of changes in consolidated equity

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for *cash flow hedges*	Cumulative translation adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interests	Total
Balance at 1 January 2011	**4,796**	**(2,523)**	**49,538**	**84,682**	**(237)**	**149**	**1,088**	**1,331**	**138,824**
Dividends distributed	-	-	-	(4,070)	-	-	-	(420)	(4,490)
Change in treasury shares	-	(660)	-	-	-	-	-	-	(660)
Total comprehensive income for the period	-	-	-	23,787	237	(240)	(360)	979	24,403
Other changes	-	-	(354)	267	-	-	-	27	(60)
Balance at 31 December 2011	**4,796**	**(3,183)**	**49,184**	**104,666**	**-**	**(91)**	**728**	**1,917**	**158,017**

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for *cash flow hedges*	Cumulative translation adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interests	Total
Balance at 1 January 2012	**4,796**	**(3,183)**	**49,184**	**104,666**	**-**	**(91)**	**728**	**1,917**	**158,017**
Dividends distributed	-	-	-	(4,497)	-	-	-	(579)	(5,076)
Change in treasury shares	-	(422)	-	-	-	-	-	-	(422)
Total comprehensive income for the period	-	-	-	25,942	(73)	115	(1,194)	1,164	25,954
Other changes	-	-	(408)	194	-	-	-	202	(12)
Balance at 31 December 2012	**4,796**	**(3,605)**	**48,776**	**126,305**	**(73)**	**24**	**(466)**	**2,704**	**178,461**

Reply Consolidated statement of cash flows

(thousand Euros)	**2012**	**2011**
Net result for the year	27,094	24,148
Income tax	22,006	21,503
Depreciation and amortization	6,855	5,972
Impairment of intangible assets	0	484
Change in inventories	(5,244)	5,787
Change in trade receivables	(17,920)	(27,667)
Change in trade payables	8,652	9,056
Change in other assets and liabilities	13,414	(2,995)
Income tax paid	(21,327)	(30,284)
Interest paid	(1,716)	(1,756)
Interest collected	171	429
Net Cash flows from operating activities (A)	**31,986**	**4,679**
Payments for tangible and intangible assets	(7,836)	(7,768)
Payments for financial assets	(2,266)	221
Payments for the acquisition of subsidiaries net of cash acquired	(2,930)	(8,022)
Net cash flows from investment activities (B)	**(13,032)**	**(15,569)**
Dividends paid	(5,076)	(4,490)
Payments for acquisition of treasury shares	(422)	(660)
In payments from financial loans	6,000	13,552
Payment of instalments	(7,798)	(16,601)
Other changes	558	(849)
Net Cash flows from financing activities (C)	**(6,738)**	**(9,048)**
Net cash flows (D) = (A+B+C)	**12,216**	**(19,938)**
Cash and cash equivalents at beginning of year	6,394	26,332
Cash and cash equivalents at year end	18,610	6,394
Total change in cash and cash equivalents (D)	**12,216**	**(19,938)**

Detail of net cash and cash equivalents

(thousand Euros)	**2012**	**2011**
Cash and cash equivalents at the beginning of the year:	**6,394**	**26,332**
Cash and cash equivalents	40,444	50,125
Bank overdrafts	(34,050)	(23,793)
Cash and cash equivalents at the end of the year:	**18,610**	**6,394**
Cash and cash equivalents	53,992	40,444
Bank overdrafts	(35,382)	(34,050)

Notes to the consolidated financial statements

NOTE 1 - General Information

Reply [MTA, STAR: REY] is specialized in the implementation of solutions based on new communication and digital media. Reply, consisting of a network of specialized companies, assists important European industries belonging to Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration sectors, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply offers consulting, system integration, application management and business process outsourcing www.reply.eu.

NOTE 2 – Accounting principles and basis of consolidation

Compliance with International accounting principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union. The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"). Following the coming into force of European Regulation No. 1606 of July 2002, starting from 1 January, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS).
The consolidated Financial statements have been prepared in accordance with Consob regulations regarding the format of financial statements, in application of art. 9 of Legislative Decree 38/2005 and other Consob regulations and instructions concerning financial statements.

General principles

The financial statements are prepared under the historical cost convention, modified as required for the valuation of certain financial instruments. The criteria of *fair value* is adopted as defined by IAS 39.
The consolidated financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist about its ability to continue as a going concern.
These consolidated financial statements are expressed in thousands of Euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.
Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

Financial statements

The consolidated financial statements include, statement of income, statement of comprehensive income, statement of financial position, 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 Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
It should be noted that in order to comply with the indications contained in Consob Resolution no. 15519 of 27 July 2006 "*as to the format of the financial statements*", additional statements: income statement and statement of financial position have been added showing the amounts of related party transactions.

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.
Non controlling interest is stated separately with respect to the Group's net equity. Such non controlling interest is determined according to the percentage of the shares held of the *fair value*s of the identifiable assets and liabilities of the company at the date of acquisition and post acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.
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.

Business combinations

Acquisition of subsidiary companies is recognized 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. In addition, any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognized according with IFRS 3 are stated at their *fair value* at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance with IFRS 5, which are recognized and measured at *fair value* less selling costs.
The positive difference between the acquisition costs and Group interest 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 recognized.
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, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.

Transactions eliminated on consolidation

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

Foreign currency transactions

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

Consolidation of foreign entities

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

The following table summarizes the exchange rates used in translating the 2012 and 2011 financial statements of the foreign companies included in consolidation:

	Average 2012	At 31 December 2012	Average 2011	At 31 December 2011
GBP	0.810871	0.8161	0.867884	0.8353
CHF	1.20528	1.2072	1.23261	1.2156
Real	2.50844	2.7036	2.32651	2.4159
US Dollar	1.28479	1.3194		
Polish Zloty	4.18474	4.0740	4.12061	4.458

Tangible 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.
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	6%
Plant and machinery	30% - 50%
Hardware	40%
Other	24% - 50%

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

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized 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 recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their *fair value*.
Goodwill is not amortized but is (*tested for impairment*) annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Impairment losses are recognized immediately as expenses that cannot be recovered in the future.
On disposal of a subsidiary or associate, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

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

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization 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 recognized to the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives consist principally of acquired trademarks which have no legal, contractual, competitive, economic, or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortized in accordance with IAS 36 criteria, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired. Any impairment losses are not subject to subsequent reversals.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
The recoverable amount of an asset is the higher of *fair value*, less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, (the so-called *Cash generating unit*).
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 recognized as an expense immediately. Where the value of the *Cash generating unit*, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the *Cash generating unit*.
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 recognized for the asset. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity investments

Equity investments other than investments in associated companies or joint ventures are entered in item "Other financial assets" under non current assets and are classified pursuant to IAS 39 as financial assets "*Available for sale*" "at *fair value* (or, alternatively, at cost if the *fair value* cannot be correctly determined) with allocation of the valuation effects (until the income from the assets is disposed of and with the exception of the case when permanent impairments have occurred) to a specific reserve in Shareholders' equity.
In the event of write-down for impairment, the cost is recognized to income statement; the original value is restored in subsequent years if the assumptions for the write-down no longer exist.

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

Current and non current financial assets

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

Transfer of financial assets

The Group removes financial assets from its balance sheet when, and only when, the contractual rights to the cash flows from the assets expire or the Group transfers the financial asset. In the case of transfer of the financial asset

- If the entity substantially transfers all the risks and rewards of ownership of the financial asset, the Group removes the asset from the balance sheet and recognizes separately as assets or liabilities any rights and obligations created or retained with the transfer;
- If the Group substantially retains all the risks and rewards of ownership of financial assets, it continues to recognize the financial asset;
- If the Group neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset, it determines whether or not it has retained control of the financial asset. In this case;
- If the Group has not retained control, it removes the asset from its balance sheet and separately recognizes as assets or liabilities any rights and obligations created or retained in the transfer;
- If the Group has retained control, it continues to recognize the financial asset to the extent of its residual involvement in the financial asset.

At the time of removal of financial assets from the balance sheet, the difference between the carrying value of assets and the fees received or receivable for the transfer of the asset is recognized in the income statement.

Work in progress

Work in progress mainly comprise construction contracts; where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized 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 recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized 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 recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.
Inventories comprising software products are stated at the lower of cost and net realizable 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.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity investments

Financial liabilities and equity instruments issued by the Group are presented according to their substance arising from their contractual obligations and in accordance with 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 amortized 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 amortization cost.

Derivative financial instruments and other hedging transactions

In accordance with IAS 39, derivative financial instruments qualify for *hedge accounting* only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.

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

Changes in the *fair value* of derivative financial instruments that are designated and effective as hedges of future cash flows relating to the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately in the Income Statement.

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 recognized, associated gains or losses on the derivative that had previously been recognized 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 recognized 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 effective hedging against a change in *fair value*, the hedged item is adjusted by the changes in *fair value* attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.

Changes in the *fair value* of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which 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 recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized 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 related to the underlying contractual obligation and the latter are not stated at *fair value* with recognition of gains and losses in the Income Statement.

Employee benefits

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Consolidated financial statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.
For Italian companies with less than 50 employees, Employee termination indemnities ("TFR") remains as a "*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 a reasonable estimate of the amount of the benefits that each employee has matured in relation to the time worked.
Through actuarial valuation, *current service costs* are recognized as "personnel expenses" in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the *interest cost* is recognized as "Financial gains or losses" and represents the figurative expenditure the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR").
Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity without being ever included in the consolidated income statement.

Pension plans

According to local conditions and practices, some employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.
In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.
The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the "*ongoing single premiums*" method. The portion of net cumulative actuarial gains and losses which exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the *fair value* of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.
The post-employment benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, arising from the application of the corridor method and past service costs to be recognized in future years, reduced by the *fair value* of plan assets.

Share-based payment plans ("Stock options")

The Group has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at 1 January 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 recognized in the Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis over the "*vesting period*". The *fair value* of the option, measured at the grating date, is measured through actuarial calculations, taking into account the terms and conditions of the options granted.

Provisions and reserves for risks

Provisions for risks and liabilities are costs and liabilities having an established nature and the existence of which is certain or probable that at the reporting date the amount cannot be determined or the occurrence of which is uncertain. Such provisions are recognized 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 recognized when the Group has a present commitment arising from a past event and it is probable that it will be required to fulfil the commitment. Provisions are accrued at the best estimate of the expenditure required to settle the liability at the balance sheet date, and are discounted when the effect is significant.

Revenue recognition

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.
Revenue from sales and services is recognized 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 recognized.

Government grants

Government grants are recognized in the financial statements when there is reasonable assurance that the company concerned will comply with the conditions for receiving such grants and that the grants themselves will be received.
Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.

Taxation

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

Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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 realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

Dividends

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

Earnings per share

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

Use of estimations

The preparation of the financial statements and relative notes under IFRS requires that management makes estimates and assumptions that have effect on the measurement of assets and liabilities and on disclosures related to contingent assets and liabilities at the reporting date. The actual results could differ from such estimates. Estimates are used to accrue provisions for risks on receivables, to measure development costs, to measure contract work in progress, employee benefits, income taxes and other provisions. The estimations and assumptions are reviewed periodically and the effects of any changes are recognized immediately in income.
In this respect the situation caused by the present economic and financial crisis has led to the need to make assumptions regarding future performance which are characterized by significant uncertainty; as a consequence, therefore, it cannot be excluded that results may arise during the next year which differ from estimates, and which therefore might require adjustments, even significant, to be made to the carrying amount of the items in question, which at the present moment can clearly neither be estimated nor predicted. The items of the financial statements mainly effected by such uncertainty are the impairment funds, risk funds, goodwill and deferred taxes.

Changes in accounting principles

There have been no changes in the accounting principles.

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.

Accounting principles, amendments and interpretations adopted from 1 January 2012

The following accounting standards were applied for the first time by the Group commencing on 1 January 2012. On 7 October 2010 the IASB published some amendments to IFRS 7 – Financial Instruments: Additional Disclosures, that the Group must apply commencing on 1 January 2012. The amendments were issued with the intent of improving the understanding of the transfer (derecognition) of financial assets, including an understanding of the possible effects of any risk that may remain with the entity that transferred such assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken at the end of a reporting period. The adoption of such amendment has not resulted in any effect on the measurement of the relative items of the financial statements, and has had limited effects on the information provided in this Annual Financial Report; specifically, reference is made to what is indicated in the above paragraph "Transfer of Financial Assets" and to Note 21 with respect to the Assignment of Credits.

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

On 12 May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements, which will replace SIC-12 Consolidation – Special Purpose Entities (vehicle companies) and parts of IAS 27 – Consolidated and Separate Financial Statements, which will be renamed Separate Financial Statements and which will regulate the accounting requirements of equity investments in separate financial statements. The new standards modify existing standards, specifying a sole control model applicable to all entities, including special purpose entities. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard must be applied retrospectively commencing on 1 January 2013. The competent bodies of the European Union have concluded the approval process of such standard, postponing its effective date to 1 January 2014 and allowing early adoption; The Group has chosen the option of early adoption commencing on 1 January 2013. It is deemed that the adoption of such standard will have no significant effects on the Group's financial statements.

On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangements, which superseded IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-monetary Contributions by Venturers. The new standard provides the criteria for identifying joint arrangements by focusing on the rights and obligations of the arrangement rather than on its legal form, and requires a single method to account for interests in jointly controlled entities, the equity method. The standard must be applied retrospectively commencing on 1 January 2013. Following the issue of the standard, IAS 28 – Investments in Associates, has been amended to include investments in jointly controlled entities in its scope of application, commencing on the effect date of the standard. The competent bodies of the European Union have concluded the approval process of such standard, postponing its effective date to 1 January 2014 and allowing early adoption; The Group has chosen the option of early adoption commencing on 1 January 2013. It is deemed that the adoption of such standard will have no significant effects on the Group's financial statements.

On 12 May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities, which is a new and complete standard on the additional disclosures to be made for all forms of interests, including subsidiaries, joint arrangements, affiliates, special purpose entities and other vehicle companies not included in the consolidation. The standard must be applied retrospectively commencing on 1 January 2013. The competent bodies of the European Union have concluded the approval process of such standard, postponing its effective date to 1 January 2014 and allowing early adoption; The Group has chosen the option of early adoption commencing on 1 January 2013. It is deemed that the adoption of such standard will have no significant effects on the Group's financial statements.

On 12 May 2011, the IASB issued IFRS 13 – *Fair Value* Measurement, clarifying the determination of *fair value* for the purpose of the financial statements and applicable to all IFRS standards permitting or requiring a *fair value* measurement or the presentation of disclosures based on *fair value*. The standard must be applied prospectively from 1 January 2013. It is deemed that the adoption of such standard will have no significant effects on the Group's financial statements.

On 16 June 2011, the IASB issued an amended version of IAS 19 – Employee Benefits., which eliminates the option to defer the recognition of actuarial gains and losses using the corridor method, and by requiring the fund's deficit or surplus to be presented in the statement of financial position, and recognition of the cost components relating to services and net financial losses in the Income Statement, and recognition of actuarial gains and losses arising from the remeasurement of assets and liabilities among "Other comprehensive income". In addition, the return on assets included among net financial losses must be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The amendments also introduce the requirement for additional disclosures to be provided in the notes. The amended version is applicable on a retrospective basis from 1 January 2013. It is deemed that the adoption of such standard will have no significant effects on the Group's financial statements.

On 16 June 2011, the IASB issued an amendment to IAS 1 – Presentation of Financial Statements, requiring companies to group all items presented among Other comprehensive income depending on whether or not they can subsequently be reclassified in the Income Statement. The amendment must be applied to periods beginning on or after 1 July 2012; The Group will adopt such amendment commencing on 1 January 2103. The adoption of such

amendment will not have any effect on the measurement of the items in the financial statements.
On 16 December 2011, the IASB issued some amendments to IFRS 7 – Financial Instruments: Additional Disclosures. The amendment requires information on the effects or potential effects deriving from rights to offsetting financial assets and liabilities on the financial position. The amendments must be applied for the financial years that start on or after 1 January 2013 and interim periods subsequent to that date. The information must be provided retrospectively. It is deemed that the adoption of such standard will have no significant effects on the Group's financial statements.
As at the date of this Annual Financial Report, the competent bodies of the European Union have not yet completed the endorsement process for the adoption of the following accounting standards and amendments:

- On 12 November 2009, the IASB published standard IFRS-9– Financial Instruments; The same standard was subsequently amended. The standard, which must be applied commencing on 1 January 2015 retrospectively, represents the first part of a phased process to entirely replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or *fair value*, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. With respect to financial liabilities, instead, the main amendment relates to the accounting for changes in *fair value* of a financial liability designated as measured at *fair value* through the Income Statement, if due to a change of its creditworthiness. Under the new standard, these changes are recognized in Other comprehensive income and are no longer reclassified in the Income Statement.
- On 17 May 2012, the IASB issued a group of modifications to the IFRS ("Improvement to IFRS's – 2009-2011"), which must be applied retroactively from 1 January 2013; The amendments that might result in a change in the presentation, recognition and measurement of the items in the Financial Statements are cited below, instead ignoring the changes that will only result in changes in terminology or editorial changes with minimum effects in accounting terms, or changes that have an effect on standards or interpretations that do not apply to the Group:
  - IAS 1 – Presentation of the financial statements: the amendment clarifies the manner in which comparative information is presented if a company modifies its accounting standards and in cases in which a company makes a retrospective re-presentation or reclassification, and in cases in which the company provides additional statements of assets and liabilities with respect to what is required by the standard;
  - IAS 32 – Financial Instruments: Presentation: the amendment eliminates an incoherency between IAS 12 – Income Taxes and IAS 32 on the recording of taxes deriving from distributions to shareholders, and establishes that they must be recorded in the income statement to the extent that the distribution refers to income generated by operations originally recorded in the income statement.

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 or managed on a centralized basis through the control of the Group Treasury, with the aim of guaranteeing the efficient and effective management of actuarial and prospective financial resources (maintaining an adequate level of available liquidity and available reserves that are readily convertible to cash and credit through an adequate amount of *committed* credit lines).
The difficult economic situation of the markets and of financial markets necessitates special attention being given to the management of the liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and maintaining an adequate level of available liquidity as an important factor in facing 2013, which promises to be a difficult year. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Risks associated with fluctuations in currency and interest rates

As the Group operates mainly in a "Euros area" the exposure to currency risks is limited.
The exposure to interest rate risk arises from the need to fund operating activities and M&A investments, as well as the necessity to deploy available liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The interest rate risk to which the Group is exposed derives from bank loans; to mitigate such risks, the Group has used derivative financial instruments designated as "cash flow hedges".
The use of such instruments is disciplined by written procedures in line with the Group's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 4 - Consolidation

Companies included in consolidation are consolidated on a line-by-line basis.
Change in consolidation compared to 31 December 2011 is as follows:

- Arlanis Software AG, acquired in August 2012, in which Reply S.p.A. holds 100% of the share capital. The company, with more than 8 years of experience with enterprise cloud computing and salesforce.com computing, is specialized in Social Business Applications, CRM, data migration and integration, and has some of the most significant European industrial and media groups among its clients;

- Avvio Design Associates Ltd. acquired in December 2012. Reply S.p.A., through its subsidiary Reply Ltd., has strengthened its presence in Europe through the acquisition of 100% of the shares of Avvio, an English company specialized in consulting and the implementation of strategies and solutions for Brand Engagement and Internal Communications, based on Corporate Social Networking.

The change in the consolidation area does not significantly affect the Group's revenues and result before tax of continuing operations in 2012.
Furthermore, the list of the Reply Group's companies and equity investments, presented in an annex, also includes in the consolidation area the following newly incorporated companies with respect to 31 December 2011:

- Portaltech Reply S.r.l., incorporated in November 2011, in which Reply holds 85% of the share capital, recognized at cost in the previous reporting period;
- Arlanis Reply GmbH, incorporated in December 2010, in which Reply holds 100% of the share capital, recognized at cost in the previous reporting period;
- Concept Reply Gmbh, incorporated in May 2012, in which Reply holds 100% of the share capital;
- Reply Inc., incorporated in May 2012, in which Reply S.p.A. holds 100% of the share capital.

NOTE 5 - Revenue

Revenues from sales and services, including changes in work in progress on orders, amounted to 494,831 thousand Euros (440,296 thousand Euros in 2011).
This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.
The following table shows the percentage breakdown of revenues by geographic area:

Country	**2012**	**2011**
Italy	75.4%	75.5%
Germany	15.8%	18.4%
UK	8.8%	6.1%
	100.0%	**100.0%**

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

NOTE 6 - Purchases

Detail is as follows:

(thousand Euros)	2012	2011	Change
Software licenses for resale	6,748	3,845	2,903
Hardware for resale	700	1,609	(910)
Other	3,446	3,249	197
Total	**10,894**	**8,703**	**2,190**

Purchases of Software licenses and *Hardware licenses for resale* are recognized net of any change in inventory.
The item *Other* mainly includes the purchase of fuel amounting to 2,351 thousand Euros and the purchase of office materials amounting to 645 thousand Euros.

NOTE 7 - Personnel

Detail is as follows:

(thousand Euros)	2012	2011	Change
Payroll employees	213,456	193,641	19,815
Executive Directors	20,625	16,827	3,798
Project collaborators	5,177	4,588	588
Total	**239,258**	**215,056**	**24,202**

The increase of the cost of labour, equal to 24,202 thousand Euros, refers to the overall increase of the Group's business and the number of employees.

Detail of personnel by category is provided below:

(number)	2012	2011	Change
Directors	260	260	-
Managers	579	489	90
Staff	2,886	2,673	213
Total	**3,725**	**3,422**	**303**

As at 31 December 2012, the Group had 3,725 employees, compared to 3,422 at the end of 2011.
The acquisitions of Arlanis AG. and Avvio Ltd. brought an increase of 58 employees.
The average number of employees in 2012 was 3,582, an increase with respect to 3,282 employees in the previous year.
Payroll employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Italian and foreign Universities.

NOTE 8 – Services and other costs

Service and other costs comprised the following:

(thousand Euros)	2012	2011	Change
Commercial and technical consulting	107,792	91,427	16,365
Travelling and professional training expenses	17,881	19,873	(1,992)
Other service costs	38,977	35,892	3,085
Office expenses	10,828	10,096	732
Lease and rentals	6,398	6,335	63
Other	9,927	3,983	5,944
Total	**191,803**	**167,606**	**24,197**

The change of *Services and other costs*, amounting to 24,197 thousand Euros, is attributable to an overall increase in the Group's business.
The item *Other services* mainly includes marketing services, administrative and legal services, telephone and canteen.
Office expenses include services from related parties in connection to service contracts for the use of premises, domicile, and secretarial services amounting to 6,958 thousand Euros , and rent charged by third parties amounting to 3,769 thousand Euros.

NOTE 9 – Amortization, depreciation and write downs

Depreciation of tangible assets, calculated on the basis of economic-technical rates determined in relation to the residual useful lives of the assets, resulted in an overall charge as at 31 December 2012 of 4,138 thousand Euros. Details of depreciation are provided at the notes to tangible assets. Depreciation also includes part of the government grant established by Regional laws 34/2004 and 4/2006 in relation to financed research projects amounting to 368 thousand Euros.
Amortization of intangible assets for the year ended 2012 amounted to an overall loss of 3,085 thousand Euros. Details of depreciation are provided at the notes to tangible assets.

NOTE 10 – Other unusual operating income/(expenses)

Other unusual operating costs amounted to 5,334 thousand Euros (1,105 thousand Euros in 2011), and refer to:

- Other operating costs amounting to 2,015 Euros refer to accruals to risk and expense funds for contractual and commercial risks and lawsuits;
- Other unusual costs amounting to 3,319 thousand Euros refer to the adjustment of the liability related to the variable consideration for the acquisition of the English company Portaltech Reply Ltd. The adjustment was required following the higher trend of the company with respect to the original plan used to estimate the Earn-Out.

NOTE 11 – Financial income/(expenses)

Detail is as follows:

(thousand Euros)	2012	2011	Change
Financial gains	171	435	(264)
Interest expenses	(1,806)	(1,977)	171
Other	(349)	(650)	301
Total	**(1,984)**	**(2,192)**	**208**

Financial gains mainly include interest on bank accounts amounting to 166 thousand Euros.
Interest expenses mainly include interest expenses related to loans for M&A operations.
The item *Other* includes the Exchange rate differences from the translation of balance sheet items not stated in Euros, as well as changes in *fair value* of financial liabilities pursuant to IAS 39.

NOTE 12 – Income taxes

Income taxes for the financial year ended 2012 amounted to 22,006 thousand Euros and are detailed as follows:

(thousand Euros)	2012	2011	Change
IRES and other	16,645	16,022	623
IRAP	7,328	7,054	274
Current taxes	**23,973**	**23,076**	**897**
Deferred tax liabilities	1,411	428	984
Deferred tax assets	(3,378)	(2,177)	(1,201)
Deferred taxes	**(1,967)**	**(1,749)**	**(217)**
Income tax	**22,006**	**21,327**	**680**

The tax burden on the result before taxes was equivalent to 43.8% (45.9% in 2011).

The reconciliation between the tax charges recorded in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rate in effect in Italy, is the following:

Profit/(loss) before taxes from continuing operations	**50,265**	
Theoretical income taxes	13,823	27.5%
Tax effect of permanent differences	991	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	392	
Other differences	(529)	
Current and deferred income tax recognized in the financial statements, excluding IRAP	**14,677**	**29.2%**
IRAP (current and deferred)	7,328	
Current and deferred income tax recognized in the financial statements	**22,006**	**43.8%**

In order to render the reconciliation between income taxes recognized in the financial statements and theoretical income taxes more meaningful, IRAP tax is not taken into consideration since it has a taxable basis that is different from the result before tax of continuing operations. Theoretical income taxes are therefore calculated by applying only the tax rate in effect in Italy ("IRES"), equal to 27.5%, on the result before tax of continuing operations.

NOTE 13 – Earnings per share

Basic earnings per share

The basic earnings per share as at 31 December 2012 was calculated with reference to the Group's net result of continuing operations, which amounted to 27,094 thousand Euros (24,150 thousand Euros as at 31 December 2011), divided by the weighted average number of shares as at 31 December 2012, which amounted to 8,987,175 (9,050,205 as at 31 December 2011).

(in Euros)	**2012**	**2011**
Group net income	27,094,000	24,150,000
Weighted average number of shares	8,987,175	9,050,205
Basic earnings per share	3.01	2.67

Diluted earnings per share

Diluted earnings per share as at 31 December 2012 was calculated with reference to the net profit for the Group which amounted to 27,094 thousand Euros, divided by the weighted average number of shares as at 31 December 2012, taking into consideration the effect of future dilutions which could derive from the hypothetical exercise of financial instruments potentially convertible in shares (*stock options*).

(in Euros)	**2012**	**2011**
Group net income	27,094,000	24,150,000
Weighted average number of shares	8,987,175	9,050,205
Diluting effect	145,000	145,000
Weighted number of diluted shares	9,132,175	9,195,205
Diluted earnings per share	2.97	2.63

NOTE 14 – Tangible assets

Tangible assets as at 31 December 2012 amounted to 11,562 thousand Euros and are detailed as follows:

(thousand Euros)	31/12/2012	31/12/2011	Change
Buildings	2,332	2,474	(142)
Plant and machinery	712	1,017	(305)
Hardware	3,865	3,138	727
Other	4,652	3,731	921
Total	**11,562**	**10,361**	**1,201**

Change in tangible assets during 2012 is summarized in the table below:

(thousand Euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4,023	6,002	19,486	8,263	37,774
Accumulated depreciation	(1,549)	(4,984)	(16,347)	(4,533)	(27,413)
Balance at 31/12/2011	**2,474**	**1,018**	**3,138**	**3,730**	**10,361**
Historical cost					
Purchases	-	545	2,669	2,132	5,346
Disposals	-	(69)	(3,047)	(589)	(3,705)
Other changes and reclassifications	-	(2,562)	2,275	909	623
Accumulated depreciation					
Depreciation	(142)	(412)	(2,498)	(1,086)	(4,138)
Utilization	-	67	3,039	507	3,613
Other changes and reclassifications	-	2,122	(1,710)	(950)	(538)
Historical cost	4,023	3,918	21,383	10,714	40,038
Accumulated depreciation	(1,691)	(3,206)	(17,517)	(6,062)	(28,477)
Balance at 31/12/2012	**2,332**	**712**	**3,865**	**4,652**	**11,562**

In 2012 the Group made investments amounting to 5,346 thousand Euros.
The item *Buildings* mainly includes the net value of a building owned by the Reply Group company Reply Deutschland AG amounting to 2,327 thousand Euros, located in Gutersloh, Germany.
The change of the item *Hardware* is due to investments made by the Italian subsidiaries for 1,269 thousand Euros, 1,078 thousand Euros to purchases made by the German companies, and 322 thousand Euros to purchases made by the English companies. Furthermore this item includes financial leases for 778 thousand Euros (299 at 31 December 2011).
The item *Other assets* as at 31 December 2012 mainly includes improvements to third party assets and office furniture. The increase of 1,750 Euros mainly refers to improvements made to the offices where the Group's companies operate. Such item also includes finance leasing for furniture having a net value of 81 thousand Euros.
Other changes and reclassifications mainly refer to the initial consolidation of the companies Arlanis AG and Avvio Ltd and to the reclassifications between the categories to which they belong.
As at 31 December 2012, tangible assets were depreciated by 71.1% of their value, compared to 72.6% at the end of 2011.

NOTE 15 - Goodwill

This item includes goodwill arising from consolidation of subsidiaries and the value of business branches purchased against payment made by some Group companies.
Goodwill in 2012 developed as follows:

(thousand Euros)	
31/12/2011	**96,646**
Increase	8,549
Decrease	-
31/12/2012	**105,195**

Increase in 2012 refers to:

- Arlanis Software AG
  In August 2012 Reply S.p.A. acquired 100% of the share capital of Arlanis Software AG, a German company with more than 8 years of experience with enterprise cloud computing and salesforce.com solutions, and which is specialized in Social Business Applications, CRM, data migration and integration. The total value of the acquisition amounted to 2.0 million Euros. Furthermore, an Earn Out is foreseen subordinated to predetermined parameters which will be paid over a three year period.
- Avvio Ltd.
  In December Reply S.p.A., through its subsidiary Reply Ltd., acquired 100% of the share capital of Avvio Design Associates Ltd., an English company specialized in consulting and the implementation of strategies and solutions for Brand Engagement and Internal Communications, based on Corporate Social Networking. The total value of the acquisition amounted to 1.2 million Pounds Sterling paid in cash, and provides for an Earn Out subordinated to some predetermined parameters to be paid over a three year period.

The following table summarizes the calculation of goodwill and the aggregate book value of the two companies as at the acquisition date.

(thousand Euros)	**Fair value (*)**
Tangible and intangible goods	133
Other financial assets	68
Trade receivables and other	919
Cash and cash equivalents	536
Trade payables and other	(510)
Net assets acquired	**1,147**
Compensation	9,696
Goodwill	**8,549**

(*) book value is equal to *fair value*.

Goodwill was allocated to the cash generating units ("CGU"), identified in the countries in which the Group operates, and are summarized as follows:

CGU	Euro/000
Italy	35,004.1
Germany	30,154.2
UK	40,036.5
Total	**105,194.8**

Reply has adopted a structured and periodic planning and budgeting system aimed at defining objectives and business strategies in order to draft the annual budget.
The *impairment* model adopted by the Reply Group is based on future cash flows calculated using the *Discounted cash flow analysis.*
In applying this model, Management uses different assumptions, which are applied to the single CGU from the first year following the annual budget, in order to estimate:

- Increase in revenues,
- Increase in operating costs,
- Investments,
- Change in net capital.

The recoverable value of the CGU, to which the single goodwill is referred, is determined as the highest between the *fair value* less any selling costs (*net selling price*) and the present value of the estimated future cash flows expected from the continuous use of the good (value in use). If the recoverable value is higher than the carrying amount of the CGU there is no impairment of the asset; In the contrary case, the model indicates a difference between the carrying amount and the recoverable value as the effect of *impairment*.

The following assumptions were used in calculating the recoverable value of the *Cash Generating Units*:

Assumption	Italy	Germany	UK
Terminal value growth rates:	1.0%	1.0%	1.0%
Discount rate, net of taxes:	10.67%	6.88%	7.18%
Discount rate, before taxes:	14.72%	9.50%	9.90%
Multiple of EBIT	6.0	6.0	6.0

As to all CGUs subject to the *impairment test* as at 31 December 2012, no indications emerged that such businesses may have been subject to impairment.
Reply has also developed a sensitivity analysis of the estimated recoverable value. The Group considers that the growth rate of revenues and the discount rate are key indicators in estimating the *fair value* and has therefore determined that:

- A decrease of up to 30% of the revenue growth;
- An increase of 100 basis points in the discount rate

would not lead to an excess of the carrying value of the CGU compared to its recoverable value, which tends to be significantly higher.

Finally, it is appropriate to note that the estimates and budget data to which the above mentioned parameters have been applied are those determined by management on the basis of past performance and expectations of developments in the markets in which the Group operates. Moreover, estimating the recoverable amount of the *cash-generating units requires* discretion and the use of estimates by Management. The Group cannot guarantee that there will be no goodwill impairment in future periods. Circumstances and events which could potentially cause further impairment losses are constantly monitored by Reply management.

NOTE 16 – Other intangible assets

Intangible assets as at 31 December 2012 amounted to 5,960 thousand Euros (6,180 thousand Euros as at 31 December 2011) and are detailed as follows:

(thousand Euros)	Cost original	Depreciation and amortization cumulative	Net book value as at 31/12/2012
Development costs	13,904	(10,149)	3,755
Software	12,836	(11,652)	1,184
Trademarks	538	-	538
Other intangible assets	3,150	(2,668)	482
Total	**30,428**	**(24,468)**	**5,960**

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

(thousand Euros)	Net book value as at 31/12/2011	Increase	Depreciation and amortization	Net book value as at 31/12/2012
Development costs	3,815	1,694	(1,754)	3,755
Software	864	1,165	(845)	1,184
Trademarks	535	3	-	538
Other intangible assets	966	-	(484)	482
Total	**6,180**	**2,862**	**(3,083)**	**5,960**

Development costs refer to software products and are accounted for in accordance with provisions of IAS 38.
The item *Software* mainly refers to software licenses purchased and used internally by the Group companies. This item includes 321 thousand Euros related to software development for internal use.
The item *Trademark* mainly refers to the value of the “Reply” trademark granted on 9 June 2000 to the Parent Company Reply S.p.A. (at the time Reply Europe Sàrl), in connection with the share capital increase that was resolved and subscribed to by the Parent Company. Such amount is not subject to systematic amortization.
Other intangible assets mainly includes the know-how of the *Security Operation Centre* (SOC), which offers a range of *Managed Security Services* (MSS) aimed at avoiding and identifying real or potential threats to which the complex IT infrastructures are exposed, in addition to proposing and implementing adequate counter-measures to limit or remove such dangers.

NOTE 17 – Equity investments

The item *Equity Investments* equivalent to 23 thousand Euros mainly refers to newly incorporated companies not yet operating as at the date of these Financial Statements.

NOTE 18 – Financial assets

Current and non-current *Financial assets* amounted to 7,039 thousand Euros compared to 4,771 thousand Euros as at 31 December 2011.

Detail is as follows:

(thousand Euros)	31/12/2012	31/12/2011	Change
Receivables from insurance companies	2,852	2,978	(126)
Guarantee deposits	2,504	501	2,003
Loans to non consolidated companies	5	-	5
Long term securities	347	936	(589)
Other financial assets	28	15	13
Receivables from factoring companies	834	-	834
Short term securities	469	341	128
Total	**7,039**	**4,771**	**2,268**

The item *Receivables from insurance* companies mainly refers to the insurance premiums paid against pension plans of Reply Deutschland AG and to Directors' severance indemnities.
Long term securities mainly refers to long term investments to hedge pension obligations of Reply Deutschland AG and are measured at *fair value*.
Receivables from factoring companies refers to receivables for the assignment of invoices without recourse, net of advance payments received.
Short term securities mainly refers to Time Deposit investments made by the Brazilian subsidiary.
In accordance with IFRS 7 the *fair value* used by the Group is classified as a hierarchy of Level 1 (prices available on active markets for the assets or liabilities being measured). As at 31 December 2012, there have not been any transfers within the hierarchy levels.
The items *Receivables from insurance companies* and *Other financial assets* are not included in the net financial position.

NOTE 19 – Deferred tax assets

Such item, which amounted to 11,076 thousand Euros as at 31 December 2012 (9,519 thousand Euros as at 31 December 2011), includes the fiscal charge corresponding to the temporary differences deriving from income before taxes and taxable income in relation to deferred deductibility items.
Detail of deferred tax assets is provided at the table below:

(thousand Euros)	31/12/2011	Accruals 2012	Utilization 2012	31/12/2012
Prepaid tax on costs that will become deductible in future years	5,549	2,287	(1,618)	6,218
Prepaid tax on greater provision for doubtful accounts	761	1,272	(353)	1,680
Deferred fiscal deductibility of amortization	1,666	279	(331)	1,614
Consolidation adjustments and other items	1,543	1,789	(1,769)	1,563
Total	9,519	5,627	(4,071)	11,076

The decision to recognize deferred tax assets is taken by assessing critically whether the conditions exist for the future recoverability of such assets on the basis of expected future results.
There are no deferred tax assets on losses carried forward.

NOTE 20 – Work in progress

Work in progress, amounting to 15,428 thousand Euros, is detailed as follows:

(thousand Euros)	31/12/2012	31/12/2011	Change
Contract work in progress	46,711	37,980	8,731
Finished products and goods for resale	-	134	(134)
Advance payments from customers	(31,283)	(27,930)	(3,353)
Total	15,428	10,184	5,243

Any advance payments made by the principals are deducted from the value of the inventories, within the limits of the accrued consideration; the exceeding amounts are accounted as liabilities.

NOTE 21 – Trade receivables

Trade receivables as at 31 December 2012 amounted to 237,700 thousand Euros, with a net increase of 17,935 thousand Euros.
Trade receivables are shown net of allowances for doubtful accounts amounting to 3,998 thousand Euros as at 31 December 2012 (2,529 thousand Euros as at 31 December 2011).

(thousand Euros)	31/12/2012	31/12/2011	Change
Domestic receivables	202,635	189,843	12,792
Foreign trade receivables	39,194	32,502	6,692
Credit notes to be issued	(131)	(51)	(80)
Total	**241,697**	**222,293**	**19,404**
Allowance for doubtful accounts	(3,998)	(2,529)	(1,469)
Total trade receivables	**237,700**	**219,764**	**17,935**

The Allowance for doubtful accounts in 2012 developed as follows:

(thousand Euros)	31/12/2011	Accruals	Utilization	Write-offs	31/12/2012
Allowance for doubtful accounts	2,529	1,868	(46)	(353)	3,998

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

Aging as at 31/12/2012 (thousand Euros)	Trade receivables	Current	0 – 90 days	91 – 180 days	181 – 360 days	Over 360 days	Total overdue
Trade receivables	241,697	199,474	31,774	4,465	3,019	2,965	42,223
Allowance for doubtful accounts	(3,998)	(654)	(1,106)	(112)	(372)	(1,753)	(3,343)
Total trade receivables	**237,700**	**198,820**	**30,668**	**4,353**	**2,647**	**1,212**	**38,880**

Aging as at 31/12/2011 (thousand Euros)	Trade receivables	Current	0 – 90 days	91 – 180 days	181 – 360 days	Over 360 days	Total overdue
Trade receivables	222,293	178,504	28,041	7,966	3,095	4,687	43,789
Allowance for doubtful accounts	(2,529)	-	(356)	(204)	(492)	(1,477)	(2,529)
Total trade receivables	**219,764**	**178,504**	**27,685**	**7,762**	**2,603**	**3,210**	**41,260**

Assignment of receivables

The Group assigns part of its trade receivables through factoring operations.
The assignments of receivables can be with or without recourse; some assignments without recourse can include deferred payment clauses (for example, payment by the factor of a minor part of the purchase price is subordinated on the collection of the total amount of the receivables), require a deductible from the assignor, or require maintaining significant exposure to the cash flow trend deriving from the assigned receivables. This type of operation does not comply with the requirements of IAS 39 for the elimination of the assets from the Financial Statements, since the risks and benefits related to their collection have not been substantially transferred.

Consequently, all receivables assigned through factoring operations that do not satisfy the requirements for elimination provided by IAS 39 continue to be recognized in the Group's Financial Statements, even though they have been legally assigned and a financial liability for the same amount is recognized in the consolidated Financial Statements as Liabilities for advance payments on assignments of receivables. Gains and losses related to the assignment of these assets are only recognized when the assets are derecognized from the Group's financial-economic position.
As at 31 December 2012, no receivables have been assigned through factoring operations with recourse, or which did not comply with the requirements for derecognition provided by IAS 39.
The book value of the assets assigned without recourse as at 31 December 2012 amounted to 3,668 thousand Euros, with an increase of available liquidity of 2,834 thousand Euros.
As at 31 December 2011 there were no assigned receivables or receivables financed through factoring operations.
The carrying amount of Trade receivables is in line with its *fair value*.
Trade receivables are all collectible within one year.

NOTE 22 – Other receivables and current assets

Detail is as follows:

(thousand Euros)	**31/12/2012**	**31/12/2011**	**Change**
Tax receivables	7,527	10,972	(3,445)
Advances to employees	127	52	75
Other receivables	13,383	10,020	3,363
Accrued income and prepaid expenses	6,286	4,730	1,556
Total	**27,323**	**25,774**	**1,549**

The item *Tax receivables* mainly includes:

- VAT tax receivables (5,502 thousand Euros);
- Receivables and advance payments for income tax net of the allocated liability (1,489 thousand Euros);
- Receivables for withholding tax (425 thousand Euros).

The item *Other receivables* includes a contribution for research related to financed projects amounting to 8,308 thousand Euros (8,026 thousand Euros as at 31 December 2011).

NOTE 23 – Cash and cash equivalents

The balance of 53,992 thousand Euros, an increase of 13,548 thousand Euros compared to 31 December 2011, represents cash and cash equivalents and the existence of cash on hand and valuables as at the end of the year. Changes in cash and cash equivalents are fully detailed in the *Consolidated statement of cash flow.*

NOTE 24 – Shareholders' equity

Share capital

As at 31 December 2012 the fully subscribed paid-in share capital of Reply S.p.A. amounted to 4,795,885.64 Euros and is made up of 9,222,857 ordinary shares having a nominal value of 0.52 Euro each.

Treasury shares

The value of Treasury shares, amounting to 3,605 thousand Euros, refers to shares of Reply S.p.A. held by the Parent Company that as at 31 December 2012 amounted to 235,813 shares. During the course of 2012, the Parent Company acquired 32,100 shares, whereas it transferred 7,201 shares to employees as remuneration for services performed.
The accounting effects of these operations were entirely recorded in equity.

Capital reserve

As at 31 December 2012, Capital reserves amounted to 48,776 thousand Euros, and were mainly comprised as follows:

- Share premium reserve amounting to 20,429 thousand Euros;
- Reserve for treasury shares, amounting to 3,605 thousand Euros related to shares of Reply S.p.A. held by the Parent Company;
- Reserve for the purchase of treasury shares, amounting to 26,395 thousand Euros, created through an initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 27 April 2012, Reply S.p.A. again authorized, in accordance with and pursuant to the effects of Article 2357 of the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

Earning reserve

Revenue reserves amounted to 126,305 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 959 thousand Euros;
- Retained earnings amounted to 98,252 thousand Euros (retained earnings amounted to 79,557 thousand Euros as at 31 December 2011);
- Gains/losses attributable to shareholders of the Parent Company amounted to 27,094 thousand Euros (24,150 thousand Euros as at 31 December 2011).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(thousand Euros)	**31/12/2012**	**31/12/2011**
Gains/(losses) on *cash flow hedges* arising during the period	(73)	237
Reclassification adjustment for Gains/(losses) on *cash flow hedges* included in the Income Statement	-	-
Gains/(Losses) on cash flow hedges	**(73)**	**237**
Exchange gains/(losses) on translating foreign operations arising during the year	115	(240)
Exchange gains/(losses) on translating foreign operations reclassified to profit or loss	-	-
Gain/(Losses) on exchange differences on translating foreign operations	**115**	**(240)**
Other comprehensive income generated during the period	(1,194)	(377)
Other comprehensive income generated during the period reclassified to profit or loss	-	-
Share of other comprehensive income	**(1,194)**	**(377)**
Income tax relating to components of Other comprehensive income	0	-
Total Other comprehensive income, net of tax	**(1,152)**	**(380)**

Non-controlling interests

The non controlling interest of 2,704 thousand Euros as at 31 December 2012 (1,917 thousand Euros as at 31 December 2011), refers to the following companies consolidated on a line-by-line basis:

(thousand Euros)	**31/12/2012**	**31/12/2011**
Italian companies		
Bitmama S.r.l.	170	196
Bridge Reply	37	39
Forge Reply S.r.l.	-	(44)
Open Reply S.r.l.	110	-
Portaltech Reply S.r.l.	5	-
Ringmaster Reply S.r.l.	818	146
Storm Reply S.r.l.	18	-
Twice Reply S.r.l.	209	170
Foreign companies		
Reply Deutschland AG	265	659
is4 GmbH & Co. KG	30	28
Riverland Reply GmbH	1,042	723
Total	**2,704**	**1,917**

Share based payment plans

The Reply 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 the Shareholders of Reply S.p.A.;
- To encourage employees to achieve the growth targets;
- To motivate employees and involve them in participating in the future economic results;
- To strengthen the relations between the Company and its employees by developing their loyalty and sense of responsibility.

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, no costs were incurred for Reply S.p.A. share-based payments in 2012.

Stock option plans linked to Reply Group ordinary shares

The Extraordinary Shareholders' Meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code.
The Board of Directors' of Reply S.p.A. in charge of the stock option plan, has assigned stock options to employees and Directors of the Group companies.
As at 31 December 2012 the number of stock options were 145,000 and can be summarized as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	12/05/2006	9	21,339	12/05/2009 – 12/05/2014	135,000
2006	15/06/2006	08/08/2006	1	18,662	08/08/2009 – 08/08/2014	10,000

During 2012 no shares expired and no stock options were exercised nor assigned in reference to the existing plans.
Under an accounting perspective stock option plans represent an "*Equity settled share based payment transaction*" pursuant to paragraph 10 of IFRS 2 that requires the assessment of the *fair value* of the services received with reference to the *fair value* of the instruments representative of equity at the assignment date.
The *fair value* of the services received must be recorded when the option vests with a corresponding increase in equity.

NOTE 25 – Payables to minority shareholders and for operations

Payables to minority shareholders and for operations (earn-out) at 31 December 2012 amounted to 40,190 thousand Euros (32,307 thousand Euros at 31 December 2011).

(thousand Euros)	31/12/2012	reclassification	31/12/2011	Change
Avantage Reply Ltd.	11,898	-	11,995	(97)
Reply Deutschland AG	7,280	-	7,417	(137)
4brands GmbH & Co. KG	2,800	-	2,860	(60)
Portaltech Ltd	-	(6,823)	6,823	-
Riverland Reply GmbH	2,496	-	2,496	-
Other Germany	81	-	64	17
Other Italy	650	-	652	(2)
Total Payables to minority shareholders	**25,205**	**(6,823)**	**32,307**	**(279)**
Arlanis AG	2,030	-	-	2,030
Avvio Ltd	4,222	-	-	4,222
Portaltech Ltd	8,733	6,823	-	1,910
Total payables for Earn-out	**14,985**	**6,823**	**0**	**8,162**
Total payables to minority shareholders and earn-out	**40,190**	**-**	**32,307**	**7,883**

Payables to minority shareholders of avantage Ltd. amounting to 11,898 thousand Euros is related to the estimated variable compensation to be paid in three years from the acquisition, subordinated to achieving determined economic parameters, for the acquisition of the remaining 49% of the share capital and payment of the second tranche of the initial consideration. In accordance with the provisions outlined by the contract, the 100% share capital was considered to be acquired. The change is due to the net effect of the payment to minority shareholders of avantage's share of earnings generated before the acquisition and their remuneration (369 thousand Euros) and adjustment of payables to the exchange rate at year end.

Payables to minority shareholders of Reply Deutschland AG, for 7,280 refers to Reply's obligation, in accordance with the *Domination Agreement,* , to acquire shares upon the request of minority shareholders. The amount represents the *fair value* of the liability at the balance sheet date.

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

The decrease of such liability at 31 December 2012 is related to the acquisition by Reply S.p.A. of no. 16,271 shares, for a value of 169 thousand Euros, of which 137 thousand Euros against the liability to minority shareholders.

Payables to the minority shareholders of 4brands GmbH & Co. KG. (formerly 4 GmbH & Co. KG.) for 2,800 thousand Euros and represents the *fair value* of 49% of is4, a Reply Deutschland AG group company. This amount has been stated according to IAS 32 as Reply Deutschland AG has signed a put option agreement with the minority shareholders to be exercised with a 12 months' notice.

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

Payables Other Germany is referred to the *Earn-out* component for the acquisition of a Reply Deutschland AG subsidiary amounting to 81 thousand Euros (64 thousand Euros at 31 December 2011).
Payables Other Italy for 650 thousand Euros was referred to liabilities to some minority shareholders in relation to options held and that were exercised in the first months of 2012.
Payables for the acquisition of Portaltech Ltd., amounting to 8,733 thousand Euros referred to the *Earn-out* which reflects the estimated variable compensation to be paid in two years, subordinated to achieving determined economic parameters, for the acquisition of the remaining 100% of the share capital. During the year 2012 Reply acquired the remaining 20% stake with the payment of 1,265 thousand Pounds. It should be noted that during 2012, as a result of improved performance of the company compared to the original plan, the consideration was adjusted for an amount equal to 3,319 thousand Euros recognized in the income statement.
Payables for the acquisition of Arlanis AG, for 2,030 thousand Euros, which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 100% of the share capital.
Payables for the acquisition of Avvio Ltd. which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 100% of the share capital.

NOTE 26 – Financial liabilities

Detail is as follows:

	31/12/2012			31/12/2011		
(thousand Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	35,382	-	35,382	34,050	-	34,050
Bank loans	9,325	12,778	22,103	7,798	16,141	23,939
Total due to banks	**44,707**	**12,778**	**57,485**	**41,848**	**16,141**	**57,989**
Other financial borrowings	397	649	1,046	177	273	450
Total financial liabilities	**45,104**	**13,427**	**58,531**	**42,025**	**16,414**	**58,439**

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

	31/12/2012				31/12/2011			
(thousand Euros	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bank overdrafts	35,382	-	-	35,382	34,050	-	-	34,050
M&A loans	8,988	12,321	-	21,309	7,654	15,309	-	22,963
Carispe Bank	29	19	-	48	29	48		77
Mortgage loans	133	478	288	899	115	581	281	977
Other financial borrowings	394	649	-	1,043	177	273	-	450
Other	175	(325)	-	(150)	-	(78)	-	(78)
Total	**45,101**	**13,142**	**288**	**58,531**	**42,025**	**16,133**	**281**	**58,439**

M&A Loans refers to the following contracts:

- On 31 March 2009 Reply S.p.A. agreed with Intesa Sanpaolo S.p.A. a line of credit for a total amount of 50,000,000 Euros. The loan is reimbursed on a half-year basis commencing 30 June 2012 and expires 31 December 2014.
  The total amount utilized was 22,963 thousand Euros. The debt outstanding at 31 December 2012 amounted to 15,309 thousand Euros, of which 7,654 thousand Euros were short-term.
- On 15 September 2012 Reply S.p.A. signed a line of credit with Unicredit SpA for a total amount of 15,000,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2014 and expires 31 December 2016. A total of 2,000,000 Euros of this line of credit was used at 31 December 2012.
- On 25 September 2012 Reply S.p.A. signed an agreement with Intesa Sanpaolo for 2,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 25 March 2013 and expiring 25 September 2015.
- On 24 December 2012 Reply S.p.A. signed an agreement with Intesa Sanpaolo for 1,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2013 and expiring 31 December 2015.

Interest rates are also applied according to certain predetermined ratios (*Covenants*) of economic and financial nature calculated on the consolidated financial statements as at 31 December of each year and/or the consolidated interim report.

As contractually defined, such ratios are as follows:

- Net financial indebtedness/Equity
- Net financial indebtedness/EBITDA

At the balance sheet date, Reply fulfilled the Covenants under the various contracts.

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

The loan with *Commerzbank* refers to a loan undersigned by Tool Reply GmbH, a Reply Deutschland AG Group company, for the acquisition of the building in which the parent company has its registered office.

Instalments are paid on a half year basis (at a rate of 4.28%) and expire on 30 September 2019.

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

The item Other refers to 73 thousand Euros to the valuation of derivative hedging instruments. The underlying IRS amounted to 17,392 thousand Euros.

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

Net financial position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on 10 February 2005, the Net financial position of the Reply Group at 31 December 2012 was as follows:

(thousand Euros)	31/12/2012	31/12/2011	Change
Cash and cash equivalents	53,992	40,444	13,548
Current financial assets	1,315	345	970
Non current financial assets	2,851	936	1,915
Total financial assets	**58,158**	**41,725**	**16,433**
Current financial liabilities	(45,104)	(42,025)	(3,079)
Non current financial liabilities	(13,427)	(16,414)	2,987
Total financial liabilities	**(58,531)**	**(58,439)**	**(91)**
Total net financial position	**(373)**	**(16,714)**	**16,341**

For further details with regards to the above table see Notes 18 and 23 as well as Note 26.
It should be noted that in 2012 financial assets of the net financial position included guarantee deposits for 2,504 thousand Euros. This inclusion in 2011 would have resulted in an improvement in the net financial position by 501 thousand Euros.

NOTE 27 – Employee benefits

(thousand Euros)	31/12/2012	31/12/2011	Change
Employee severance indemnities	13,986	11,925	2,061
Employee pension funds	2,788	2,658	130
Directors severance indemnities	1,217	1,114	103
Other	43	43	-
Total	**18,035**	**15,740**	**2,295**

Employee severance indemnities

The *Employee severance indemnity* represents the obligation to employees under Italian law (amended by Law 296/06) relative to companies with more than 50 employees, that has accrued up to 31 December 2006 and that will be settled when the employee leaves the company. In certain circumstances, where companies have less than 50 employees, a portion of the accrued liability may be given to an employee during his working life as an advance. This is an unfunded defined benefit plan, under which the benefits are almost fully accrued, with the sole exception of future revaluations.
The procedure for the determination of the Company's obligation with respect to employees was carried out by an independent actuary according to the following stages:

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;

- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations. In order to allow for the changes introduced by Law 296/06, the re-proportioning was only carried out for employees of companies with fewer than 50 employees that do not pay Employee severance indemnities into supplementary pension schemes.

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2012: 2.50% frequency of turnover in 2012: 10%

Economic and financial assumptions

Annual discount rate	Average annual rate of 2.0%
Annual growth rate of the Employee severance indemnities	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 2012 was 4.25%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, *Employment severance indemnities* at 31 December 2012 are summarized in the table below:

(thousand Euros)	
Balance at 31/12/2011	**11,925**
(*Service cost*)	1,794
Actuarial gain/loss	1,606
Interest cost	485
Indemnities paid during the year	(1,824)
Balance at 31/12/2012	**13,986**

Employee pension funds

The item *Pension funds* is related to the liability for defined benefit plans for Reply Deutschland AG Group and is as follows:

(thousand Euros)	**31/12/2012**	**31/12/2011**
Present value of liability	5,310	4,163
Fair value of plan assets	1,009	937
Net liability	**4,301**	**3,226**
Actuarial gains/(losses)	(1,513)	(568)
Liability for pension plans and defined benefit plans	**2,788**	**2,658**

The amounts recognized for defined benefit plans is summarized as follows:

(thousand Euros)	**31/12/2012**	**31/12/2011**
Present value at beginning of 2011	4,163	3,783
Service cost	20	30
Interest cost	186	184
Actuarial gains/(losses)	1,012	224
Indemnities paid during the year	(71)	(58)
Present value at year end	**5,310**	**4,163**

Directors severance indemnities

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 103 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2012.

NOTE 28 – Deferred tax liabilities

Deferred tax liabilities at 31 December 2012amounted to 9,945 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)	31/12/2012	31/12/2011
Deductible items off the books	1,069	1,040
Other	8,876	7,364
Total	**9,945**	**8,404**

The item *Other* mainly includes the measurement of contract work in progress, employee benefits, capitalization of development costs and reversal of amortization of intangible assets.
Deferred tax liabilities have not been recognized on retained earnings of the subsidiary companies as the Group is able to control the timing of distribution of said earnings and in the near future does not seem likely.

NOTE 29 - Provisions

Provisions amounted to 11,320 thousand Euros (of which 10,162 thousand Euros non current).
Change in 2012 is summarized in the table below:

(thousand Euros)	Balance at 31/12/2011	Other	Accruals	Utilization	Write-off	Balance at 31/12/2012
Fidelity provisions	1,111	-	200	(511)	(17)	783
Other provisions	1,773	211	1,938	(341)	(1)	3,580
Provision for research centre	9,036	-	-	(2,079)	-	6,957
Total	**11,921**	**211**	**2,138**	**(2,931)**	**(18)**	**11,320**

Employee fidelity provisions refer mainly to provisions made for Reply Deutschland AG employees in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.
The provision for *Other risks* represents the amounts set aside by the individual companies of the Group principally in connection with contractual commercial risks and disputes.
The *Provision for Motorola Research centre* originates from the acquisition of the business branch Motorola Electronics S.p.A. in 2009 and reflects the best estimate of the residual costs to incur in relation to the agreements reached with the parties involved in the transaction to implement research and development projects, in accordance with IAS 37. This provision is used on the basis of the progression of the abovementioned research activities.
Acquisition of the Motorola Research Centre was carried out as a consequence of agreements reached with Motorola Electronics S.p.A, Trade Unions and the region of Piedmont and the commitment to carry out research activities on agreed upon themes.
The residual provision will be written off to profit and loss on the basis of the progress of the research activities, in part financed by the public administrations, for which the Group has committed to carry out to several parties in view of the undersigning of the aforesaid agreements.

NOTE 30 – Trade payables

Trade payables at 31 December 2012 amounted to 56,656 thousand Euros with a change of 8,651 thousand Euros compared to 31 December 2011.
Detail is as follows:

(thousand Euros)	31/12/2012	31/12/2011	Change
Domestic suppliers	50,981	47,885	3,096
Foreign suppliers	8,102	3,332	4,770
Advances to suppliers	(2,427)	(3,212)	785
Total	**56,656**	**48,005**	**8,651**

NOTE 31 – Other current liabilities

Other current liabilities as at 31 December 2012 amounted to 102,160 thousand Euros and with an increase of 11,292 thousand Euros compared to 31 December 2011.
Detail is as follows:

(thousand Euros)	31/12/2012	31/12/2011	Change
Income tax payable	3,464	3,207	257
VAT payable	5,678	6,151	(473)
Withholding tax and other	4,709	4,385	325
Total due to tax authorities	**13,851**	**13,743**	**108**
INPS	14,657	12,305	2,353
Other	1,237	1,035	202
Total due to social securities	**15,895**	**13,340**	**2,555**
Employee accruals	26,209	25,799	410
Other payables	35,906	26,469	9,437
Accrued expenses and deferred income	10,299	11,514	(1,216)
Total other payables	**72,414**	**63,782**	**8,632**
Other current liabilities	**102,160**	**90,868**	**11,292**

Due to tax authorities amounting to 13,851 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.
Due to social security authorities amounting to 15,895 thousand Euros, is related to both Company and employees contribution payables.
Other payables at 31 December 2012 amounted to 72,414 thousand Euros and included:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Remuneration of Directors recognised as participation in the profits of the subsidiary companies;
- Advances received from customers exceeding the value of the work in progress amounting to 18,195 thousand Euros.

Accrued Expenses and Deferred Income mainly relate to services whose competence refers to the following year.

NOTE 32 – Segment Reporting

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

Economic figures

(thousand Euros)	Italy	%	Germany	%	UK	%	Intersegment	Total 2012	%
Revenues	**382,748**	**100**	**80,019**	**100**	**44,953**	**100**	**(12,890)**	**494,831**	**100**
Operating costs	(331,533)	(86.6)	(74,209)	(92.7)	(39,555)	(88.0)	12,890	(432,407)	(87.4)
Gross operating income	**51,215**	**13.4**	**5,810**	**7.3**	**5,398**	**12.0**	**(0)**	**62,424**	**12.6**
Amortization, depreciation and write-downs	(5,391)	(1.4)	(1,121)	(1.4)	(343)	(0.8)	-	(6,855)	(1.4)
Atypical costs	-	-	-	-	(3,319)	(7.4)	-	(3,319)	(0.7)
Operating income	45,824	14.8	4,689	8.7	1,736	3.9	(0)	52,249	10.6

Economic figures

(thousand Euros)	Italy	%	Germany	%	UK	%	Intersegment	Total 2011	%
Revenues	**339,387**	**100**	**82,660**	**100**	**27,653**	**100**	**(9,404)**	**440,296**	**100**
Operating costs	(296,362)	(86.1)	(72,722)	(88.0)	(25,620)	(92.6)	9,404	(385,299)	(87.5)
Gross operating income	**43,025**	**13.9**	**9,938**	**12.0**	**2,033**	**7.4**	**(0)**	**54,997**	**12.5**
Amortization, depreciation and write-downs	(5,124)	(1.7)	(1,145)	(1.4)	(63)	(0.2)	-	(6,332)	(1.4)
Atypical costs	-	-	-	-	-	0.0	-	-	-
Operating income	**37,901**	**12.3**	**8,793**	**10.6**	**1,970**	**7.1**	**(0)**	**48,665**	**11.1**

Financial figures

(thousand Euros)	31/12/2012					31/12/2011				
	Italy	Germany	UK	Intersegment	Total	Italy	Germany	UK	Intersegment	Total
Current operating assets	251,953	20,265	19,182	(10,949)	280,451	233,123	18,459	13,422	(9,282)	255,722
Current operating liabilities	(141,546)	(15,355)	(14,021)	10,949	(159,974)	(124,693)	(15,734)	(8,404)	9,282	(139,550)
Net working capital (A)	**110,407**	**4,910**	**5,161**	**-**	**120,477**	**108,430**	**2,725**	**5,018**	**-**	**116,172**
Non current assets	103,343	17,325	16,021	-	136,689	98,303	16,348	11,604	-	126,254
Non current financial liabilities	(59,081)	(6,281)	(12,969)	-	(78,332)	(54,247)	(6,236)	(7,213)	-	(67,695)
Fixed capital (B)	**44,262**	**11,044**	**3,051**	**-**	**58,357**	**44,056**	**10,112**	**4,391**	**-**	**58,560**
Net invested capital (A+B)	**154,669**	**15,954**	**8,212**	**-**	**178,834**	**152,487**	**12,837**	**9,409**	**-**	**174,731**

Breakdown of employees by country is as follows:

Country	31/12/2012	31/12/2011	Change
Italy	2,950	2,784	166
Germany	543	483	60
Great Britain	232	155	77
Total	**3,725**	**3,422**	**303**

NOTE 33 – Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

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

As described in the section "Risk management", Reply S.p.A. constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.

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

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

Credit risk

The maximum credit risk to which the company is theoretically exposed at 31 December 2012 is represented by the carrying amounts stated for financial assets in the balance sheet.

Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the *fair value* of any guarantees received.

General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience.

Refer to the note on trade receivables for a quantative analysis.

Liquidity risk

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

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

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

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

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

Currency risk

Reply S.p.A. has a limited exposure to exchange rate risk, therefore the company does not deem necessary hedging exchange rates.

Interest rate risk

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

Sensitivity analysis

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of *fair value*) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavourable and instantaneous change of 50 *basis points* in short-term interest rates at 31 December 2012 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 235 thousand Euros (240 thousand Euros at 31 December 2011).
This analysis is based on the assumption that there is a general and instantaneous change of 50 *basis points* in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.
To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes). The latter base their estimates on direct (interest rates) or indirect observation of the market: consequently the *fair value* used by the Group in accordance with the IFRS 7 for derivative hedge contracts is classified as a hierarchy of Level 2 (prices not available on active markets for the assets or liabilities being measured but can be directly or indirectly observed).
The market value of the Interest Rate Swaps represents the present value of the difference between fixed interest rates to pay and or to receive and the interests evaluated on the market having the same expiry date as the derivative contracts.
The Interest Rate Swap leads are can lead to the exchange of interest flows calculated on the nominal value of the derivative at a fixed or floating rate at the fixed expiry date agreed by the parties. The nominal value does not represent the amount exchanged by the parties and therefore does not constitute the credit risk exposure, that is limited to the difference between the interest that has to be exchanged at expiry.
The interest rate risk to which the Group is exposed derives from bank loans; to mitigate such risks, the Group has used derivative financial instruments designated as “cash flow hedges”. The use of such instruments is disciplined by written procedures in line with the Group’s risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 34 – Transactions with Related parties

In accordance with IAS 24 Related parties are Group companies and persons that are able to exercise control, joint control or have significant influence on the Group and on its subsidiaries.
Transactions carried out by the group companies with related parties that as of the reporting date 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)

Financial transactions	**31/12/2012**	**31/12/2011**	**Nature of transactions**
Trade receivables and other	414	233	Receivables from professional services
Financial receivables	1,675	-	Financial receivables for guarantee deposits
Trade payables and other	2,221	574	Payables for professional services and office rental
Other payables	4,215	3,594	Payables to Directors, Key Management and Board of Statutory Auditors
Economic transactions	2012	2011	Nature of transactions
Revenues from professional services	207	156	Receivables from professional services
Services from Parent company and related parties	6,958	5,498	Services related to office rental and office of the secretary
Personnel	7,658	6,708	Emoluments to Directors and Key Management
Services and other costs	115	106	Emoluments to Statutory Auditors

In accordance with IAS 24, emoluments to Directors, Statutory Auditors and Key Management are also included in transactions with related parties.
In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 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.
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 35 – 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)	2012	2011
Executive Directors	4,940	3,335
Statutory Auditors	115	106
Total	**5,055**	**3,441**

Emoluments to Key management amounted to approximately 2,718 thousand Euros (3,373 thousand Euros at 31 December 2011).

NOTE 36 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

On 14 April 2010 the Board of Directors of Reply S.p.A. and the Management Board and Supervisory Board of Reply Deutschland AG resolved the finalisation of a Domination Agreement between Reply Deutschland AG, dominated company, and Reply S.p.A., dominating company, by which Reply S.p.A. can exercise the operational control of the company through the Management Board that will respond to Reply S.p.A.'s Board of Directors.
The agreement provides that Reply shall assume the following obligations upon registration of the agreement with the commercial register of Reply Deutschland AG that took place in August 2010:

(i) Reply is obliged to compensate Reply Deutschland AG for each annual net loss that would otherwise arise during the term of the agreement, unless such loss is compensated for by withdrawing amounts from other profit reserves which have been allocated thereto during the agreement;

(ii) If and to the extent that the annual dividends actually paid by Reply Deutschland AG, per financial year falls short of the Guaranteed Dividend, Reply will pay to each Minority Shareholder the corresponding difference;

(iii) Upon request of a Minority Shareholder, Reply shall acquire its shares in return for a cash consideration (8.19 Euros), within the term of three months after the date on which the commercial register of Reply Deutschland AG has been announced in accordance with Sec 10 of the German Commercial Code (HGB), and notice of the registration of the Contract has been given to the commercial register for Reply Deutschland AG. It is to be noted that at present, in accordance with German law, the exercise period for such option is still valid as the competent court has not yet ruled in relation to the adequacy of the exercise price of the option.

(iv) Upon request of a Minority Shareholder, Reply shall acquire its shares in return for a cash consideration, within the term of two months after the date on which the agreement has expired and notice has been given to the commercial register in accordance with Sec 10 of the German Commercial Code (HGB) and notice of the cessation of the Contract has been given to the commercial register for Reply Deutschland AG.

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

(i) Annual dividend integration for minority shareholders of Reply Deutschland AG for a maximum amount of 441 thousand Euros for the year;

(ii) Obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros, equivalent to the *fair value* of non controlling interest;

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

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

Contingent liabilities

As an international company, the Group is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Group financial position and results. Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Group recognises specific provision for this purpose.

NOTE 37 – Events subsequent to 31 December 2012

No significant events have occurred subsequent to 31 December 2012.

Annexed tables

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

(thousand Euros)	**2012**	**Of which related parties**	**%**	**2011**	**Of which related parties**	**%**
Revenues	494,831	207	0.0%	440,296	156	0.0%
Other revenues	11,563	-	-	7,171	-	-
Purchases	(10,894)	-	-	(8,703)	-	-
Personnel	(239,258)	(7,658)	3.2%	(215,056)	(6,708)	3.1%
Services and other costs	(191,803)	(7,073)	3.7%	(167,606)	(5,604)	3.3%
Amortization, depreciation and write-downs	(6,855)	-	-	(6,332)	-	-
Other unusual operating income/(expenses)	(5,334)	-	-	(1,105)	-	-
Operating income	**52,249**	**-**	**-**	**48,665**	**-**	**-**
Financial income/(expenses)	(1,984)	-	-	(2,192)	-	-
Result before tax of continuing operations	**50,265**	**-**	**-**	**46,473**	**-**	**-**
Income tax	(22,006)	-	-	(21,327)	-	-
Net result of continuing operations	**28,259**	**-**	**-**	**25,146**	**-**	**-**
Non controlling interest	(1,164)	-	-	(996)	-	-
Group net result	**27,094**	**-**	**-**	**24,150**	**-**	**-**
Net result per share	*3.01*			*2.67*		
Diluted net result per share	*2.97*			*2.63*		

Consolidated Statement of financial position
prepared pursuant to Consob Resolution No. 15519 of 27 July 2006

(thousand Euros)	31/12/2012	Of which related parties	%	31/12/2011	Of which related parties	%
Tangible assets	11,562	-	-	10,361	-	-
Goodwill	105,195	-	-	96,646	-	-
Other intangible assets	5,960	-	-	6,180	-	-
Equity investments	23	-	-	58	-	-
Other financial assets	5,724	1,675	29.3%	4,430	-	-%
Deferred tax assets	11,076	-	-	9,519	-	-
Non current assets	**139,540**	**-**	**-**	**127,194**	**-**	**-**
Work in progress	15,428	-	-	10,184	-	
Trade receivables	237,700	414	0.2%	219,764	233	0.1%
Other receivables and current assets	27,323	-	-	25,774	-	-
Other financial assets	1,315	-	-	341	-	-
Cash and cash equivalents	53,992	-	-	40,444	-	-
Current assets	**335,758**	**-**	**-**	**296,507**	**-**	**-**
TOTAL ASSETS	**475,298**	**-**	**-**	**423,701**	**-**	**-**
Share capital	4,796	-	-	4,796	-	-
Other reserves	143,866	-	-	127,154	-	-
Group net result	27,094	-	-	24,150	-	-
Group shareholders' equity	**175,756**	**-**	**-**	**156,100**	**-**	**-**
Non controlling interest	2,704	-	-	1,915	-	-
SHAREHOLDERS' EQUITY	**178,461**	**-**	**-**	**158,017**	**-**	**-**
Payables to minority shareholders	40,190	-	-	32,307	-	-
Financial liabilities	13,427	-	-	16,414	-	-
Employee benefits	18,035	-	-	15,740	-	-
Deferred tax liabilities	9,945	-	-	8,404	-	-
Provisions	10,162	-	-	11,244	-	-
Non current liabilities	**91,759**	**-**	**-**	**84,109**	**-**	**-**
Financial liabilities	45,104	-	-	42,025	-	-
Trade payables	56,656	2,221	3.9%	48,005	574	1.2%
Other current liabilities	102,160	4,215	4.1%	90,868	3,594	4.0%
Provisions	1,159	-	-	677	-	
Current liabilities	**205,078**	**-**	**-**	**181,575**	**-**	**-**
TOTAL LIABILITIES	**296,837**	**-**	**-**	**265,684**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**475,298**	**-**	**-**	**423,701**	**-**	-

Reply Companies included in consolidation and subsidiaries evaluated at cost at 31 December 2012

PARENT COMPANY

Company name	Registered office		Share capital	Group interest
Reply S.p.A.	Torino - Corso Francia, 110	€	4,795,886	-

SUBSIDIARIES CONSOLIDATED ON A LINE BY LINE BASIS

Company name	Registered office		Share capital	Group interest
@logistics Reply S.r.l.	Torino - Corso Francia, 110	€	78,000	100.00%
Arlanis Reply S.r.l. (ex 4cust Reply S.r.l.)	Torino - Corso Francia, 110	€	10,000	100.00%
Arlanis Reply GmbH	Muncih - Germany	€	25,000	100.00%
Arlanis Reply AG	Potsdam - Germany	€	70,000	100.00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
avantage Reply Ltd. (*)	Londra – Great Britain	GBP	6,165	51.00%
Avvio Reply Ltd.	Londra – Great Britain	GBP	5,214	100.00%
Bitmama S.r.l.	Torino - Corso Francia, 110	€	29,407	51.00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Bridge Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	60.00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€	78,000	100.00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€	139,116	100.00%
Concept Reply GmbH	Muncih - Germany	€	25,000	100.00%
Consorzio Reply Public Sector	Torino - Corso Francia, 110	€	73,500	100.00%
Discovery Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€	34,000	100.00%
Ekip Reply S.r.l.	Torino - Corso Francia, 110	€	10,400	100.00%
EOS Reply S.r.l.	Torino - Corso Francia, 110	€	14,000	100.00%
Forge Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	90.00%
Hermes Reply Polska zo.o.	Katowice - Polond	Zlt	40,000	100.00%
Hermes Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
IrisCube Reply S.p.A.	Torino - Corso Francia, 110	€	651,735	100.00%
Iriscube Reply SA	Savosa - Switzerland	CHF	100,000	100.00%
Lem Reply S.r.l.	Torino - Corso Francia, 110	€	47,370	100.00%
Live Reply GmbH	Düsseldorf, Germany	€	25,000	100.00%
Open Reply S.r.l.(*)	Torino - Corso Francia, 110	€	10,000	92.50%
Portaltech Reply Ltd. (*)	Londra – Great Britain	GBP	14,516	100.00%
Portaltech Reply S.r.l.(*)	Torino - Corso Francia, 110	€	10,000	85.00%
Power Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%

Company name	Registered office		Share capital	Group interest
Reply Consulting S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Reply Deutschland AG and subsidiaries	Gutersloh, Germany	€	4,745,669	81.11%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte - Brazil	R$	50,000	100.00%
Reply Inc.	USA	$	50,000	100.00%
Reply Ltd.	London– Old Baily, 16	GBP	54,175	100.00%
Reply Services S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%
Ringmaster S.r.l.	Torino – Corso Francia, 110	€	10,000	50.00%
Riverland Reply GmbH (*)	Munich – Germany	€	25,000	75.02%
Santer Reply S.p.A.	Milano – Via Durando, 38	€	2,209,500	100.00%
Security Reply S.r.l.	Torino – Corso Francia, 110	€	50,000	100.00%
Square Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%
Storm Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	80.00%
Syskoplan Reply S.r.l.	Torino – Corso Francia, 110	€	32,942	100.00%
Sytel Reply Roma S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%
Sytel Reply S.r.l.	Torino – Corso Francia, 110	€	115,046	100.00%
Target Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%
Technology Reply S.r.l.	Torino – Corso Francia, 110	€	79,743	100.00%
Tender Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%
Twice Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	94.00%
Whitehall Reply S.r.l.	Torino – Corso Francia, 110	€	21,224	100.00%

SUBSIDIARIES VALUED AT COST

Company name	Registered office		Share capital	Group interest
NextNext S.r.l.	Torino – Corso Sommellier, 23	€	10,000	24.00%
Juice Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%
Pay Reply S.r.l.	Torino – Corso Francia, 110	€	10,000	100.00%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting reflects Management's best estimate as at the closing date of the 2012 Annual Financial Report.

Disclosures pursuant to Article 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-*duodecies* of Consob's Regulations for Issuers reports the amount of fees charged in 2012 for the audit and audit related services provided by the Independent Auditors and by entities that are part of the Independent Auditors' network.

(thousand Euros)	**Service provider**	**Group entity**	**2012 fees**
Audit	Reconta Ernst & Young S.p.A.	Parent Company- Reply S.p.A.	26
	Reconta Ernst & Young S.p.A.	Subsidiaries	142
	Ernst & Young GmbH	Subsidiaries	183
	Ernst & Young LLP	Subsidiaries	54
Audit related services	Reconta Ernst & Young S.p.A.	Parent Company- Reply S.p.A.(1)	1
	Reconta Ernst & Young S.p.A.	Subsidiaries(1)	8
Other services	Ernst & Young GmbH	Subsidiaries(2)	24
Total			**438**

(1) Signed tax forms (Modello Unico, IRAP and Form 770)

(2) Clarification of accounting issues and voluntary limited audit of interim positions

Attestation of the Consolidated Financial Statements

under Article 154-bis of Legislative Decree 58/98

1. The undersigned, Mario Rizzante, in his capacity as Chairman and Chief Executive Officer, and Giuseppe Veneziano, Director responsible for drawing up Reply S.p.A.'s Financial Statements, hereby attest, pursuant to the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

→ The adequacy with respect to the Company's structure and

→ The effective application

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2012.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the Consolidated Financial Statements as at 31 December 2012 was based on a process defined by Reply in accordance with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted frame work for the internal control system.

3. The undersigned also certify that:

3.1 the consolidated financial statement

→ Have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, dated 19 July 2002 as well as the measures issued to implement Article 9 of Legislative Decree no. 38/2005;

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

→ And provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

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

Turin, 14 March 2013

Chairman and Chief Executive Officer
Mario Rizzante

Director responsible for drawing
up the accounting documents
Giuseppe Veneziano

Report of the Statutory Auditors to the Shareholders' Meeting related to the Consolidated Financial Statements as at 31 December 2012

Dear Shareholders,

The Board of Directors is submitting the Consolidated Financial Statements as at 31 December 2012 to you prepared in conformity with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Changes in Shareholders' Equity, Consolidated Cash Flow Statement, and the Notes to the Financial Statements.
The Consolidated Financial Statements as at 31 December 2012 present a consolidated Shareholders' equity amounting to 175,756 million Euros, including a consolidated profit of 27.09 million Euros.
The Report on Management adequately illustrates the financial, economic and earnings position, the trend, including at a consolidated level, of Reply S.p.A. and its subsidiaries during the financial year and after its end, as well as the sub-division of the volumes of assets of the principal business lines and the consolidated results.
The consolidation area is determined in such context, which included as at 31 December 2012, in addition to the Parent Company, forty-eight companies and a consortium, all consolidated on a line-by-line basis.
The controls made by the Independent Auditor Reconta Ernst & Young S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2012 are supported by the Parent Company's accounting records, in the financial statements for the reporting period of the subsidiaries, and in the information that they have formally communicated.
Such financial statements transmitted by the subsidiaries to the Parent Company, for purposes of the preparation of the Consolidated Financial Statements, prepared by the respective competent corporate bodies, have been reviewed by the bodies and/or persons in charge of the audit of the individual companies, according to their respective legal systems, and by the Independent Auditor in the context of the procedures followed for the audit of the Consolidated Financial Statements.
The Board of Statutory Auditors did not audit the financial statements of such companies.
Reconta Ernst & Young S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements, has issued its report on today's date, in which it confirms that, in its opinion, the Consolidated Financial Statements of the Reply Group as at 31 December 2012 conform to the International Financial Reporting Standards (IFRS) endorsed by the European Union, as well as to the measures issued to implement Article 9 of Legislative Decree 38/2005 and, therefore, they were prepared with clarity and represent a true and fair view of the financial and economic position, the economic result and the cash flows of the Reply Group as at such date, and further, the Report on Management and the information pursuant to Article 123-bis(1)(c)(d)(f)(l)(m) and (2)(b) of Legislative Decree 58/1998 presented in the Report on Corporate Governance and Ownership Structure are consistent with the Consolidated Financial Statements.

On the basis of the audits and controls carried out, we certify that:

- The consolidation area has been determined in a correct manner;
- The consolidation procedures adopted conform to legal requirements and have been properly applied;
- The review of the Report on Management demonstrated that it is consistent with the Consolidated Financial Statements;
- All of the information used for the consolidation refers to the entire administrative period represented by financial year 2012;
- The measurement criteria are homogeneous with those used for the previous reporting period; Changes in the consolidation area compared to 31 December 2011 consist of the inclusion of the following companies:
  - Arlanis Reply Gmbh;
  - Arlanis Reply AG;
  - Avvio Design Associates Ltd;
  - Concept Reply GmbH;
  - Portaltech Reply S.r.l. (recognized at cost in 2011);
  - Reply Inc.

Turin, 22 March 2013

The Statutory Auditors
(Prof. Cristiano Antonelli)
(Dott.ssa Ada Alessandra Garzino Demo)
(Dott. Paolo Claretta Assandri)

ERNST & YOUNG

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Reply S.p.A.

1. We have audited the financial statements of Reply S.p.A. as of 31 December 2012 and for the year then ended, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 26, 2012.

3. In our opinion, the financial statements of Reply S.p.A. at 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Reply S.p.A. for the year then ended.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
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4. The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Proprietary Assets in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) in the Report on Corporate Governance and Proprietary Assets, are consistent with the financial statements of Reply S.p.A. at December 31, 2012.

Turin, March 22, 2013

Reconta Ernst & Young S.p.A.
Signed by: Luigi Conti, partner

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

Statutory Financial Statements as at 31 December 2012

Reply S.p.A. Income Statement(*)

(in Euros)	**Note**	**2012**	**2011**
Revenues	5	250,329,322	224,080,769
Other revenues	6	7,454,118	6,444,561
Purchases	7	(4,278,827)	(2,405,711)
Personnel	8	(15,832,927)	(13,651,592)
Services and other costs	9	(242,675,111)	(218,304,292)
Amortization, depreciation and write-downs	10	(799,716)	(799,022)
Other unusual operating income/(expenses)	11	(550,000)	(950,000)
Operating income		**(6,353,141)**	**(5,585,286)**
Profit/(loss) on equity investments	12	21,016,288	18,113,233
Financial income/(expenses)	13	474,492	(251,042)
Income before taxes		**15,137,639**	**12,276,905**
Income tax	14	1,088,471	871,805
Result		**16,226,110**	**13,148,710**
Net result per share	*15*	*1.81*	*1.45*
Diluted net result per share	*15*	*1.78*	*1.43*

Reply S.p.A. Statement of comprehensive income

(in Euros)	**Note**	**2012**	**2011**
Profit of the period (A)		**16,226,110**	**13,148,710**
Gain/(Losses) on ("*cash flow hedge*")	26	(73,224)	198,449
Actuarial gains/(losses) from employee benefit plans	26	(52,079)	(8,150)
Total other comprehensive net of tax (B)		**(125,303)**	**190,299**
Total comprehensive income (A)+(B)		**16,100,807**	**13,339,009**

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Income Statement are reported in the annexed Tables and further described in Note 34.

Reply S.p.A. Statement of financial position(*)

(in Euros)	Note	31/12/2012	31/12/2011
Tangible assets	16	200,975	203,205
Goodwill	17	86,765	86,765
Other intangible assets	18	1,262,493	1,171,196
Equity investments	19	125,267,416	124,020,663
Other financial assets	20	14,090,681	10,988,989
Deferred tax assets	21	1,678,711	1,118,249
Non current assets		**142,587,041**	**137,589,067**
Trade receivables	22	175,828,354	150,106,208
Other receivables and current assets	23	24,057,670	26,434,922
Other financial assets	24	51,157,655	45,611,867
Cash and cash equivalents	25	27,741,728	16,336,864
Current assets		**278,785,406**	**238,489,861**
TOTAL ASSETS		**421,372,447**	**376,078,928**
Share capital		4,795,886	4,795,886
Other reserves		103,098,978	94,987,189
Result		16,226,110	13,148,710
SHAREHOLDERS' EQUITY	**26**	**124,120,974**	**112,931,785**
Payables to minority shareholders and corporate transactions	27	24,354,156	22,190,836
Financial liabilities	28	14,496,500	20,230,811
Employee benefits	29	454,594	454,406
Deferred tax liabilities	30	498,956	352,894
Provisions	33	1,500,000	950,000
Non current liabilities		**41,304,206**	**44,178,947**
Financial liabilities	28	60,367,491	53,811,470
Trade payables	31	181,900,543	150,343,616
Other current liabilities	32	13,679,233	14,813,110
Current liabilities		**255,947,267**	**218,968,196**
TOTAL LIABILITIES		**297,251,474**	**263,147,143**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**421,372,447**	**376,078,928**

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Statement of Financial Position are reported in the annexed Tables and further described in Note 34.

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

(in Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for *cash flow hedges*	Reserve for actuarial gains/(losses)	Total
Balance at 1 January 2011	**4,795,886**	**(2,522,596)**	**49,708,418**	**52,216,378**	**(198,449)**	**55,794**	**104,055,431**
Dividends distributed	-	-	-	(4,069,949)	-	-	(4,069,949)
Change in treasury shares	-	(660,354)	-	-	-	-	(660,354)
Total comprehensive income for the period	-	-	-	13,148,710	198,449	(8,150)	13,339,009
Other changes	-	-	263,637	4,011	-	-	267,648
Balance at 31 December 2011	**4,795,886**	**(3,182,950)**	**49,972,055**	**61,299,150**	**-**	**47,644**	**112,931,785**
Balance at 1 January 2012	**4,795,886**	**(3,182,950)**	**49,972,055**	**61,299,150**	**-**	**47,644**	**112,931,785**
Dividends distributed	-	-	-	(4,493,522)	-	-	(4,493,522)
Change in treasury shares	-	(422,305)	-	-	-	-	(422,305)
Total comprehensive income for the period	-	-	-	16,226,110	(73,224)	(52,079)	16,100,807
Other changes	-	-	4,199	10	-	-	4,209
Balance at 31 December 2012	**4,795,886**	**(3,605,255)**	**49,976,254**	**73,031,748**	**(73,224)**	**(4,435)**	**124,120,974**

Reply S.p.A. Statement of cash flows

(in Euros)	2012	2011
Result	16,226,110	13,148,710
Income tax	1,088,471	(871,805)
Depreciation and amortization	799,716	799,022
Impairment of intangible assets	5,669,500	3,550,000
Change in trade receivables	(25,722,146)	(18,541,748)
Change in trade payables	31,556,927	23,669,984
Change in other assets and liabilities	(1,843,761)	(14,609,542)
Income tax paid	871,805	(595,451)
Interest paid	(1,373,531)	(1,249,683)
Net Cash flows from operating activities (A)	**27,273,091**	**5,299,487**
Payments for tangible and intangible assets	(888,783)	(695,963)
Payments for financial assets	(3,101,691)	(7,830,431)
Payments for the acquisition of subsidiaries net of cash acquired	(2,116,753)	(8,726,751)
Net cash flows from investment activities (B)	**(6,107,227)**	**(17,253,144)**
Dividends paid	(4,493,522)	(4,069,949)
Payments for acquisition of treasury shares	(422,305)	18,552,043
In payments from financial loans	6,000,000	(11,276,752)
Payment of instalments	(7,654,478)	(660,354)
Other changes	(192,273)	314,005
Net Cash flows from financing activities (C)	**(6,762,578)**	**2,858,993**
Net cash flows (D) = (A+B+C)	**14,403,286**	**(9,094,664)**
Cash and cash equivalents at beginning of year	15,791,738	24,886,401
Cash and cash equivalents at year end	30,195,024	15,791,737
Total change in cash and cash equivalents (D)	**14,403,286**	**(9,094,664)**

Detail of net cash and cash equivalents

(in Euros)	2012	2011
Cash and cash equivalents at the beginning of the year:	**15,791,738**	**24,886,401**
Cash and cash equivalents	16,336,864	24,687,731
Transaction accounts - surplus	45,611,866	36,182,079
Transaction accounts - overdraft	(12,108,008)	(12,191,362)
Bank overdrafts	(34,048,984)	(23,792,047)
Cash and cash equivalents at the end of the year:	**30,195,024**	**15,791,738**
Cash and cash equivalents	28,575,248	16,336,864
Transaction accounts - surplus	50,324,134	45,611,866
Transaction accounts - overdraft	(14,552,863)	(12,108,008)
Bank overdrafts	(34,151,495)	(34,048,984)

Notes to the Financial Statements

NOTE 1 – General Information

Reply [MTA, STAR: REY] is specialized in the implementation of solutions based on new communication and digital media. Reply, consisting of a network of specialized companies, assists important European industries belonging to Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration sectors, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply's services include: consulting, system integration, application management and Business Process Outsourcing. www.reply.eu.
The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.
Reply also manages business relations for some of its main clients.

NOTE 2 - Accounting principles and basis of consolidation

Compliance with International accounting principles

The 2012 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").
In compliance with European Regulation No. 1606 of 19 July 2002, beginning in 2005, the Reply Group adopted the International Financial Reporting Standards ("IFRS") for the preparation of its Consolidated Financial Statements. On the basis of national legislation implementing the aforementioned Regulation, those accounting standards were also used to prepare the separate Financial Statements of the Parent Company, Reply S.p.A., for the first time for the year ended 31 December 2006.
It is hereby specified that the accounting standards applied conform to those adopted for the preparation of the initial Statement of Assets and Liabilities as at 1 January 2005 according to the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

General principles

The Financial Statements were prepared under the historical cost convention, modified as required for the measurement of certain financial instruments. The criterion of *fair value* was adopted as defined by IAS 39.
The consolidated Financial Statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist relative to its ability to continue as a going concern.
These Financial Statements are expressed in Euros and are compared to the Financial Statements of the previous year prepared in accordance with the same principles.
These Financial Statements have been drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.
The fiscal year consists of a twelve (12) month period and closes on the 31 December each year.

Financial statements

The Financial Statements include, statement of income, statement of comprehensive income, statement of financial position, 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 Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
It is further noted that, to comply with the indications provided by Consol Resolution No. 15519 of 27 July 2006 "*Provisions as to the format of Financial Statements*", in addition to mandatory tables, specific supplementary Income Statement and Balance Sheet formats have been added that report significant amounts of positions or transactions with related parties indicated separately from their respective items of reference.

Tangible assets

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

Buildings	6%
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 recognized in income.

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized 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 of the *fair value* of the assets, liabilities and identifiable contingent liabilities attributable to the subsidiary.

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

Impairment losses are recognized 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 recognized under Italian GAAP at the time of application of such standards and are subject to *impairment tests* at such date.

Other intangible assets

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

Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably.

Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.

Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their *fair value* can be measured reliably.

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

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

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

An internally-generated intangible asset arising from the company's e-business development (such as informatics solutions) is recognized 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;
- The development cost of the asset can be measured reliably.

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization 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 recognized to the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives consist principally of acquired trademarks which have no legal, contractual, competitive, economic, or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortized, as provided by IAS 36, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired. Any impairment losses are not subject to subsequent reversals.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
The recoverable amount of an asset is the higher of *fair value* less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, (the so-called *Cash generating unit*). With reference to goodwill, Management assesses return on investment with reference to the smallest cash generating unit including goodwill.
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 recognized as an expense immediately. When the recognition value of the *Cash generating unit*, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the *Cash generating unit.*
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 recognized for the asset. A reversal of an impairment loss is recognized 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 associated companies are valued using the cost method. As implementation of such method, they are subject to an *impairment test* if there is any objective evidence that these investments have been impaired, due to one or more events that occurred after the initial measurement if such events have had an impact on future cash flows, thus inhibiting the distribution of dividends. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly negative. If such is the case, impairment is recognized as the difference between the carrying value and the recoverable value, normally determined on the basis of *fair value* less disposal costs.

At each reporting period, the Company assesses whether there is objective evidence that a write-down due to *impairment* of an equity investment recognized in previous periods may be reduced or derecognized. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly positive. In this case, the recoverable value is re-measured and eventually the investment is restated at initial cost.
Equity investments in other companies, comprising non current financial assets not held for trading, are measured at *fair value*, if it can be determined. Any subsequent gains and losses resulting from changes in *fair value* are recognized directly in Shareholders' equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized in the Income Statement for the period.
Minor investments in other companies for which *fair value* is not available are measured at cost, and adjusted for any impairment losses.
Dividends are recognized as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution. If such dividends arise from the distribution of reserves prior to the acquisition, these dividends reduce the initial acquisition cost.

Current and non current financial assets

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

Transfer of financial assets

The Company derecognizes financial assets from its Financial Statements when, and only when, the contractual rights to the cash flows deriving from the assets expire or the Company transfers the financial asset. In the case of transfer of the financial asset:

- If the entity substantially transfers all of the risks and benefits of ownership associated with the financial asset, the Company derecognizes the financial asset from the Financial Statements and recognizes separately as assets or liabilities any rights or obligations originated or maintained through the transfer;
- If the Company maintains substantially all of the risks and benefits of ownership associated with the financial assets, it continues to recognize it;
- If the Company does not transfer or maintain substantially all of the risks and benefits of ownership associated with the financial asset, it determines whether or not it has maintained control of the financial asset. In this case;
- If the Company has not maintained control, it derecognizes the financial asset from its Financial Statements and recognizes separately as assets or liabilities any rights or obligations originated or maintained through the transfer;

- If the Company has maintained control, it continues to recognize the financial asset to the extent of its residual involvement with such financial asset.

At the time of removal of financial assets from the balance sheet, the difference between the carrying value of assets and the fees received or receivable for the transfer of the asset is recognized in the income statement.

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.
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. All gains and losses from the sale of treasury shares are recorded in a special Shareholders' equity reserve.

Financial liabilities and equity investments

Financial liabilities and equity instruments issued by the Company are presented according to their substance arising from their contractual obligations and in accordance with 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 amortized 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 amortization cost.

Derivative financial instruments and other hedging transactions

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

In accordance with IAS 39, derivative financial instruments qualify for *hedge accounting* only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.

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

Changes in the *fair value* of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement. 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 recognized, associated gains or losses on the derivative that had previously been recognized 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 recognized 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 effective hedging against a change in *fair value*, the hedged item is adjusted by the changes in *fair value* attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.

Changes in the *fair value* of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which 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 recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.

Embedded derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not closely related to those of the financial instrument that houses them and the latter are not measured at *fair value* with recognition of the relative gains and losses in the Income Statement.

Employee benefits

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

Employee termination indemnities ("TFR") are classified as a "*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 the reasonable estimate of the extent of benefits that each employee has matured in relation to the time worked. Through actuarial measurement, *interest cost* is recognized as financial gains or losses and represents the figurative expenditure that the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR"). Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity.

Share-based payment plans ("Stock options")

The Company has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after 7 November 2002 and that have not yet vested as at 1 January 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 recognized in the Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis and over the (*vesting period*). The *fair value* of the option, measured at the granting date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted.

Provisions and reserves for risks

Provisions for risks and liabilities are costs and liabilities having an established nature and the existence of which is certain or probable that at the reporting date the amount cannot be determined or the occurrence of which is uncertain. Such provisions are recognized 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 recognized 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 best estimate of the expenditure required to settle the liability at the balance sheet date, and are discounted when the effect is significant.

Revenue recognition

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

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

Revenues from services include the activities the Company carries out directly with respect to some of its major clients in relation to their businesses. These activities are also carried out in exchange for services provided by other Group companies, and the costs for such services are recognized as *Services and other costs*.

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

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 recognized when the shareholders' rights to receive payment has been established.

Financial income and expenses

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

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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 realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

Earnings per share

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

Use of estimations

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

Changes in estimates and reclassifications

There were no changes of estimates or reclassifications during the 2012 reporting period.

Accounting principles, amendments and interpretations adopted from 1 January 2012

The following accounting standards were applied for the first time by the Company commencing on 1 January 2012.
On 7 October 2010, the IASB published some amendments to IFRS 7 – Financial Instruments: Additional Disclosures, which the Company must apply commencing on 1 January 2012. The amendments were issued with the intent of improving the understanding of the transfer (derecognition) of financial assets, including an understanding of the possible effects of any risk that may remain with the entity that transferred such assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken at the end of a reporting period. The adoption of such amendment has not resulted in any effect on the measurement of the relative items of the Financial Statements, and has had limited effects on the information provided in this Annual Financial Report; specifically, reference is made to what was stated in the above paragraph "Transfers of financial assets" and with Note 22 with respect to the Assignment of Receivables.

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

On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangements, which superseded IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-monetary Contributions by Venturers. The new standard provides the criteria for identifying joint arrangements by focusing on the rights and obligations of the arrangement rather than on its legal form, and requires a single method to account for interests in jointly controlled entities, the equity method. The standard must be applied retrospectively commencing on 1 January 2013. Following the issue of the standard, IAS 28 – Investments in Associates, has been amended to include investments in jointly controlled entities in its scope of application, commencing on the effect date of the standard. The competent bodies of the European Union have concluded the approval process of such standard, postponing its effective date to 1 January 2014 and allowing early adoption; the Company has opted for advance adoption commencing on 1 January 2013. It is deemed that the adoption of such standard will not have any significant effects on the Company's Financial Statements.
On 12 May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities, which is a new and complete standard on the additional disclosures to be made for all forms of interests, including subsidiaries, joint

arrangements, affiliates, special purpose entities and other vehicle companies not included in the consolidation. The standard must be applied retrospectively commencing on 1 January 2013. The competent bodies of the European Union have concluded the approval process of such standard, postponing its effective date to 1 January 2014 and allowing early adoption; the Company has opted for advance adoption commencing on 1 January 2013. It is deemed that the adoption of such standard will not have any significant effects on the Company's Financial Statements.

On 12 May 2011, the IASB issued IFRS 13 – *Fair Value* Measurement, clarifying the determination of *fair value* for the purpose of the Financial Statements and applicable to all IFRS standards permitting or requiring a *fair value* measurement or the presentation of disclosures based on *fair value*. The standard must be applied prospectively from 1 January 2013. It is deemed that the adoption of such standard will not have any significant effects on the Company's Financial Statements.

On 16 June 2011, the IASB issued an amended version of IAS 19 – Employee Benefits., which eliminates the option to defer the recognition of actuarial gains and losses using the corridor method, and by requiring the fund's deficit or surplus to be presented in the statement of financial position, and recognition of the cost components relating to services and net financial losses in the Income Statement, and recognition of actuarial gains and losses arising from the remeasurement of assets and liabilities among "Other comprehensive income". In addition, the return on assets included among net financial losses must be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The amendments also introduce the requirement for additional disclosures to be provided in the notes. The amended version is applicable on a retrospective basis from 1 January 2013. It is deemed that the adoption of such standard will not have any significant effects on the Company's Financial Statements.

On 16 June 2011, the IASB issued an amendment to IAS 1 – Presentation of Financial Statements, requiring companies to group all items presented among Other comprehensive income depending on whether or not they can subsequently be reclassified in the Income Statement. The amendment must be applied to periods beginning on or after 1 July 2012; the Company will adopt such amendment commencing on 1 January 2013. The adoption of such amendment will not have any effect on the measurement of the items in the Financial Statements.

On 16 December 2011, the IASB issued some amendments to IFRS 7 – Financial Instruments: Additional Disclosures. The amendment requires information on the effects or potential effects deriving from rights to offsetting financial assets and liabilities on the financial position. The amendments must be applied for the financial years that start on or after 1 January 2013 and interim periods subsequent to that date. The information must be provided retrospectively. It is deemed that the adoption of such standard will not have any significant effects on the Company's Financial Statements.

As at the date of this Annual Financial Report, the competent bodies of the European Union have not yet completed the endorsement process for the adoption of the following accounting standards and amendments:

- On 12 November 2009, the IASB published standard IFRS-9 – Financial Instruments; the same standard was subsequently amended. The standard, which must be applied commencing on 1 January 2015 retrospectively, represents the first part of a phased process to entirely replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or *fair value*, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. With respect to financial liabilities, instead, the main amendment relates to the accounting for changes in *fair value* of a financial liability designated as measured at *fair value* through the Income Statement, if due to a change of its creditworthiness. Under the new standard, these changes are recognized in Other comprehensive income and are no longer reclassified in the Income Statement.

- On 17 May 2012, the IASB issued a group of modifications to the IFRS (“Improvement to IFRS’s – 2009-2011”), which must be applied retroactively from 1 January 2013; the amendments that might result in a change in the presentation, recognition and measurement of the items of the Financial Statements are set forth below, ignoring those that would instead only result in changes in terminology or editorial changes, with minimum effects in accounting terms, or those that have an effect on standards or interpretations that do not apply to the Company:
  - IAS 1 – Presentation of the Financial Statements: the amendment clarifies the manner in which comparative information is presented if a company modifies its accounting standards and in cases in which a company makes a retrospective re-presentation or reclassification, and in cases in which the company provides additional statements of assets and liabilities with respect to what is required by the standard;
  - IAS 32 – Financial Instruments: Presentation: the amendment eliminates an incoherency between IAS 12 – Income Taxes and IAS 32 on the recording of taxes deriving from distributions to shareholders, and establishes that they must be recorded in the income statement to the extent that the distribution refers to income generated by operations originally recorded in the income statement.

NOTE 3 – Risk Management

Reply S.p.A. operates at a world-wide level and for this reason its activities are exposed to various types of financial risks: market risk (broken down in exchange risk, interest rate risk on financial flows and on “*fair value*”, price risk), credit risk and liquidity risk.
To minimize risks Reply utilizes derivative financial instruments. At a central level it manages the hedging of principle operations. Reply S.p.A. does not detain derivate financial instruments for negotiating purposes.

Credit risk

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

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 and managed on a centralized basis through the Group Treasury. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of the Group’s current and future capital resources (maintaining an adequate level of cash and cash equivalents and the availability of reserves of liquidity that are readily convertible to cash and *committed* credit).
The difficulties both in the markets in which the Group operates and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2013, which promises to be a difficult year. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Risks associated with fluctuations in currency and interest rates

As the company operates mainly in a “Euros area” the exposure to currency risks is limited.
The exposure to interest rate risk arises from the need to fund operating activities and the necessity to deploy surplus. Changes in market interest rates may have the effect of either increasing or decreasing the company’s net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The exposure to interest rate risk arises from the need to fund operating activities and M&A investments, as well as the necessity to deploy available liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Company’s net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The interest rate risk to which the Company is exposed derives from bank loans; to mitigate such risks, Reply S.p.A. uses derivative financial instruments designated as “cash flow hedges”. The use of such instruments is disciplined by written procedures in line with the Company’s risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 4 – Other information

Exceptions allowed under paragraph 4 of Article 2423 of the Italian Civil Code

No exceptions allowed under Article 2423, paragraph 4, of the Italian Civil Code were used in drawing up the annexed Financial Statements.

Fiscal consolidation

The Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.
Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.
Each company adhering to the Fiscal Consolidation transfers to Reply S.p.A. its entire taxable income, recognizing a liability with respect to the Company corresponding to the payable IRES; The companies that transfer fiscal losses can register a receivable with Reply, corresponding to IRES on the part of the loss off-set at a Group level and remunerated according to the terms established in the consolidation agreement stipulated among the Group companies.

NOTE 5 - Revenue

Revenues amounted to 250,329,322 Euros and are detailed as follows:

(in Euros)	2012	2011	Change
Revenues from services	217,078,469	195,493,606	21,584,863
Royalties on "Reply" trademark	11,730,836	10,306,542	1,424,294
Intercompany services	13,709,720	12,737,480	972,240
Other intercompany revenues	7,810,297	5,543,141	2,267,156
Total	**250,329,322**	**224,080,769**	**26,248,553**

Reply manages business relationships on behalf of some of its major clients. Such activities were recorded in the item *Revenues from services to third parties* which increased in 2012 by 21,584,863 Euros.
Revenues from *Royalties on the "Reply" trademark* refer to charges to subsidiaries, corresponding to 3% of the subsidiaries' turnover with respect to third parties.
Revenues from *Various intercompany services* and *Other intercompany charges* refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

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

NOTE 6 - Other revenues

Other revenues that as at 31 December 2012 amounted to 7,454,118 Euros (6,444,561 Euros as at 31 December 2011) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, telephone and training courses.

NOTE 7 - Purchases

Detail is as follows:

(in Euros)	2012	2011	Change
Software licenses for resale	3,047,954	1,738,390	1,309,564
Hardware for resale	694,499	204,829	489,670
Other	536,374	462,492	73,882
Total	**4,278,827**	**2,405,711**	**1,873,116**

The item *Software licenses* refers to the costs incurred for software licenses for resale to third parties carried out for the Group companies.
The item *Other* includes the purchase of supplies, stationary, and printed materials (333 thousand Euros) and fuel (203 thousand Euros).

NOTE 8 - Personnel

Personnel costs amounted to 15,832,927 Euros, an increase of 2,181,335 Euros, and are detailed in the following table:

(in Euros)	2012	2011	Change
Payroll employees	11,483,302	10,569,180	914,122
Executive Directors	4,283,510	2,991,425	1,292,085
Project collaborators	66,115	90,987	(24,872)
Total	**15,832,927**	**13,651,592**	**2,181,335**

Detail of personnel by category is provided below:

(number)	31/12/2012	31/12/2011	Change
Directors	43	43	0
Managers	9	9	0
Staff	43	46	(3)
Total	**95**	**98**	**(3)**

The average number of employees in 2012 was 97 (no.98 in 2011).

NOTE 9 – Services and other costs

Service and other costs comprised the following:

(in Euros)	2012	2011	Change
Commercial and technical consulting	5,091,327	5,079,456	11,871
Travelling and professional training expenses	894,581	1,088,754	(194,173)
Professional services from group companies	221,451,265	197,717,113	23,734,152
Marketing expenses	1,160,856	1,482,199	(321,343)
Administrative and legal services	1,292,346	1,730,471	(438,125)
Statutory Auditors and Independent Auditors	142,357	154,043	(11,686)
Lease and rentals	721,738	647,665	74,073
Office expenses	2,608,572	2,523,768	84,804
Services to be recharged to group companies	4,389,925	4,391,403	(1,478)
Other	4,922,144	3,489,420	1,432,724
Total	**242,675,111**	**218,304,292**	**24,370,819**

Professional Services from Group companies, which changed during the year by 23,734,152 Euros, relate to revenues from services to third parties.
Reply S.p.A. carries out commercial *fronting* activities for some of its major clients, whereas *delivery* is carried out by the operational companies.
Office expenses include services rendered by related parties in connection with service contracts for the use of premises, legal domicile and secretarial services, as well as utility costs.

NOTE 10 – Amortization, depreciation and write-downs

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2012 to an overall cost of 154,391 Euros. Details of depreciation are provided at the notes to tangible assets.
Amortization of intangible assets amounted in 2012 to an overall cost of 645,325 Euros. Details of depreciation are provided at the notes to tangible assets.

NOTE 11 – Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounted to 550,000 Euros and refer to provisions for risks and expense funds.

NOTE 12 – Gain/(losses) on equity investments

Detail is as follows:

(in Euros)	**2012**	**2011**	**Change**
Dividends	26,685,788	21,668,233	5,017,555
Loss on equity investments	(5,669,500)	(3,555,000)	(2,114,500)
Total	**21,016,288**	**18,113,233**	**2,903,055**

Dividends include proceeds from dividends received by Reply S.p.A. from subsidiary companies during the year. Detail is as follows:

(in Euros)	31/12/2012
@logistics Reply S.r.l.	1,295,000
Aktive Reply S.r.l.	1,180,000
Atlas Reply S.r.l.	410,000
Blue Reply S.r.l.	2,445,000
Bridge Reply S.r.l.	48,000
Business Reply S.r.l.	540,000
Cluster Reply S.r.l.	4,765,000
Discovery Reply S.r.l.	130,000
Eos Reply S.r.l.	25,000
E*finance Consulting S.r.l.	70,000
Hermes Reply S.r.l.	455,000
Hermes Reply Polska zoo	9,783
Iriscube Reply S.p.A.	625,000
Lem Reply S.r.l.	20,000
Power Reply S.r.l.	950,000
Reply Deutschland AG	1,725,505
Ringmaster S.r.l.	137,500
Santer Reply S.p.A.	1,600,000
Syskoplan Reply S.r.l.	260,000
Sytel Reply Roma S.r.l.	3,030,000
Sytel Reply S.r.l	2,585,000
Target Reply S.r.l.	1,215,000
Technology Reply S.r.l.	3,165,000
Total	**26,685,788**

Losses on equity investments refers to write-downs and the year end losses of several subsidiary companies that were prudentially deemed as non recoverable with respect to the value of the investment. For further details see Note 19 herein.

NOTE 13 – Financial income/(expenses)

Detail is as follows:

(in Euros)	2012	2011	Change
Interest income from subsidiaries	1,944,920	1,810,964	133,956
Interest income on bank accounts	37,639	181,630	(143,991)
Interest expenses	(1,514,268)	(1,497,158)	(17,110)
Other	6,201	(746,478)	752,679
Total	**474,492**	**(251,042)**	**725,534**

Interest income from subsidiaries refers to the interest yielding cash pooling accounts of the Group companies included in the centralized pooling system.

Interest expenses refer to the interest expenses on the use of credit facilities with Intesa Sanpaolo and Unicredit. The item *Other* includes a loss on exchange rate differences amounting to 417,000 Euros and a gain on exchange rate differences amounting to 443,000 Euros from the translation of balance sheet items not recorded in Euros.

NOTE 14 – Income taxes

The details are provided below:

(in Euros)	2012	2011	Change
IRES	562,520	-	562,520
IRAP	317,000	359,000	(42,000)
Current taxes	**879,520**	**359,000**	**520,520**
Deferred tax liabilities	146,062	33,015	113,047
Deferred tax assets	(2,114,053)	(1,263,820)	(850,233)
Deferred taxes	**(1,967,991)**	**(1,230,805)**	**(737,186)**
Income tax	**(1,088,471)**	**(871,805)**	**(216,666)**

IRES theoretical rate

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

(in Euros)	Amount	Taxation
Result before taxes	15,137,639	
Theoretical tax rate	27.5%	4,162,851
Temporary differences, net	(17,447,417)	
Taxable income	(2,309,778)	
Total IRES		**-**

Temporary differences, net refer to:

- Deductible differences amounting to 29,134 thousand Euros mainly due to the non taxable share of the dividends received in the financial year (25,351 thousand Euros);
- Non deductible differences amounting to 11,687 thousand Euros mainly due to the write-down of equity investments (5,670 thousand Euros) and Directors' fees to be paid (2,500 thousand Euros), and non deductible interest expenses (1,294 thousand Euros).

Calculation of taxable IRAP

(in Euros)	Amount	Taxation
Difference between value and cost of production	(6,353,141)	
Temporary differences, net	13,760,116	
Taxable IRAP	7,406,975	317,000
Total IRAP		**317,000**

Temporary differences, net refer to:

- Non deductible differences amounting to 19,392 thousand Euros mainly due to personnel expenses;
- Deductible differences amounting to 2,065 thousand Euros due to income components not relevant for tax purposes;
- Deductions amounting to 3,567 thousand Euro mainly related to the tax wedge and extra deductions.

NOTE 15 – Earnings per share

Basic earnings per share

Basic earnings per share as at 31 December 2012 was calculated with reference to the net profit which amounted to 16,226,110 Euros (13,148,710 Euros as at 31 December 2011) divided by the weighted average number of shares outstanding as at 31 December 2012 which amounted to 8,987,175 Euros (9,050,205 Euros as at 31 December 2011).

(in Euros)	2012	2011
Net profit for the year	16,226,110	13,148,710
Weighted average number of shares	8,987,175	9,050,205
Basic earnings per share	**1.81**	**1.45**

Diluted earnings per share

Diluted earnings per share as at 31 December 2012 were calculated with reference to the net profit which amounted to 16,226,110 Euros divided by the weighted average number of shares outstanding as at 31 December 2012, considering the future diluting effect which could derive from the hypothetical exercising of financial instruments potentially convertible in shares (*stock options*).

(in Euros)	2012	2011
Net profit for the year	16,226,110	13,148,710
Weighted average number of shares	8,987,175	9,050,205
Diluting effect	145,000	145,000
Weighted number of diluted shares	9,132,175	9,195,205
Diluted earnings per share	**1.78**	**1.43**

NOTE 16 – Tangible assets

Tangible assets as at 31 December 2012 amounted to 200,975 Euros and are detailed as follows:

(in Euros)	31/12/2012	31/12/2011	Change
Plant and machinery	40,487	19,052	21,435
Hardware	56,507	50,177	6,330
Other	103,981	133,976	(29,995)
Total	**200,975**	**203,205**	**(2,230)**

The item *Other* mainly includes office equipment, furniture, and costs for improvements to leased assets.

Change in Tangible assets during 2012 is summarized below:

(in Euros)	**Plant and machinery**	**Hardware**	**Other**	**Total**
Historical cost	1,174,162	1,275,125	2,004,605	4,453,892
Accumulated depreciation	(1,155,110)	(1,224,948)	(1,870,629)	(4,250,687)
31/12/2011	**19,052**	**50,177**	**133,976**	**203,205**
Historical cost				
Purchases	39,500	48,539	64,122	152,161
Disposals	(10,708)	(6,574)	(390,753)	(408,035)
Accumulated depreciation				
Depreciation	(18,065)	(42,209)	(94,117)	(154,391)
Disposals	10,708	6,574	390,753	408,035
Historical cost	1,202,954	1,317,090	1,677,974	4,198,018
Accumulated depreciation	(1,162,467)	(1,260,583)	(1,573,993)	(3,997,043)
31/12/2012	**40,487**	**56,507**	**103,981**	**200,975**

In 2012 the Company made investments amounting to 152,161 Euros, which mainly refer to computers and networking equipment, motor vehicles, furniture and mobile phones.

NOTE 17 - Goodwill

Goodwill as at 31 December 2012 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to *Information Technology* and management support acquired in July 2000. Goodwill recognized is deemed adequately supported in terms of expected financial results and related cash flows.

NOTE 18 – Other intangible assets

Intangible assets as at 31 December 2012 amounted to 1,262,493 Euros (1,171,195 Euros as at 31 December 2011), and are detailed as follows:

(in Euros)	Original cost	Cumulative depreciation and amortization	Net book value as at 31/12/2012
Software	4,121,394	(3,394,965)	726,429
Trademarks	536,064	-	536,064
Total	**4,657,458**	**(3,394,965)**	**1,262,493**

Change in Intangible Assets during 2012 was as follows:

(in Euros)	Net book value as at 31/12/2011	Increase	Depreciation and amortization	Net book value as at 31/12/2012
Software	636,942	734,812	(645,325)	726,429
Trademarks	534,254	1,810	-	536,064
Total	1,171,196	736,622	(645,325)	1,262,493

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 the expected future cash flows are deemed adequate.
The increase relates to the brand, "Hi Reply".

NOTE 19 - Equity investments

The item Equity investments at 31 December 2012 amounted to 125,267,416 Euros, with an increase of 1,246,753 Euros compared to 31 December 2011.

(in Euros)	Balance at 31/12/2011	Acquisitions and subscriptions	Disposals	Write-downs	Other	Balance at 31/12/2012	Interest
@logistics Reply S.r.l.	1,049,167	-	-	-	-	1,049,167	100.00%
Aktive Reply S.r.l.	512,696	-	-	-	-	512,696	100.00%
Arlanis Reply AG	-	2,000,000	-	-	2,030,000	4,030,000	100.00%
Arlanis Reply GMBH (previously 4cust Reply GMBH) 100.00%		25,000	-	-	-	-	25,000
Arlanis Reply S.r.l (previously 4cust Reply S.r.l.).)	588,000	-	-	-	-	588,000	100.00%
Atlas Reply S.r.l.	356,575	-	-	-	-	356,575	100.00%
Avantage Ltd. (*)	16,611,484	-	-	-	-	16,611,484	51.00%
Bitmama S.r.l.	2,017,019	-	127,500	(1,927,500)	-	217,019	51.00%
Blue Reply S.r.l.	527,892	-	-	-	-	527,892	100.00%
Bridge Reply S.r.l.	6,000	-	-	-	-	6,000	60.00%
Business Reply S.r.l.	268,602	-	-	-	-	268,602	100.00%
Cluster Reply S.r.l.	2,610,032	-	-	-	-	2,610,032	100.00%
Concept Reply GMBH	-	25,000	-	-	-	25,000	100.00%
Consorzio Reply Public Sector	32,500	-	-	-	-	32,500	80.00%
Discovery Reply S.r.l.	1,311,669	-	-	-	-	1,311,669	100.00%
e*finance Consulting Reply S.r.l.	3,076,385	-	-	-	-	3,076,385	100.00%
Ekip Reply S.r.l.	30,000	-	102,000	(102,000)	-	30,000	100.00%
EOS Reply S.r.l.	155,369	-	-	-	-	155,369	80.71%
Forge Reply S.r.l.	469,000	1,000	709,000	(709,000)	-	470,000	100.00%
Hermes Reply Polska zoo	10,217	-	-	-	-	10,217	100.00%
Hermes Reply S.r.l.	199,500	-	-	-	-	199,500	100.00%
IrisCube Reply S.p.A.	6,724,952	-	-	-	-	6,724,952	100.00%
Juice Reply S.r.l	-	10,000	-	-	-	10,000	100.00%
Lem Reply S.r.l.	400,012	-	-	-	-	400,012	100.00%
Live Reply GmbH	27,500	-	-	-	-	27,500	100.00%
Open Reply S.r.l.(*)	867,750	-	-	-	550,000	1,417,750	92.50%
Pay Reply S.r.l	-	10,000	-	-	-	10,000	100.00%
Portaltech Reply S.r.l (*).	8,500	-	-	-	-	8,500	85.00%
Power Reply S.r.l.	2,500,850	-	-	-	-	2,500,850	100.00%
Reply Consulting S.r.l.	5,168,434	-	-	(1,650,000)		3,518,434	100.00%
Reply Deutschland AG	38,029,228	30,157	-	-	-	38,059,385	81.11%
Reply do Brasil Sistemas de Informatica Ltda	17,542	-	-	-	-	17,542	80.00%
Reply Inc.	-	40,596	-	-	-	40,596	100.00%
Reply Ltd	11,656,556	-	-	-	1,211	11,657,767	100.00%
Reply Services Ltd.	1,211	-	-	-	(1,211)	-	0.00%
Reply Services S.r.l.	10,000		410,000	(410,000)	-	10,000	100.00%
Ringmaster S.r.l.	5,000	-	-	-	-	5,000	50.00%
Riverland Reply GmbH	8,269,989	-	-	-	-	8,269,989	75.016%
Santer Reply S.p.A.	11,386,966	-	-	-	-	11,386,966	100.00%
Security Reply S.r.l.	392,866	-	781,000	(781,000)	-	392,866	100.00%
Square Reply S.r.l.	100,000	-	-	-	-	100,000	100.00%
Storm Reply S.r.l.	188,000	-	-	-	-	188,000	80.00%
Syskoplan Reply S.r.l.	949,571	-	-	-	-	949,571	100.00%
Sytel Reply Roma S.r.l.	894,931	-	-	-	-	894,931	100.00%
Sytel Reply S.r.l.	4,991,829	-	-	-	-	4,991,829	100.00%

(in Euros)	Balance at 31/12/2011	Acquisitions and subscriptions	Disposals	Write-downs	Other	Balance at 31/12/2012	Interest
Target Reply S.r.l.	778,000	-	-	-	-	778,000	100.00%
Technology Reply S.r.l.	216,658	-	-	-	-	216,658	100.00%
Tender Reply S.r.l.	10,000	-	90,000	(90,000)	-	10,000	100.00%
Twice Reply S.r.l.	407,000	-	-	-	-	407,000	94.00%
Whitehall Reply S.r.l.	160,211	-	-	-	-	160,211	100.00%
Total	**124,020,663**	**2,116,753**	**2,219,500**	**(5,669,500)**	**2,580,000**	**125,267,416**	

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

Acquisitions and subscriptions

Arlanis Reply AG

In August 2012 Reply acquired 100% of the shares of Arlanis Software AG, renamed Arlanis Reply AG. The German company specialises in consulting and data integration services and is a leader in continental Europe in Saleforce.com solutions.

Concept Reply Gmbh

In May 2012 Concept Reply Gmbh., was constituted, a company in which Reply S.p.A. holds 100% of the share capital.

Forge Reply S.r.l.

The increase refers to the acquisition of the remaining 10% of the share capital. The shares were acquired at face value.

Juice Reply S.r.l.

In December 2012 Juice Reply S.r.l., was constituted, a company in which Reply S.p.A. holds 100% of the share capital.

Pay Reply S.r.l.

In the month of November 2012 Pay Reply S.r.l., was constituted, a company in which Reply S.p.A. holds 100% of the share capital.
The company specialises in consulting and development of technology platforms for remote and proximity payments.

Reply Deutschland AG

This amount represents the shares purchased on the German stock market of the Reply Deutschland AG shares and is equal to 0.28% of the share capital.

Reply Inc.

In May 2012 Reply Incorporation, was constituted, a company in which Reply S.p.A. holds 100% of the share capital.

Financial loan Remission

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

Write-downs

The amounts recorded reflect losses on some equity investments that are deemed not to be recoverable.

Other

Arlanis Reply AG
The amount reflect the recognition of the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 100% of the share capital.

Open Reply S.r.l
The amount reflects the recognition of the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of the residual share capital.

Reply Services Ltd
The change reflects the liquidation of the company following the sale of the assets and liabilities to Reply Ltd.

****

The list of equity investments in accordance with Consob communication no. 6064293 of 28 July 2006 is included in the attachments.
The negative differences arising between the carrying value of the investments and the corresponding portion of their shareholders' equity are not related to permanent impairment of value, as the carrying value is supported by positive economic and financial forecasts that guarantee the recoverable amount of the investment.

NOTE 20 - Non current financial assets

Detail is as follows:

(in Euros)	31/12/2012	31/12/2011	Change
Guarantee deposits	357,147	78,859	278,288
Loans to non consolidated companies	13,733,534	10,910,130	2,823,404
Total	**14,090,681**	**10,988,989**	**3,101,692**

Guarantee deposits are mainly related to *deposits* on lease contracts.

Financial receivables from subsidiaries is referred to loans granted to the following companies:

Company	Amount
Open Reply S.r.l.	250,000
Tender Reply S.r.l.	20,000
Hermes Reply Polska Sp Zoo	527,275
Reply Ltd	10,664,153
Reply do Brazil Sist. De Inf Ltda	100,000
Avantage Ltd	924,197
Arlanis Reply GmbH	350,000
Live Reply GmbH	500,000
Concept Reply GmbH	100,000
Reply Inc.	177,909
Storm Reply S.r.l	120,000
Total	**13,733,534**

NOTE 21 – Deferred tax assets

This item amounted to 1,678,711 Euros at 31 December 2012 (1,118,249 Euros at 31 December 2011) and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductibility items.

(in Euros)

Temporary deductible differences	Taxation
Total deferred tax assets at 31/12/2011	1,118,249
- accrued	2,047,250
- utilization	(1,486,787)
Total deferred tax assets at 31/12/2012	**1,678,711**
Of which:	
- Directors fees and employee bonuses accrued but not paid at year end	1,364,907
- unrealised foreign exchange losses	275,603
- depreciation and amortization deductible in future years	38,201
- other residual (promotion and entertainment expenses, etc.)	-
Total	**1,678,711**

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

There are no deferred tax assets on losses carried forward.

NOTE 22 - Trade receivables

Trade receivables at 31 December 2012 amounted to 175,828,354 Euros and are all collectible within 12 months.

Detail is as follows:

(in Euros)	**31/12/2012**	**31/12/2011**	**Change**
Third party trade receivables	131,758,158	115,317,464	16,440,694
Credit notes to be issued	(103,943)	(35,511)	(68,432)
Allowance for doubtful accounts	(511,349)	(751,879)	240,530
Third party trade receivables	**131,142,866**	**114,530,074**	**16,612,792**
Receivables from subsidiaries	44,416,899	35,452,856	8,964,043
Receivables from Parent Company	268,588	123,278	145,310
Trade receivables from subsidiaries and Parent Company	44,685,487	35,576,134	9,109,353
Total trade receivables	**175,828,353**	**150,106,208**	**25,722,145**

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in *Third Party Receivables* which increased by 16,612,792 Euros.
Receivables from subsidiaries are related to services that the Parent Company Reply S.p.A. carries out in favour of the subsidiary companies at normal market conditions.
Trade receivables are all due within 12 months and do not include significant overdue balances.
In 2012 a specific provision was made for doubtful accounts and amounted to 240,530 Euros.

Assignment of receivables

The Group assigns part of its trade receivables through factoring operations.
The assignments of receivables can be with or without recourse; Some assignments without recourse can include deferred payment clauses (for example, payment by the factor of a minor part of the purchase price is subordinated on the collection of the total amount of the receivables), require a deductible from the assignor, or require maintaining significant exposure to the cash flow trend deriving from the assigned receivables. This type of operation does not comply with the requirements of IAS 39 for the elimination of the assets from the Financial Statements, since the risks and benefits related to their collection have not been substantially transferred. Consequently, all receivables assigned through factoring operations that do not satisfy the requirements for elimination provided by IAS 39 continue to be recognized in the Group's Financial Statements, even though they have been legally assigned and a financial liability for the same amount is recognized in the consolidated Financial Statements as Liabilities for advance payments on assignments of receivables. Gains and losses related to the assignment of these assets are only recognized when the assets are derecognized from the Group's financial-economic position.
As at 31 December 2012, no receivables have been assigned through factoring operations with recourse, or which did not comply with the requirements for derecognition provided by IAS 39.
The book value of the assets assigned without recourse as at 31 December 2012 amounted to 3,668 thousand Euros, with an increase of available liquidity of 2,834 thousand Euros.
As at 31 December 2011 there were no assigned receivables or receivables financed through factoring operations.
The carrying amount of *Trade receivables* in line with its *fair value*.

NOTE 23 - Other receivables and current assets

Detail is as follows:

(in Euros)	31/12/2012	31/12/2011	Change
Tax receivables	4,429,498	7,475,929	(3,046,431)
Other receivables from subsidiary companies	12,716,000	12,893,000	(177,000)
Other receivables	2,998,059	467,518	2,530,541
Accrued income and prepaid expenses	3,914,113	5,598,475	(1,684,362)
Total	**24,057,670**	**26,434,922**	**(2,377,252)**

The item *Tax receivables i*ncludes VAT receivables net (4,335,483 Euros) and net Italian tax prepayments.
Other receivables from subsidiary companies refer to IRES receivables which are calculated on taxable income, and transferred by the Italian subsidiaries under national fiscal consolidation.
Accrued income and prepaid expenses refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.
The carrying value of *Other receivables and current assets* is deemed to be in line with its *fair value*.

NOTE 24 - Current financial assets

Current financial assets amount to 51,157,655 Euros (45,611,867 Euros at 31 December 2011) and refer to:

- The total of interest yielding cash pooling accounts of subsidiaries included in the centralised pooling system of the Parent Company Reply S.p.A for 50,324,134 Euros; the interest yield on these accounts is in line with current market conditions;
- Receivables from factoring companies for 833,521 Euros, referring to credit for the sale of invoices without recourse net of advances received.

NOTE 25 - Cash and cash equivalents

This item amounted to 27,741,728 Euros, an increase of 11,404,864 Euros compared to 31 December 2011 and is referred to cash at banks and on hand at year-end.

NOTE 26 – Shareholders' equity

Share capital

As at 31 December 2012 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,795,886 Euros and is made up of no. 9,222,857 ordinary shares having a nominal value of euro 0.52 each.

Treasury shares

The value of treasury shares, on hand amounting to a 3,605,255 Euros, is related to shares held by Reply S.p.A., which at 31 December 2012 was equal to 235,813 number of shares. During 2012, the company acquired no. 32,100 while it sold no. 7,201.

Capital reserve

At 31 December 2012 capital reserve amounted to 49,976,254 Euros and is summarised as follows:

- Share premium reserve amounted to 20,622,992 Euros.
- Reserve for treasury shares on hand amounting to 3,605,255 Euros, is related to shares held by Reply, which at 31 December 2012 equal to 235,813.
- Reserve for purchase of treasury shares, amounting to 26,394,745 Euros, was constituted through withdrawal from the Reserve for treasury shares on hand, following the resolution made by the General Shareholders' meeting of Reply S.p.A. on 29 April 2010 which authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

Earning reserve

Earning reserves amounted to 73,031,748 Euros and comprises the follows:

- Legal reserve amounting to 959,177 Euros (959,177 Euros at 31 December 2011);
- Extraordinary reserve amounting to 52,844,085 Euros (44,188,898 Euros at 31 December 2011);
- Retained earnings amounting to 2,898,365 Euros (2,898,365 Euros at 31 December 31 2011);
- Net result totalling 16,226,110 Euros (13,148,710 Euros at 31 December 2011).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(in Euros)	**31/12/2012**	**31/12/2011**
Gains/(losses) on *cash flow hedges* arising during the period	(73,224)	198,449
Reclassification adjustment for Gains/(losses) on *cash flow hedges* included in the Income Statement	-	-
Gains/(Losses) on cash flow hedges	**(73,224)**	**198,449**
Other comprehensive income generated during the period	(52,079)	(8,150)
Other comprehensive income generated during the period reclassified to profit or loss	-	-
Share of other comprehensive income	**(52,079)**	**(8,150)**
Income tax relating to components of Other comprehensive income	-	-
Total Other comprehensive income, net of tax	**(125,303)**	**190,299**

Share based payment plans

The company has share based payment plans for its employees.
The *stock option* plans have the following purposes:

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after 7 November 2002 and that have not yet vested as at 1 January 2005 and are related to the stock option plans of 2004 and 2006. No costs were incurred for Reply S.p.A. share-based payments in 2012.
The Extraordinary Shareholders' meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code.
The Board of Directors of Reply S.p.A. in charge of the stock option plan, has assigned *stock options* to employees and Directors of the Group companies.
At 31 December 2012 the number of stock options were 145,000 and can be summarized as follows::

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	12/05/2006	9	21.339	12/05/2009 – 12/05/2014	135,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000

During 2012 no shares expired and no stock options were exercised nor assigned in reference to the existing plans.
Under an accounting perspective stock option plans represent an "*Equity settled share based payment transaction*" pursuant to paragraph 10 of IFRS 2 that requires the assessment of the *fair value* of the services received with reference to the *fair value* of the instruments representative of equity at the assignment date.
The *fair value* of the services received must be recorded when the option vests with a corresponding increase in equity.

NOTE 27 – Payables to minority shareholders

Payables to Minority shareholders and for operations (earn-out) at 31 December 2012 amounted to 24,354,156 Euros (22,190,836 Euros at 31 December 2011) and are detailed as follows:

(in Euros)	31/12/2012	31/12/2011	Change
Avantage Ltd.	11,897,772	11,625,507	272,265
Reply Deutschland AG	7,280,088	7,417,033	(136,945)
Riverland Reply GmbH	2,496,296	2,496,296	-
Other Italy	650,000	652,000	(2,000)
Total payables to minority shareholders	**22,324,156**	**22,190,836**	**133,320**
Arlanis AG	2,030,000	-	2,030,000
Total payables for earn-out	**2,030,000**	**-**	**2,030,000**
Total payables to minority shareholders and earn-out	**24,354,156**	**22,190,836**	**2,163,320**

Payables to minority shareholders of avantage Ltd. amounting to 11,897,772 Euros is related to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of the remaining 49% of the share capital and payment of the second tranche of the initial consideration. In accordance with the provisions outlined by the contract, the 100% share capital was considered to

be acquired. The change when compared to the previous year relates to the adjustment to the year-end rate.
Payables to minority shareholders of Reply Deutschland AG, for 7,280,088 refers to Reply's obligation, in accordance with the Domination Agreement, to acquire shares upon the request of minority shareholders. The amount represents the *fair value* of the liability at the balance sheet date.
It is to be noted that at present the exercise period for such option is still valid as the term has been suspended in anticipation of the competent court's ruling following the minority shareholders' request of verification of the adequacy of the exercise price of the option.
The decrease of such liability at 31 December 2012 is related to the acquisition by Reply S.p.A. of no. 16,271 shares, for a value of 169 thousand Euros, of which 137 thousand Euros against the liability to minority shareholders.
Payables to minority shareholders of Riverland Reply GmbH, for 2,496,296 Euros which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 75.016% of the share capital.
Payables Other Italy for 650,000 Euros was referred to liabilities to some minority shareholders in relation to options held and that will be exercised in the coming years.
Payables for Earn-out to Arlanis AG, for 2,030,000 Euros which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 100% of the share capital.

NOTE 28 – Financial liabilities

Detail is as follows:

	31/12/2012			31/12/2011		
(in Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	34,151,495	-	34,151,495	34,048,984	-	34,048,984
Bank loans	8,987,811	11,996,500	20,984,311	7,654,478	15,230,811	22,885,289
Loan from subsidiaries	2,500,000	2,500,000	5,000,000	-	5,000,000	5,000,000
Transaction accounts	14,552,863	-	14,552,863	12,108,008	-	12,108,008
Other	175,322	-	175,322	-	-	-
Total financial liabilities	**60,367,491**	**14,496,500**	**74,863,991**	**53,811,470**	**20,230,811**	**74,042,281**

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

	31/12/2012			31/12/2011		
(in Euros)	**Due in 12 months**	**From 1 to 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Total**
Bank overdrafts	34,151,495	-	34,151,495	34,048,984	-	34,048,984
M&A loans	8,987,811	12,321,144	21,308,955	7,654,478	15,308,955	22,963,433
Loan from subsidiaries	2,500,000	2,500,000	5,000,000	-	5,000,000	5,000,000
Transaction accounts	14,552,863	-	14,552,863	12,108,008	-	12,108,008
Other	175,322	(324,644)	(149,322)	-	(78,144)	(78,144)
Total	**60,367,491**	**14,496,500**	**74,863,991**	**53,811,470**	**20,230,811**	**74,042,281**

M&A Loans refers to the following contracts:

- On 31 March 2009 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for a line of credit amounting to 50,000,000 Euros. The loan is reimbursed on a half-year basis commencing 30 June 2012 and expires 31 December 2014.
  The total amount utilized was 22,963 thousand Euros. The debt outstanding at 31 December 2012 amounted to 15,309 thousand Euros, of which 7,654 thousand Euros were short-term.
- On 15 September 2012 Reply S.p.A. signed a line of credit with Unicredit SpA for a total amount of 15,000,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2014 and expires 31 December 2016. A total of 2,000,000 Euros of this line of credit was used at 31 December 2012.
- On 25 September 2012 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for 2,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 25 March 2013 and expiring 25 September 2015.
- On 24 December 2012 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for 1,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2013 and expiring 31 December 2015.

Interest rates are also applied according to certain predetermined ratios (*Covenants*) of economic and financial nature calculated on the consolidated Financial Statements as at 31 December of each year and/or the consolidated interim report.

As contractually defined, such ratios are as follows:

- Net financial indebtedness/Equity
- Net financial indebtedness/EBITDA

At the end of the Year Reply S.p.A. has complied with the covenants under the various contracts.

The Loan from subsidiaries is related to an interest bearing loan from Reply Deutschland AG, the conditions and interest rate are in line with those of the market.

The item Other refers to 73 thousand Euros to the valuation of derivative hedging instruments. The underlying IRS amounted to 17,392 thousand Euros.

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

Net financial position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's "*Recommendations for the consistent implementation of the European's regulation on Prospectuses*" issued on 10 February 2005 the Net financial position at 31 December 2012 was as follows:

(in Euros)	**31/12/2012**	**31/12/2011**	**Change**
Cash and cash equivalents	27,741,728	16,316,401	11,425,328
Transaction accounts	50,324,134	45,632,329	4,691,805
Receivables from factoring companies	833,521	-	833,521
Current financial assets	**78,899,383**	**61,948,729**	**16,950,654**
Non current financial assets	**14,090,681**	**10,910,131**	**3,180,550**
Total financial assets	**92,990,064**	**72,858,860**	**20,131,204**
Due to banks	(43,314,628)	(41,703,462)	(1,611,166)
Transaction accounts	(14,552,863)	(12,108,006)	(2,444,857)
Loan from subsidiaries	(2,500,000)	-	(2,500,000)
Current financial liabilities	**(60,367,491)**	**(53,811,468)**	**(6,556,023)**
Due to banks	(11,996,500)	(15,230,811)	3,234,311
Loan from subsidiaries	(2,500,000)	(5,000,000)	2,500,000
Non current financial liabilities	**(14,496,500)**	**(20,230,811)**	**5,734,311**
Total financial liabilities	**(74,863,991)**	**(74,042,279)**	**(821,712)**
NET FINANCIAL POSITION	**18,126,073**	**(1,183,419)**	**19,309,492**
Of which related parties	*44,761,305*	*39,413,989*	*5,347,316*

For further details with regards to the above table see Notes 20, 24 and 25 as well as Note 28.
It should be noted that in 2012 financial assets of the net financial position also included guarantee deposits for 357 thousand Euros. This inclusion in 2011 would have resulted in an improvement in the net financial position of 79 thousand Euros.

NOTE 29 - Employee benefits

The *Employee severance indemnity* represents the obligation to employees under Italian law (amended by Law no. 296/06) accrued by employees up to 31 December 2006 which will be paid when the employee leaves the company. In certain circumstances, a portion of the accrued liability may be given to an employee during his working life as an advance. This is an unfunded defined benefit plan, under which the benefits are almost fully accrued, with the sole exception of future revaluations.
The procedure for the determination of the Company's obligation with respect to employees was carried out by an independent actuary according to the following stages:

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

- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations.

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2012: 2.50% frequency of turnover in 2012: 10%

Economic and financial assumptions

Annual discount rate	Constant average annual rate equal to 2.00%
Annual growth rate of the Employee severance indemnities	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 2012 was 4.25%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, *Employment severance indemnities* at 31 December 2012 is summarised in the table below:

Balance at 31/12/2011	**454,406**
Actuarial gain/loss	52,078
Interest cost	17,798
Indemnities paid during the year	(69,688)
Balance at 31/12/2012	**454,594**

NOTE 30 – Deferred tax liabilities

Deferred tax liabilities at 31 December 2012 amounted to 498,956 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

(in Euros)	
Balance at 31/12/2011	**352,894**
- accruals	146,062
- utilization	-
Total at 31/12/2012	**498,956**
- On deductible items off the books	197,671
- Different goodwill measurements	178,535
- Gains on unrecognised differences	113,016
- Other	9,734
Total at 31/12/2012	**498,956**

NOTE 31 - Trade payables

Trade payables at 31 December 2012 amounted to 181,900,543 Euros with an increase of 31,556,927 Euros. Detail is as follows:

(in Euros)	**31/12/2012**	**31/12/2011**	**Change**
Due to suppliers	6,378,866	5,616,871	761,996
Due to subsidiary companies	148,145,758	128,745,493	19,400,265
Advance payments from customers	27,375,918	15,981,252	11,394,666
Total	**181,900,543**	**150,343,616**	**31,556,927**

Due to suppliers mainly refers to services from domestic suppliers (6,379 thousand Euros).
Due to subsidiary companies recorded a change of 19,400,265 Euros and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. carries out commercial *fronting* activities for some of its major clients, whereas *delivery* is carried out by the operational companies.
Advance payments include advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.
The carrying amount of *Trade payables* is deemed to be in line with its *fair value*.

NOTE 32 - Other current liabilities

Detail is as follows:

(in Euros)	**31/12/2012**	**31/12/2011**	**Change**
Income tax payable	135,118	24,500	110,618
Withholding tax and other	580,800	453,550	127,250
Total due to tax authorities	**715,918**	**478,050**	**237,868**
INPS	751,836	686,283	65,553
Other	191,206	198,122	(6,916)
Total due to social securities	**943,042**	**884,405**	**58,637**
Employee accruals	1,055,902	884,706	171,196
Due to subsidiary companies	3,824,325	4,732,283	(907,958)
Other payables	3,360,468	2,334,985	1,025,483
Accrued expenses and deferred income	3,779,578	5,498,681	(1,719,103)
Total other payables	**12,020,273**	**13,450,655**	**(1,430,382)**
Other current liabilities	**13,679,233**	**14,813,110**	**(1,133,877)**

Due to tax authorities mainly refers to payables due for withholding tax on employees and free lancers' compensation.
Due to social security authorities is related to both Company and employees contribution payables.
Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.
Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2012 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.
The carrying amount of the item *Other current liabilities* is deemed to be in line with its *fair value*.

NOTE 33 – Provisions

The item Provisions is related to an accrual amounting to 550,000 Euros and reflects the best estimate in relation to some ongoing disputes.

NOTE 34 – Transactions with Related parties

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2012 Financial Statements related to such transactions are summarised below.
Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.

Reply 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 transactions
Financial transactions	**31/12/2012**		**31/12/2011**		
Financial receivables	13,734	-	10,910	-	Financial loans
Miscellaneous financial charges for deposits		-	256	-	79 Guarantee deposits
Transaction accounts	35,771	-	33,504	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	57,133	269	48,345	123	Royalties, administration services, marketing and quality management, management services and office rental
Financial liabilities	5,000	-	5,000	-	Financial borrowings
Trade payables and other	179,346	105	148,900	268	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Other payables	-	2,610	-	1,593	Compensation paid to Directors, Key Management and Statutory Auditors
Economic transactions	**2012**		**2011**		
Revenues from royalties	11,731	-	10,307	-	Licensing of the “Reply” trademark consisting of a 3% fee on third party revenues
Revenues from services	20,403	138	18,882	134	Administration services, marketing and quality management and office rental
Revenues from management services	4,805	-	3,770	-	Strategic management services
Costs for professional services	225,650	102	200,063	63	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	255	1,102	206	1,100	Services related to office rental and office of the secretary
Personnel Management	-	4,452	-	3,197	Emoluments to Directors and Key
Interest income on loans, net	1,945	-	1,811	-	Interest on financial loans: 3 month Euribor with a spread of 3 percentage points

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, in 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 35 – Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

Reply S.p.A. has determined the guide lines in managing financial risks. In order to maximize costs and the resources Reply S.p.A. has centralized all of the groups risk management. Reply S.p.A. has the task of gathering all information concerning possible risk situations and define the corresponding hedge.
As described in the section "Risk management", Reply S.p.A. constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.
The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the company.
The quantitative data reported in the following do not have any value of a prospective nature, in particular the *sensitivity analysis* on market risks, is unable to reflect the complexity of the market and its related reaction which may result from every change which may occur.

Credit risk

The maximum credit risk to which the company is theoretically exposed at 31 December 2012 is represented by the carrying amounts stated for financial assets in the balance sheet.
Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the *fair value* of any guarantees received.
General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience.
Refer to the note on trade receivables for a quantative analysis.

Liquidity risk

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The two main factors that determine the company's liquidity situation are on one side the funds generated by or used in operating and investing activities and on the other the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.
As described in the Risk management section, Reply S.p.A has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce the liquidity risk, as follows:

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

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

Currency risk

Reply S.p.A. has a limited exposure to exchange rate risk; therefore the company does not deem necessary hedging exchange rates.

Interest rate risk

Reply S.p.A. makes use of external funds obtained in the form of financing and invest in monetary and financial market instruments. Changes in market interest rates can affect the cost of the various forms of financing, including the sale of receivables, or the return on investments, and the employment of funds, causing an impact on the level of net financial expenses incurred by the company.
In order to manage these risks, the Reply S.p.A uses interest rate derivative financial instruments, mainly *interest rate swaps*, with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates on the net result.

Sensitivity analysis

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of *fair value*) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavourable and instantaneous change of 50 *basis points* in short-term interest rates at 31 December 2012 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 227 thousand Euros (192 thousand Euros at 31 December 2011).
This analysis is based on the assumption that there is a general and instantaneous change of 50 *basis points* in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.
To determine the market value of derivative financial instruments, Reply S.p.A. made reference to the assessments provided by third parties (banks and financial institutions). To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes) who base their estimates on direct (interest rates) or indirect observation of the market: consequently the *fair value* used by the Group in accordance with the IFRS 7 for derivative hedge contracts is classified as a hierarchy of Level 2 (prices not available on active markets for the assets or liabilities being measured but can be directly or indirectly observed).
The market value of the Interest Rate Swaps represents the present value of the difference between fixed interest rates to pay and or to receive and the interests evaluated on the market having the same expiry date as the derivative contracts.
The Interest Rate Swap leads are can lead to the exchange of interest flows calculated on the nominal value of the derivative at a fixed or floating rate at the fixed expiry date agreed by the parties. The nominal value does not represent the amount exchanged by the parties and therefore does not constitute the credit risk exposure, that is limited to the difference between the interest that has to be exchanged at expiry.

The interest rate risk to which the Company is exposed derives from bank loans; to mitigate those risks, Reply S.p.A. has resorted to the use of derivative instruments designated as "cash flow hedges". The use of such instruments is disciplined by written procedures in line with the Company's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 36 - Significant non-recurring transactions

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non- recurring transactions carried out by Reply S.p.A. in 2012.

NOTE 37 - Transactions resulting from unusual and/or abnormal operations

Pursuant to 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 38 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

On 14 April 2010 the Board of Directors of Reply S.p.A. and the Management Board and Supervisory Board of Reply Deutschland AG resolved the finalization of a Domination Agreement between Reply Deutschland AG, dominated company and Reply S.p.A., dominating company, by which Reply S.p.A. can exercise the operational control of the company through the Management Board that will respond to Reply S.p.A.'s Board of Directors.
The agreement provides that Reply shall assume the following obligations upon registration of the agreement with the commercial register of Reply Deutschland AG that took place in August 2010:

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

(iv) Upon request of the Minority Shareholders of Reply Deutschland AG shall acquire his shares in return for a cash consideration, within the term of two months after the date on which the agreement has expired and notice has been given to the commercial register in accordance with Sec 10 of the German Commercial Code (HGB).

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

(i) Annual dividend integration for a maximum amount of 441 thousand Euros;

(ii) Obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros, equivalent to the *fair value* of non controlling interest;

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

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

Contingent liabilities

As an international company, Reply is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Company financial position and results.
Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Company recognises specific provision for this purpose.

NOTE 39 – 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 functions, including those in other consolidated companies, are fully explained in the Annual Report on Remuneration annexed herein.

Stock Options granted to Members of the Board of Directors and Key Management

During the financial year under review no stock options have been assigned and/or exercised to Members of the Board of Directors and Key Management.
For further information please see the Annual Report on Remuneration annexed herein.

NOTE 40 – Events subsequent to 31 December 2012

No significant events have occurred subsequent to 31 December 2012.

Annexed Tables

Income statement
pursuant to Consob Resolution no. 15519 of 27 July 2006

(in Euros)	**2012**	**Of which related parties**	**%**	**2011**	**Of which related parties**	**%**
Revenues	250,329,322	33,373,807	13.3%	224,080,769	28,706,361	12.8%
Other revenues	7,454,118	3,702,773	49.7%	6,444,561	4,387,190	68.1%
Purchases	(4,278,827)	(3,717,564)	86.9%	(2,405,711)	(1,890,948)	78.6%
Personnel	(15,832,927)	-	-	(13,651,592)	-	-
Services and other costs	(242,675,111)	(223,390,935)	92.1%	(218,304,292)	(201,431,725)	92.3%
Amortization, depreciation and write-downs	(799,716)	-	-	(799,022)	-	-
Other unusual operating income/(expenses)	(550,000)	-	-	(950,000)	-	-
Operating income	**(6,353,141)**	**-**	**-**	**(5,585,286)**	**-**	**-**
Profit/(loss) on equity investments	21,016,288	-	-	18,113,233	-	-
Financial income/(expenses)	474,492	1,944,920	409.9%	(251,042)	1,810,963	721.4%
Income before taxes	**15,137,639**	**-**	**-**	**12,276,905**	**-**	**-**
Income tax	1,088,471	-	-	871,805	-	-
Result	**16,226,110**	**-**	**-**	**13,148,710**	**-**	**-**

Statement of financial position
pursuant to Consob Resolution no. 15519 of 27 July 2006

(in Euros)	31/12/2012	Of which related parties	%	31/12/2011	Of which related parties	%
Tangible assets	200,975	-	-	203,205	-	-
Goodwill	86,765	-	-	86,765	-	-
Other intangible assets	1,262,493	-	-	1,171,196	-	-
Equity investments	125,267,416	-	-	124,020,663	-	-
Other financial assets	14,090,681	13,990,034	99.3%	10,988,989	10,910,130	99.3%
Deferred tax assets	1,678,711	-	-	1,118,249	-	-
Non current assets	**144,587,041**	**-**	**-**	**137,589,067**	**-**	**-**
Trade receivables	175,828,353	44,685,487	25.4%	150,106,208	35,452,856	23.6%
Other receivables and current assets	24,057,670	12,716,000	52.9%	26,434,922	12,893,000	48.8%
Other financial assets	51,157,655	50,324,134	98.4%	45,611,867	45,611,867	100.0%
Cash and cash equivalents	27,741,728	-	-	16,336,864	-	-
Current assets	**276,785,406**	**-**	**-**	**238,489,861**	**-**	**-**
TOTAL ASSETS	**421,372,447**	**-**	**-**	**376,078,928**	**-**	**-**
Share capital	4,795,886	-	-	4,795,886	-	-
Other reserves	103,098,978	-	-	94,987,189	-	-
Result	16,226,110	-	-	13,148,710	-	-
SHAREHOLDERS' EQUITY	**124,120,974**	**-**	**-**	**112,931,785**	**-**	**-**
Payables to minority shareholders	24,354,156	-	-	22,190,836	-	-
Financial liabilities	14,496,500	2,500,000	17.2%	20,230,811	5,000,000	24.7%
Employee benefits	454,594	-	-	454,406	-	-
Deferred tax liabilities	498,956	-	-	352,894	-	-
Provisions	1,500,000	-	-	950,000	-	-
Non current liabilities	**41,304,206**	**-**	**-**	**44,178,947**	**-**	**-**
Financial liabilities	60,367,491	17,052,863	28.2%	53,811,470	12,108,008	22.5%
Trade payables	181,900,543	175,626,888	96.6%	150,343,616	144,726,746	96.3%
Other current liabilities	13,679,233	3,824,325	28.0%	14,813,110	4,173,738	28.2%
Current liabilities	**255,947,267**	**-**	**-**	**218,968,196**	**-**	**-**
TOTAL LIABILITIES	**297,251,474**	**-**	**-**	**263,147,143**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**421,372,447**	**-**	**-**	**376,078,928**	**-**	**-**

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

Company	Registered office	Currency	Share capital	Total shareholders' equity	Result 2012	Interest	Carrying value at 31/12/2012
@logistics Reply S.r.l.	Turin	€	78,000	2,613,866	2,042,788	100.00%	1,049,167
Arlanis Reply S.r.l. (formerly 4cust Reply S.r.l.)	Turin	€	10,000	192,233	58,619	100.00%	588,000
Arlanis Reply AG	Potsdam - Germany	€	70,000	426,784	(41,353)	100.00%	4,030,000
Arlanis Reply GMBH (formerly 4cust Reply GmbH)	Munich	€	25,000	(248,381)	(271,921)	100.00%	25,000
Aktive Reply S.r.l.	Turin	€	10,000	1,660,886	910,315	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	1,350,973	641,354	100.00%	356,575
Avantage Reply Ltd.	London	GBP	5,150	3,675,018	1,751,542	51.00%	16,611,484
Bitmama S.r.l.	Turin	€	29,407	55,992	(302,539)	51.00%	217,019
Blue Reply S.r.l.	Turin	€	10,000	4,731,330	3,597,444	100.00%	527,892
Bridge Reply S.r.l.	Turin	€	10,000	92,615	75,799	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	1,668,092	1,084,951	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	6,009,634	4,939,888	100.00%	2,610,032
Concept Reply GMBH	Germany	€	25,000	38,546	13,546	100.00%	25,000
Consorzio Reply Public Sector	Turin	€	73,500	5,320	(231)	80.00%	32,500
Discovery Reply S.r.l.	Turin	€	10,000	433,945	418,995	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	1,141,573	454,427	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	11,398	(118,556)	100.00%	30,000
Eos Reply S.r.l.	Turin	€	14,000	668,022	268,481	80.71%	155,369
Forge Reply S.r.l.	Turin	€	10,000	10,738	(716,765)	100.00%	470,000
Hermes Reply Polska	Katowice-Poland	ZLT	40,000	1,495,109	391,535	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,645,398	909,818	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	1,805,377	900,342	100.00%	6,724,952
Juice Reply S.r.l. (*)	Turin	€	10,000	-	-	100.00%	10,000
Lem Reply S.r.l.	Turin	€	47,370	356,202	263,065	100.00%	400,012
Live Reply GmbH	Düsseldorf	€	25,000	1,111,952	255,703	100.00%	27,500
Open Reply S.r.l.	Turin	€	10,000	1,466,001	961,253	92.50%	1,417,750
Pay Reply S.r.l.(*)	Turin	€	10,000	-	-	100.00%	10,000
Portaltech Reply S.r.l.	Turin	€	10,000	30,533	20,533	85.00%	8,500
Power Reply S.r.l.	Turin	€	10,000	4,206,237	1,695,120	100.00%	2,500,850
Reply Consulting S.r.l.	Turin	€	10,000	821,711	(254,898)	100.00%	3,518,434
Reply Deutschland AG and subsidiaries	Gutersloh	€	4,750,561	31,090,484	1,407,087	81.110%	38,059,385
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte - Brazil	R$	50,000	708,046	412,075	80.00%	17,542

Company	Registered office	Currency	Share capital	Total shareholders' equity	Result 2012	Interest	Carrying value at 31/12/2012
Reply Inc.	Michigan- USA	$	50,000	(59,646)	(109,646)	100.00%	40,596
Reply Ltd.	London	GBP	54,175	(3,585,239)	(4,027,072)	100.00%	11,657,767
Reply Services S.r.l.	Turin	€	10,000	10,675	(414,887)	100.00%	10,000
Ringmaster S.r.l.	Turin	€	10,000	1,637,098	1,620,084	50.00%	5,000
Riverland Reply GmbH	Munich	€	25,000	4,186,881	1,286,703	75.10%	8,269,989
Santer Reply S.p.A.	Milan	€	2,209,500	12,807,685	2,220,436	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	50,517	(831,529)	100.00%	392,866
Square Reply S.r.l.	Turin	€	10,000	52,024	39,955	100.00%	100,000
Storm Reply S.r.l.	Turin	€	10,000	109,377	88,395	80.00%	188,000
Syskoplan Reply S.r.l.	Turin	€	32,942	637,129	533,921	100.00%	949,571
Sytel Reply Roma S.r.l.	Turin	€	10,000	5,832,618	4,041,327	100.00%	894,931
Sytel Reply S.r.l.	Turin	€	115,046	7,908,809	5,559,185	100.00%	4,991,829
Target Reply S.r.l.	Turin	€	10,000	2,433,256	1,620,710	100.00%	778,000
Technology Reply S.r.l.	Turin	€	79,743	3,885,892	3,006,258	100.00%	216,658
Tender Reply S.r.l.	Turin	€	10,000	11,326	(90,015)	100.00%	10,000
Twice Reply S.r.l.	Turin	€	10,000	3,480,935	926,886	94.00%	407,000
Whitehall Reply S.r.l.	Turin	€	21,224	399,569	297,971	100.00%	160,212

(*) company that closes its fiscal year ending at 31 December 2013

Details of shareholders' net equity
stated according to origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years.

(in Euros)				Summary of the amounts used in the prior three fiscal years	
Nature/description	**Amount**	**Possibility of utilization**	**Available amount**	**For coverage of losses**	**Other**
Capital	4,795,886				
Capital reserve					
Reserve for treasury shares	3,605,255				
Share premium reserve	20,622,992	A, B, C	20,622,992		
Reserve for purchase of treasury shares	26,394,745	A, B, C	26,394,745		
Income reserves					
Legal reserve	959,177	B			
Extraordinary reserve	52,844,085	A, B, C	52,844,085		
Reserve for shares to be issued (art. 2349 C.C.)	104,000	A, B	104,000		
Retained earnings	570,731	A, B, C	570,731		
Total			100,536,553		
Non available amount			104,000		
Residual available amount			100,432,553		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,327,634				
Reserve for cash flow hedge	(73,224)				
Treasury share	(3,605,255)				
IAS reserve	(184,108)				
Accounting of expenses according to IAS 32	(770,448)				
	98,430,544				

Legend
A: for share capital increase
B: for coverage of losses
C: distribution to shareholders

Disclosures pursuant to Article 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-*duodecies* of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2012 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

(in Euros)	Service provider	2012 fees
Audit	Reconta Ernst & Young S.p.A.	26,000
Audit related services	Reconta Ernst & Young S.p.A. (1)	1,000
Total		**27,000**

(1) Attestation of tax forms (tax return, IRAP and Form 770)

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

1. The undersigned, Mario Rizzante, in his capacity of Chairman and Chief Executive Officer and Giuseppe Veneziano, as Director responsible for drawing up the Company's Financial Statements pursuant to the provisions of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
→ The adequacy with respect to the Company's structure and
→ The effective application of the administration and accounting procedures applied in the preparation of in Reply S.p.A's 2012 Financial Statements.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory Financial Statements at 31 December 2012 was based on a process defined by Reply in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

3. The undersigned also certify that:
3.1 The statutory Financial Statements
→ Have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, dated 19 July 2002 as well as the measures issued to implement Article 9 of Legislative Decree no. 38/2005;
→ Correspond to the amounts shown in the Company's accounts, books and records;
→ And provide a fair and correct representation of the Company's economic, financial and earnings position;
3.2 The Report on Operations includes a reliable operating and financial review of the Company, together with a description of the main risks and uncertainties to which it is exposed.

Turin, 14 March 2013

Chairman and Chief Executive Officer
Mario Rizzante

Director responsible for drawing up the Company's Financial Statements
Giuseppe Veneziano

Report of the Statutory Auditors

Report of the Board of Statutory Auditors to the Shareholders' meeting pursuant to Article 153 of Legislative Decree 58/1998 on the Financial Statements ended as at 31 December 2012

Dear Shareholders,
pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activity performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
During the course of the financial year ended 31 December 2012, we complied with the duties set forth in Article 149 of Legislative Decree No. 58/1998 and we are providing the following information with reference to the recommendations contained in the Consob communications issued up to the present day concerning the Regulations for Issuers:

1. **The most significant operations from an economic, financial and earnings standpoint.**

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2012 or subsequent to the end of the financial year, among which we note:

- → The acquisition in August 2012 of 100% of the share capital of the German company Arlanis Software AG (presently Arlanis Reply AG), a company specialized in *data integration* consulting and services;
- → The acquisition in September 2012 of a minority shareholding of 20% of the English company Portaltech Reply Ltd., which is presently entirely held by Reply Ltd.;
- → The acquisition in December 2012, by the English subsidiary Reply Ltd., of 100% of the share capital of Avvio Design Associates Ltd, a company specialized in *brand engagement* and *internal communications*;
- → The start of the corporate reorganization project approved by the *Board of Directors of Reply S.p.A.* on 14 December 2012 whose object is the merger of Reply Deutschland Ag (previously syskoplan Ag) with Reply S.p.A.;
- → The acquisition in January 2013 of the minority shareholding of 24.984% of the share capital of Riverland Reply GmbH, which is presently entirely held by Reply S.p.A.

We can reasonably state that such operations occurred in compliance with law and the Company's by-laws.

2. **Any unusual and/or atypical transactions, including intra-group or with related parties.**

On the basis of meetings with the Directors and with representatives of the Independent Auditor, it did not appear that any atypical or unusual transactions occurred during the financial year, nor after it ended.

With reference to intra-group transactions, we advise that:

→ In 2012 the contract known as the "Domination Agreement", stipulated in 2010 by Reply S.p.A. with its subsidiary Reply Deutschland AG (previously syskoplan AG), was duly carried out.

Moreover, as already indicated, on 14 December 2012 Reply S.p.A.'s Board of Directors approved the start of the corporate reorganization that will result in the merger of Reply Deutschland AG with Reply S.p.A., which will be completed during 2013.

→ Reply S.p.A. obtained professional services from Group companies related to revenues connected to contracts stipulated with major clients;

→ Reply S.p.A. gave bank guarantees, payable on first request, to subsidiaries;

→ Reply S.p.A. granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:

→ Open Reply S.r.l., Tender Reply S.r.l. and Storm Reply S.r.l. – non-interest bearing loans;

→ Reply Ltd., Hermes Reply Polska Sp Zoo, Live Reply Gmbh, Avantage Reply Ltd., Reply do Brasil Sistema Ltda, Arlanis Reply GmbH, Concept Reply GmbH, Reply Inc. – interest bearing loans;

→ Reply S.p.A. has an interest bearing loan with Reply Deutschland AG;

→ Reply S.p.A. provided subsidiaries with management, administrative, commercial and marketing services, the lease of premises, as well as services to manage the corporate internet network, electronic mail and web;

→ Reply S.p.A. centrally managed the Group's treasury by means of correspondence bank accounts held by the individual subsidiaries;

→ Reply S.p.A. granted Group companies the use of the "REPLY" trademark that it owns.

Transactions with other related parties in 2012, which took place in accordance with market conditions, related to "office services" (general services and the availability of office space) provided by Alika S.r.l., Reply S.p.A.'s direct parent company, and were subject to the review of the Committee for Transactions with Related Parties. Such situations also exist as at the date of this report.

3. **Information provided in the Report on operations on atypical and/or unusual transactions, including intra-group transactions and those with related parties.**

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2012 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2012 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.

The Report does not reveal that any atypical and/or unusual transactions occurred during the year or after it ended.

4. **Comments and proposals on the notes and requests for information contained in the Report of the Independent Auditor.**
Reconta Ernst & Young S.p.A., the company entrusted with the audit of the Financial Statements and Consolidated Financial Statements as at 31 December2012, issued its Report on today's date, in which it confirms that the Financial Statements as at 31 December 2012 of Reply S.p.A. conform to the International Financial Reporting Standards endorsed by the European Union, as well as to the measures issued in implementation of Article 9 of Legislative Decree 38/2005, and were therefore prepared with clarity and represent in a true and fair manner the economic and financial situation, economic result and cash flows of Reply S.p.A. for the financial year ended on such date, and further the Report on Operations and the information set forth in paragraph 1, sections (c)(d)(f)(l)(m) and (2)(b) of Article 123-bis(1)(c)(d)(f)(l)(m) and (2)(b) of Legislative Decree 58/1998 presented in the Report on Corporate Governance and the Ownership Structure are consistent with the Financial Statements.

5. **Complaints pursuant to Article 2408 of the Italian Civil Code.**
On 27 April 2012 the Board of Statutory Auditors became aware of a complaint made by a minority shareholder regarding the failure to indicate in the notice calling the Shareholders' meeting to be held the same date or on the Company's internet site an e-mail address, as an alternative to fax and the postal service, where the proxy to the Designated Representative and questions regarding the items on the agenda could be sent. The Statutory Auditors carefully controlled this issue and did not find any violation of laws or regulations.

6. **Filed complaints/lawsuits.**
The Company's Directors did not advise us of any complaints filed against them in the financial year, nor subsequent to the date it ended.

7. **The granting of any further appointments to the Independent Auditor and relative costs.**
During the course of 2012, in addition to the appointment to audit the Financial Statements as at 31 December 2012, Reconta Ernst & Young S.p.A. received the following appointments:
   - → The signing of Reply S.p.A.'s various tax forms (Modelli Unico, IRAP, 770)
     The consideration for such appointment was agreed upon as 1 thousand Euro;
   - → The signing of the various tax forms of Reply S.p.A.'s Italian subsidiaries (Modelli Unico, IRAP, 770)
     The consideration for such appointment was agreed upon as 8 thousand Euro.

8. **Any appointments of parties connected to the Independent Auditor by ongoing relationships, and the relative costs.**
Reconta Ernst & Young S.p.A. notified us that in 2012 professional appointments were granted to parties connected to Reconta Ernst & Young S.p.A. by ongoing relationships and/or by parties belonging to its network. Specifically, Reply Deutschland AG appointed Ernst & Young GmbH to conduct the voluntary audit of the first and third quarters of 2012, as well as assistance in relation to an audit by the FREP. The total consideration for such appointments was agreed upon as 24 thousand Euro.

9. **Indication of whether opinions were issued in accordance with law during the financial year.**
During the financial year the opinions requested by the Board of Statutory Auditors were issued as provided by law.

10. **Indication of the frequency and number of meetings of the Board of Directors, Executive Committee and Board of Statutory Auditors.**
During the financial year, the Board of Directors met 6 times, and the Board of Statutory Auditors held 5 meetings.

The Internal Control and Risk Management Committee met 3 times, the Remuneration Committee met twice, and the Committee for Related Party Transactions met once.
The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

11. Instructions given by the Company to subsidiaries pursuant to Article 114(2) of Legislative Decree 58/1998.

The instructions given by Reply S.p.A. to subsidiaries, pursuant to the second paragraph of Article 114 of Legislative Decree 58/1998 appear to be adequate; similarly, the subsidiaries provided the Parent Company with the necessary information for its timely knowledge of the business situation.
We advise you that in order to guarantee the timely communication of the information requested, Mr. Daniele Angelucci, Executive Director and Finance and Control Manager of Reply S.p.A., also acted as advisor within all of the administrative bodies of the Italian subsidiaries, with the exclusion of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries.
We further advise you that the Chairman of Reply S.p.A.'s Board of Directors, Mr. Mario Rizzante, is Chairman of the Supervisory Board of the German subsidiary Reply Deutschland AG (previously syskoplan AG) and Director of the English subsidiaries of Reply Ltd (previously Glue Reply ltd.), Portaltech Reply Ltd. and Avantage Reply Ltd..

12. Significant issues that emerged during the meetings held with the Independent Auditor pursuant to Article 150(3) of Legislative Decree 58/1998.

During the meetings held with representatives of the Independent Auditor, no significant issues emerged that are worthy of mention.

13. The Company's compliance with the Corporate Governance Code of the Listed Companies' Corporate Governance Committee.

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A. On 14 March 2013, the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

14. **Final considerations on the supervisory activity carried out, as well as with respect to any omissions, censurable events or irregularities discovered during such activity.**

The Board's supervisory activity was carried out through:

- Activities aimed at controlling compliance with laws and the by-laws;
- Participation at the meetings of the Company's governing bodies;
- Acquiring information during periodic meetings with the Independent Auditor concerning both the activity it performed as well as any risks related to its independence;
- Acquiring information during meetings with members of the Board of Statutory Auditors of the subsidiaries to exchange information on the Group's activities and coordinate control and supervisory activities;
- Gathering additional information during meetings with the Chairman of the Company, the Director responsible for drawing up the Company's Financial Statements, the Person in charge of internal control and the Supervisory Body;
- Participation at the meetings of the Internal Control and Risk Management Committee and the Remuneration and Nominating Committee;

The analysis of any new provisions of law or Consob communications of interest to the Company.

The Board confirmed that the organizational requirements were met to comply with the relevant Company by-laws, laws and regulations, in the constant evolution and search for improvement.

In particular, we advise the Shareholders that:

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and which entered into force on 1 January 2011, according to the standards indicated in the Regulations approved by Consob by means of Resolution No. 17221 of 12 March 2010 and subsequent modifications, as well as compliance with it;
- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "*Market abuse*" and "*Protection of savings*" in matters of corporate disclosures of information and "*Internal Dealings*".

On the basis of the principles mentioned and the information acquired during the audits and participation at meetings with the persons responsible for administration and the internal control, we reached the following conclusions:

1) ADMINISTRATION

The Board of Statutory Auditors, having participated at the meetings of the Board of Directors, on the basis of the information obtained at such time, acknowledges that it has verified, with the exclusion of control of the merits of the opportunity and economic convenience of the choices made by such body, that the transactions performed and being carried out by the Company are based on principles of proper administration, conform to law and the By-laws, do not conflict with the resolutions of the Shareholders' meetings or compromise the integrity of the Company's assets.

2) ORGANISATIONAL STRUCTURE

Within the scope of the responsibilities bestowed on us by the rules set forth in Legislative Decree 58/1998 and in compliance with the Governance Rules of the Board of Statutory Auditors, we met periodically with the Directors of the Independent Auditor and the organizational department, to gather the necessary information.
This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure and to arrive at a judgment of overall adequacy with respect to its size.

3) INTERNAL CONTROL SYSTEM

Within the Board of Directors there is a Committee for Internal Control and Risk Management, a Remuneration and Nominating Committee, and a Committee for Transactions with Related Parties, whose activities are carried out according to a program in line with the needs of the Company.
The participation of the Director in charge of the Internal Control, as well as our participation at the meetings of the Internal Control and Risk Management Committee, allowed us to coordinate our functions as the Internal Control and Audit Committee, assumed pursuant to Article 19 of Legislative Decree 39/2010, with the activities of the Internal Control and Risk Management Committee, and, in particular, to carry out the supervisory activities provided by Article 19 of Legislative Decree No. 39/2010.
On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.
We received from Reconta Ernst & Young S.p.A. the notice issued pursuant to Article 17(9)a) of Legislative Decree 39/2010, as well as the report set forth in Article 19(3) of Legislative Decree No. 39/2010 which states that no fundamental issues emerged during the audit, nor significant gaps in the Internal Control System in relation to the financial reporting process.
On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

4) ADMINISTRATIVE – ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive, and they also appear to be imposed on the companies belonging to the Group.
We therefore deem that the administrative-accounting system is suitable to represent and monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.

The Chairman and the Director in charge of drawing up the Company's Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements, the attestation required by Article 154-bis(5) of TUF (Legislative Decree 58/1998).

15. **Any proposals to make to the Shareholders' meeting pursuant to Article 153 of Legislative Decree 58/1998.**

In relation both to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998 and the general supervisory obligation pursuant to Article 149(1) of such Decree, as well as the agenda of the Shareholders' meeting which includes discussion of the Financial Statements for the reporting period, the Board of Statutory Auditors states that it has supervised compliance with the procedural rules and law with respect to their preparation.

We note that the Financial Statements as at 31 December 2012 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).

On the basis of the controls made directly and the information exchanged with the Independent Auditor, and also in view of the latter's report pursuant to Article 14 of Legislative Decree 39/2010 which expresses a judgment without reservations, the Board of Statutory Auditors has no comments or proposals with respect to the Financial Statements or Report on Operations and the proposals set forth therein, which it consequently considers, to the extent of its specific expertise, should meet your approval.

Similarly, with specific reference to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998, the Board does not have any proposals to make with respect to the other matters within its scope of expertise.

With reference to the point on the agenda concerning the purchase and disposal of treasury shares, recalling disclosures made by the Directors, the Board states that the resolution proposed is in accordance with articles 2357, 2357-ter of the Italian Civil Code, in accordance with Article 132 of Legislative Decree 58/1998, as well as those of Art. 144-bis of Consob's Issuers Regulation no. 11971 of 14 May 1999.

Turin, 22 March 2013

The Statutory Auditors
(Prof. Cristiano Antonelli)
(Dott.ssa Ada Alessandra Garzino Demo)
(Dott. Paolo Claretta Assandri)

ERNST & YOUNG

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Reply S.p.A.

1. We have audited the financial statements of Reply S.p.A. as of 31 December 2012 and for the year then ended, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 26, 2012.

3. In our opinion, the financial statements of Reply S.p.A. at 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Reply S.p.A. for the year then ended.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
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4. The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Proprietary Assets in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) in the Report on Corporate Governance and Proprietary Assets, are consistent with the financial statements of Reply S.p.A. at December 31, 2012.

Turin, March 22, 2013

Reconta Ernst & Young S.p.A.
Signed by: Luigi Conti, partner

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

Reply S.p.A.

Report on Corporate Governance and Proprietary Assets 2012

Approved by the Board of Directors on 14 March 2013

www.reply.eu

Pursuant to art.123 bis Legislative Decree no. 58/1998.

Report on Corporate Governance and ownership structure 2011

Contents

1. Corporate governance system

The Corporate governance system adopted by the company, that is, the set of laws and bylaws adopted in order to ensure the efficient and transparent functioning of the corporate bodies and of the control systems, adheres to the Corporate Governance Code issued by Borsa Italiana in March 2006, updated in December 2011 (hereinafter "the Code").

The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment.

The governance structure of Reply S.p.A. – based on the traditional model, is made up of the following bodies: The General Shareholders' meeting, the Board of Directors (that carry out its function through Executive Directors and is advised by an Internal Control and Risks Committee and a Remuneration and Appointments Committee), the Board of Statutory Auditors and Independent Auditors.

The General Shareholders' meeting is the corporate body, which expresses the requests of the shareholders through its resolutions. Resolutions passed in compliance with the law and the by-laws are binding on all shareholders independently whether they agree or disagree unless the latter draw out, in the cases allowed. The Shareholder's are convened according to the rules set out for listed companies.

The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board is invested with the broadest powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company object, with the exception of those reserved to the Shareholders' meeting.

The Board of Statutory Auditors is responsible for the supervision of compliance with the law and by-laws and more specifically:

- Supervision of proper management by verifying:
  - The respect of good management principles;
  - The adequate structure of the company;
  - The implementation of the rules of corporate governance;
  - The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.
- Role of committee for internal control and audit responsible for overseeing:
  - The financial reporting process;
  - The effectiveness of the internal control, internal audit and risk management systems;
  - The audit of the annual separate and consolidated accounts;
  - The independence of the independent auditors.

The Board of Statutory Auditors is not responsible for the legal audit which is a function preformed by an independent company appointed by the Shareholders' meeting.

The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records. The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement.

Governance also includes the Internal Control System, the Organisational and management Model pursuant to Article 6 of Legislative Decree no. 231/2011 and the structure of the powers and proxies, as presented herein.

The following Report includes the governance structure examined by the Board of Directors on 14 March 2013 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations.

The Report on Corporate Governance, that is an integral part of the Report on Operations, along with the company's by-laws, are available on the company's website (www.reply.eu – Investors – Corporate Governance).

2. Ownership Structure (ex Art. 123-bis, paragraph 1, of Italian Legislative Decree 58/1998) at 14 March 2013

A. Capital structure

The share capital structure of Reply S.p.A. is summarized below.

The share capital fully paid and subscribed at 14 March 2013, amounts to 4,803,685.64 Euros, divided in 9,237,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.

The share capital can further be increased for a maximum of 67,600.00 Euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at 31 December 2012, and not exercised to date, as already specified in Note 24 of the Financial Statements under paragraph "Stock options" and summarised in the following table:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	10/06/2004	12/05/2006	8	21.339	12/05/2009 – 12/05/2014	120,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000

B. Restrictions on the transfer of shares

The by-laws do not foresee restrictions on the transfer of shares.

C. Significant shareholdings

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 14 March 2013, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Shareholder	Direct Shareholder	Ownership % over share capital	Ownership % over voting capital
Rizzante Mario	Alika S.r.l.	53.4345	53.4345
	Rizzante Mario	0.1093	0.1093
	Total 53.5438	**53.5438**	
BNY Mellon Service Kapitalanlage	BNY Mellon Service Kapitalanlage	5.2413	5.2413
Highclere International Investors Limited	Highclere International Small Companies Fund	3.5598	3.5598
Lodigiani Riccardo	Lodigiani Riccardo	2.1006	2.1006
Reply S.p.A.	Reply S.p.A.	2.5527	2.5527

D. Shares granting special rights

No shares have been issued that grant special rights of control.

E. Employee shareholdings: mechanism exercising voting rights

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F. **Restrictions on voting rights**

The company by-laws have not established restrictions on voting rights.

G. **Agreement with shareholders**

At present, the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree n. 58/1998, in which shareholders have more than 2% of the share capital:

1. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, and tacitly renewed for a further three-year period until 9 November 2013, by which the shareholders of Alika S.r.l., with headquarters in Torino Corso Francia no. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, for a stake of 46,206.00 Euros equivalent to 51% (fifty-one percent) of the share capital and more specifically:
   - → Mr. Mario Rizzante holder of 5,706.00 Euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
   - → Mrs. Maria Graziella Paglia holder of 17,100.00 Euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
   - → Mrs. Tatiana Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
   - → Mr. Filippo Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

   have signed a lock up agreement according to Article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice, having the right to vote in the company Alika S.r.l., holding of Reply S.p.A.

H. **Change of control clause and statutory rulings in public tender offers**

With reference to agreements that could be cancelled in relation to a change of control in Reply S.p.A., the following is noted:

Financing contracts

Reply S.p.A., has entered into the following loan agreements with Intesa San Paolo:

- → On 31 March 2009 a contract was signed for 50 million Euros.
- → On 25 September 2012 a contract was signed for 2,500,000 Euros.
- → On 24 December 2012 a contract was signed for 1,500,000 million Euros.

The company has also signed on 15 September 2012 a loan agreement with Unicredit SpA for 15 million Euros. These contracts, having the scope of financing the Group for acquisitions on the Italian or European market, allow the funding banks the faculty to call off the contract in case of a change of control directly or indirectly in Reply S.p.A., in accordance with Art. 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control: the Company has also undersigned contracts in which the clause “Change of control” implies immediate cancellation of the contract.
Such agreements, which are not very significant when compared to the whole of Group activities, are subject to confidentiality clauses.

Public Offers

Reply's by-laws does not provide any regulations in relation to the passivity rule provided for by art. 104, paragraph 1 and 2 of TUF nor does it foresee the application of the neutralization rules contemplated in art. 104-bis, paragraphs 2 and 3 of the TUF.

I. Proxies to increase the share capital and authorization to buy treasury shares

The General Shareholders' meeting has given proxy to the Board of Directors to increase the share capital, pursuant to Article 2443 of the civil code.
The information regarding the current proxies is detailed in the table below:

Resolution			Amount Proxy		Proxy executed	
The General Shareholders' meeting	Proxy	Expiry date	Euros	Shares	Euros	Shares
28/04/2011	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, payable in different forms and to be executed separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	28/04/2016	312,000	600,000	-	-

The Shareholder's, following resolution passed on 27 April 2012, have authorized the acquisition of treasury shares in accordance with art. 2357 of the Italian Civil Code as follows:
number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 1,608,758 ordinary shares at 0.52 Euros, corresponding to 17.4432% of the existing share capital within the maximum spending limit of 30,000,000 Euros;
duration: for a period of 18 months, that is from 27 April 2012 to 27 October 2013, in substitution of the previous authorization resolved by the Shareholders' meeting of 28 April 2011;
minimum purchase price: nominal value of the ordinary shares (presently 0.52 Euros);
maximum purchase price: not greater than the official trade price on the MTA Market the day prior to the purchase applying a spread of 15%, and a disbursement of maximum 30,000,000 Euros;
authorisation to sell: on the market or in blocks, through a public bid; (ii) sale, transfer, or trade of shares for investment acquisitions or negotiations with strategic *partners* (iii) following agreements made with individual Directors, employees and or collaborators of the Company or with directly or indirectly controlled companies, that do not meet the requirements of Stock granting pursuant to ex. Art. 114 bis of the TUF (iv) against payment in kind pursuant to the regulations of the Stock Granting plans.

At the reporting date the company held 235,813 treasury shares.

On 28 April 2011 the Company resolved to grant the Board of Directors, pursuant to Article 2443 of the Civil Code, the powers to increase the share capital in one or more tranches for a period of five years pursuant to art. 2441 paragraph 4, for a maximum nominal value of 312,000 Euros through the issue of 600,000 Reply S.p.A ordinary shares with a par value of 0.52 Euros each, to be executed in one or more tranches and therefore separable, for a maximum five year period;
The new shares will be issued separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.

The Board of Directors pursuant to Article 2441, paragraph 6 of the Civil Law, shall determine the price of the shares with reference to the trend of the stock market for the operation in the increase of share capital, and subordinated to the best practice methods of evaluation at an international level that take into consideration the market multipliers of comparable companies and to financial economic models commonly recognized and used in the respect of the minimum share price calculated as the single value of the share of the consolidated net equity resulting in the most recently approved Financial Statements by the Board of Directors prior to the resolution of the increase in share capital.

It is to be noted that:

- The information requested by art.123-bis, first paragraph letter i) of TUF is disclosed in the Directors' report at the paragraph disclosing Director's remuneration;
- The information requested by art.123-bis, first paragraph letter l) of TUF is disclosed in the Directors' report at the paragraph disclosing information on the Board of Directors.

3. Management and coordination activities

Reply S.p.A. is not subject to management and coordination activities pursuant to Article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. in as much as it qualifies as a holding, lacking an autonomous organizational structure and consequently does not carry out management activities for Reply S.p.A.

All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately disclosed the control and coordination to which they are subject by Reply S.p.A. in accordance with art. 2497 – bis of the Italian Civil Code.

4. Compliance (ex Art. 123-bis, para 2, letter a), TUF)

The Report herein reflects and illustrates the corporate governance structure that the Company has adopted in compliance to the requirements of the Code, available on Borsa Italiana's website www.borsaitaliana.it and to which the Company has adhered.

The Board of Directors is always inclined at evaluating any new views and orientations that the Corporate Governance Code could consider and eventually integrate and amend the Company's Corporate Governance only if, and compatible with the company's reality, and that such integration enables the Company to further strengthen its reliability with investors.

Reply S.p.A. and its key strategic subsidiaries, to the Board of Directors knowledge, are not subject to foreign laws that have an influence on the corporate governance structure of the Issuer.

5. Board of Directors

A. Nomination and substitution of Directors

The nomination and substitution of Directors is disciplined by art. 16 (Nomination of Directors) of the by-laws, and is available on the Company's website (www.reply.eu under – Investors – Corporate Governance).
Art. 16 of the Company's by-laws has been revised under the General Meeting's resolution of 14 June 2007, in order to comply with the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the Directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate. The same Article has been further amended by the Board of Directors resolution passed on 26 October 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies).
Art. 16 of the Company by-laws, regulates that:

- The list of candidates running for Director, shall be deposited at the company's registered office twenty-five days prior to the date of the first call for the Annual General Shareholders' meeting; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance with binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the Directors to be elected;
- The voting mechanism appoints the Directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one candidate has been voted by the minority list that has received the most number of votes and that is not connected in any way, not even indirectly, to the shareholders that presented or voted the list that reached the greatest number of votes;
- In the case where the minimum number of Independent Directors have not been nominated according to the procedure mentioned above, the last candidate elected from each list which has been nominated by at least one Director and who has received the most votes will be substituted by the candidate immediately following until the minimum number of Independent Directors have been elected.
- The company by-laws regulate that Independent Directors not only must meet the requirements established for Statutory Auditors in accordance with art. 148, paragraph 3, of Legislative Decree 24 February 1998 no. 58, but must also meet requirements established by the Corporate governance code adopted by the Company.

The Board of Directors have not adopted a succession plan for Executive Directors.

B. **Members**

The Company's Board of Directors is made up of a variable number of members from a minimum of 3 to a maximum of 11. The number of members 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 nine (9) Directors of which six (6) Executive:

→ Mr. Mario Rizzante	Chairman and Chief Executive Officer
→ Ms. Tatiana Rizzante	Chief Executive Officer
→ Mr. Oscar Pepino	Executive Director
→ Mr. Claudio Bombonato	Executive Director
→ Mr. Daniele Angelucci	Executive Director
→ Mr. Filippo Rizzante	Executive Director

and three (3) Non-Executive and Independent Directors:

→ Mr. Fausto Forti	(Lead Independent Director)
→ Mr. Marco Mezzalama	
→ Mr. Carlo Alberto Carnevale Maffè	

The Non-Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.
The above mentioned Directors have been appointed under shareholders' resolution of the 27 April 2012 based on the list presented by the major shareholder, Alika S.r.l.
The above mentioned Directors will hold office until approval of the year end 31 December 2014 Financial Statements.
The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the shareholders. 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 with the exception of urgent and confidential matters.
The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing 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.
With regard to the application of the criterion of apportionment in relation to the election of Directors, pursuant to Art. 147 ter, paragraph 1 ter of the TUF, the law no. 120 of 2011 established that the above provisions shall apply from the first renewal of the Board one year from the date of entry into force of the above-mentioned law; such rules will apply to Reply to S.p.A. as from the renewal of the corporate bodies on the approval of the Financial Statements at 31 December 2014, upon the adoption of the necessary statutory changes.

The table below discloses the main information related to the Board of Directors in compliance with Article 144-duodecies issued by Consob

Name	**Office**	**Board of Directors**								**Internal control and risks committee**		**Remuneration and Appointments committee**	
		In office	L(**)	E	N.E	I. code	I. TUF	%.	Other offices	Attendance	%.	Attendance	%
Mario Rizzante	Chairman and Chief Executive Officer	From 1/1/12 To 31/12/14(*)	M	X	-	-	-	100,00%	1	-	-	-	-
Tatiana Rizzante	Chief Executive Officer	From 1/1/12 To 31/12/14(*)	M	X	-	-	-	100,00%	2	-	-	-	-
Oscar Pepino	Executive Director	From 1/1/12 To 31/12/14(*)	M	X	-	-	-	100,00%	N/A	-	-	-	-
Claudio Bombonato	Executive Director	From 1/1/12 To 31/12/14(*))	M	X	-	-	-	83,33%	1	-	-	-	-
Daniele Angelucci	Executive Director	From 27/04/12 To 31/12/14(*)	M	X	-	-	-	100,00% from appointment	1	-	-	-	-
Filippo Rizzante	Executive Director	From 1/1/12 To 31/12/14(*)	M	X	-	-	-	80,00% from appointment	1	-	-	-	-
Fausto Forti	Lead Independent Director	Dall'1/1/12 To 31/12/14(*)	M		X	X	X	83,33%	1	X	100%	X	100%
Marco Mezzalama	Non-Executive independent Director	From 1/1/12 To 31/12/14(*)	M		X	X	X	66,67%	N/A	X	100%	X	100%
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 1/1/12 To 31/12/14(*)	M		X	X	X	100,00%	1	X	100%	X	100%
Number of meetings held in 2012			Meetings of the BoD.: 6							Meetings of the Internal control committee: 3		Meetings of the Remuneration and Appointments Committee: 2	

(*) in office until the Shareholders' meeting for the approval of 31 December 2014 Financial Statements
(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous with votes in favour amounting to 52.21% of share capital.
Key:
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: Non-Executive
I: independent
I.TUF independent pursuant to art. 148 of TUF

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavour: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan. In 2006 he became member of the Reply Deutschland AG (Germany) Supervisory Board and holds the position of Chairman.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselt. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence centre related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante is appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out Sales & Marketing activities in Italy for the entire Group. In 2006 Mrs. Rizzante is appointed Chief Executive Officer of Reply and in the same year becomes member of the Supervisory Board of Reply Deutschland AG (Germany), a company listed on the Frankfurt stock market and controlled by Reply S.p.A. Since April 2011 she has held the position as Independent Director at Ansaldo Sts S.p.A. (Finmeccanica Group company).

Oscar Pepino (Executive Director and founder of Reply S.p.A.)

Mr. Pepino graduated in Science Informatics at the University of Turin in 1977. In 1981 he founded Mesarteam S.p.A., a System Integration company fulfilling his management role from the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and fulfils the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino is currently is in charge of the Reply Group Operations Office which runs the informatics system, quality management, the management of operational quarters, PM Academy and Cmmi; Safety at work and Privacy, supervision of the Internal Control System and tasks associated to this role in accordance with the Procedures for Operations with Related Parties.

Claudio Bombonato (Executive Director of Reply S.p.A.)

Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds a Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also a Masters degree in Business Administration from Università Commerciale Luigi Bocconi. After a 10 year professional experience in Fiat Aviation Division and IBM Italy, he started working at McKinsey (in 1981) where he was mainly involved in the banking sector and ICT. In 1986 he became Partner and leader in financial institutional practices and ICT in Italy. In 1990, he was appointed Director of the company by McKinsey and was a member of the European leadership group on Financial Institutions. Mr. Claudio Bombonato was the European Supervisor overseeing Commercial Banking practices for a number of years. In 2006 he left Mckinsey and was appointed European Senior Advisor for Morgan Stanley (Financial Institution sector in Italy). He has published many articles on strategic thematic, organization and technology both for the financial and public sectors. He was Member of the Board at SI Holding. At present he is a Member of the Board at Fonspa and at Whysol S.p.A, a financial holding company active in the energy sector.

Daniele Angelucci (Executive Director of Reply S.p.A.)

worked from 1976 to 1986 at the Centre of Study & Laboratories of Telecommunications (CSELT, now Telecom Italy Lab) as a researcher; From 1986 to 1995 he worked in Mesarteam S.p.A. fulfilling various roles including Technical Director of the Rome office, Head of Technical Software and then Technical Director of Turin. He joined Reply as a Senior Partner in 1996. In 1996 he became President and founding member of Cluster Reply, a group company focused on e-business solutions using Microsoft technology. From 2000 to 2002 he was Director of operations in the Turin area. In 2003 he became CEO of Santer S.p.A., a company specialised in the health market and local government. From 2006 to 2010 he was Chief Financial Officer of the German syskoplan AG. Since 2011 he has been Chief Financial Officer of Reply S.p.A.

Filippo Rizzante (Executive Director of Reply S.p.A.)

A computer engineering graduate from the Polytechnic University of Turin, whom has always been fascinated by new technologies. He began his career with Reply in 1999. In the early years, he worked within the Group mainly in consultancy and projects for the web division, focusing in particular on the development of B2B and B2C portals. In 2003 he held the position of Technical Manager of Technology Reply Rome, and then continued his career within YH Reply (now Whitehall Reply) as CEO. In 2006 Filippo became Executive Partner of the Reply Group, overseeing the Group companies that deal with Oracle technologies, Safety, Information Lifecycle Management, Web 2.0 and Open Source. Over the years his responsibilities within the Group grew and he assumed direct responsibility for various business lines, including Architecture and Technologies, Digital and Mobile Media – in addition to contributing to the success of the Reply offer in the context of Cloud Computing, Digital Media and Social Media for significant Italian and foreign clients. Since 2012, in the capacity of Reply CTO, he led the development of new offer elements associated with technological innovation and assumed Group responsibility for all partnerships.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.)

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. he held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica (Associazione Italiana delle Aziende di Logistica). Since April 2010 he is Chairman of Confetra (Confederazione italiana delle Associazioni di Trasporto e Logistica).

Marco Mezzalama (Independent Director of Reply S.p.A.)

Mr. Mezzalama graduate cum laude in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for informatics systems. He is a member of the Turin Science Academy. He is the author of more than 150 scientific publications. He also holds various positions at research institutions and/or organisations in the ICT sector.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)

Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University and was the founder and coordinator of Master in Business Strategy (MISA). He teaches the Business Strategy course for the BA in International Economics and Management and the MAFED M.A.. He has taught the Media MBA course at Steinbeis University of Berlin and the Master in Intelligence at the University of Malta. He has also worked as professor at the Graduate School of Business of Columbia University and Stern School of Business of New York University. He collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and Bloomberg. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of "Harvard Business Review Italy". He is a member of the Steering Committee "E-business Policies" of the European Commission DG Enterprise. He is independent Director of listed companies in the Technology, Media and Telecommunications segments, as well as industrial companies, for which he is Director of US and India branches. He is a strategic advisor for leading Italian and international companies He is economic advisor for the Marisa Bellisario Foundation and scientific Director at ABI Lab of the Innovation Award for Banking Services. He has published many articles, books and business cases and often has released interviews and comments for the most important international economic- financial newspapers.

The criteria in evaluating the requisites of independence of the Board of Directors has not been integrated or modified.

The Board of Directors has verified, at the date of approval of the Report herein, the offices of Directors and Statutory Auditors, held by the Directors in other listed companies, finance, bank, and insurance companies or big enterprises.

The following arose:

- Mr. Mario Rizzante, is Chairman of the Supervisory Board of Reply Deutschland AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Ms. Tatiana Rizzante is a member of the Supervisory Board of Reply Deutschland AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market and independent Director of Ansaldo Sts S.p.a (Finmeccanic group company);
- Mr. Claudio Bombonato is Chairman of Fonspa Bank and a Director of Whysol S.p.A., a financial holding company active in the energy sector;
- Professor Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in ICT and Consorzio Topix;
- Professor Carlo Alberto Carnevale Maffè is a member of the Board of Directors' of Poligrafica San Faustino S.p.A.,
- Mr. Fausto Forti is Chairman and Chief Executive Officer of DHL Express Italy S.r.l..

Although recommended by the Code, the Board of Directors has preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the Directors' role, as it believes that such assessment firstly should be made by the shareholders when appointing the Directors and secondly by the individual Director when accepting the office.

C. **Role of the Board of Directors**

The Board of Directors is the statutory managing body vested with the broadest powers for the ordinary and extraordinary management 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, in compliance with the Code:

a) Examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads periodically monitoring its implementation; defines the corporate governance system and the structure of the group;
b) Defines the nature and level of risk compatible with the issuer's strategic objectives;
c) Evaluates 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 risk management;
d) 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;
e) Evaluates 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) Decides on operations carried out by the issuer and its subsidiaries when said operations have significant strategic, economic or financial relevance to such issuer; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
g) At least once a year, it performs an evaluation of the work of the Board itself as well as of its committees including their size and composition, also taking into account elements such as the professional characteristics, (managerial) experience and general qualities of its members, including their length of time in office;
h) Taking account of the outcome of the evaluation under point g), before a new Board is appointed, it advises shareholders with regard to the types of professionals it deems advisable to have represented on the Board;
i) Provides information in the report on corporate governance: (1) on its composition of the board, indicating for each member the qualification (Executive, Non-Executive, or independent) the role within the Board, his or her main professional features and seniority as a member of the Board; (2) the methods of application of Art. 1 of the Code and, 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; (3) on the modalities of the evaluation process referred to under point g);
j) In order to ensure the proper management of corporate information, adopted, on the proposal of the Chief Executive Officer or Chairman of the Board of Directors, a procedure for the internal management and external communication of documents and information concerning the issuer, with particular reference to privileged information.

In accordance with 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 in the section dedicated to the topic.

The Board of Directors meet on a regular basis, at least every three months, as established by the Company by-laws, or when deemed necessary.
The Directors report to the Statutory Auditors on a quarterly basis with regards to the activities carried out during the year, the significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.
During 2012 the Board of Directors met six (6) times and the average duration was approximately two hours (2).

The Board of Directors are scheduled to meet at least four (4) times in 2013. The Board of Directors have held no meetings at the present date of this Report.
The participating members of the Board are also allowed to intervene through audiovisual connection.
In order to facilitate the participation of a greater number of Managers and Statutory Auditors, a calendar of the annual meetings scheduled is drafted.
Prior to the meetings, the Directors and Statutory Auditors are provided with the Agenda of the meeting.

D. Chairman of the Board of Directors, Chief Executive Officers and Executive Directors

The Board of Directors currently holding office comprises one Chief Executive Officer, four Executive Directors and has empowered the Chairman (who also fulfils the role of Chief Executive Officer) with the broadest operational delegations, in light of the resolutions passed on 27 April 2012.
Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with 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.*
The Chairman, is responsible for the management of the Company and is also major shareholder, as illustrated here within.
Ms. Tatiana Rizzante, Chief Executive Officer, has the following main powers:

- Ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- Undersign rent and lease contracts for no longer than a nine year period 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 and foreign countries, 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;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
  - Represent the Company in relation to all such matters, issuing the relevant powers of attorney.

The main proxies empowered to the Executive Director, Mr. Oscar Pepino:

- Sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
  - Grant guarantees and sureties of up to a maximum of 1,000,000 Euros;
- 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;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded 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 from an asset side and 500,000.00 Euros for operations from a liability side;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- Hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, Mr. Claudio Bombonato, with the scope of supporting the Company in the development of its activities, are the following:

- individual powers:
  a) Represent the Company Reply S.p.A. with external contacts and business negotiations and authorize the issuing of the related business offer with a limit of 5,000,000 Euros per transaction;
  b) Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation;
  c) Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the necessary mandate in the case of temporary joint ventures;
  - undersign contracts following the awarding of the bid;
  - subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;

  d) To carry out in the interest of the Company whatever is necessary or convenient within his powers;
- joint powers, with another Director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Executive Director, Mr. Claudio Bombonato in capacity of Executive Director, has been assigned further powers related to activities under Network Finance & Security within the Reply Group.
The main proxies empowered to the Executive Director, Mr. Daniele Angelucci:

- Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation from an asset side and 1,000,000.00 Euros for operations from a liability side;
- Sign rent and lease contracts for a maximum value of 1,000,000.00 Euros for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- Grant guarantees, sureties in the limit of 5,000,000 Euros;
- To sign insurance policies covering risks pertaining to its premises, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts all subject to a maximum limit of 500,000.00 Euros;
- Request, accept and use bank credit in the short, medium and long term to a maximum of 10,000,000 Euros;
- Sign factoring contracts, negotiating conditions, carry out any operation connected including the sale of receivables, the provision of guarantees, warrants for collection, discount operations and advance payments with commitment of shares all in the limit of 10,000,000 Euros;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, 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;

- To employ, appoint and dismiss employees with annual gross salaries (including any supplemental compensation) of up to 100,000.00 Euros; to grant salary supplements to employees as a result of which the beneficiaries do not exceed a gross annual salary (including any supplemental compensation) of 100,000.00 Euros;
- Within the maximum spending limit of 300,000 Euros, retract from contracts with middle and senior managers, compromise the related controversies, representing the Company before the labour unions;
- 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;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
  - Represent the Company in relation to all such matters, issuing the relevant powers of attorney.

The main proxies empowered to the Executive Director, Mr. Filippo Rizzante:

- 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 1,000,000.00 Euros for each operation from an asset side and for operations from a liability side with Reply Group subjects and a value not greater than 150,000 Euros for each operation and from a liability side for subjects outside the Reply Group;
- 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 1,000,000.00 Euros; and has the power to:
  - 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;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- Undersign rent and lease contracts for no longer than a nine year period to a maximum of 150,000 Euros 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;
- Sign insurance policies covering risks pertaining to the premises where the company carries out its business, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts deemed to be necessary and expedient; all subject to a maximum limit of 50,000.00 Euros.
- Hire employees with annual salaries of up to 40,000 Euros, modify or retract from work contracts up to a maximum fee of 100,000 Euros and settle the related disputes, representing the Company in front of trades unions;

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Directors meetings, and at least on a quarterly basis, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.
The Chairman, under the company's by-laws, 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 runs the meetings.
In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. and the Chairman have the possibility to attribute specific delegation powers to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.

E. **Independent Directors**

As previously stated, the three Directors members of the Board of Directors qualifying as being independent are:

→ Mr. Fausto Forti (*Lead Independent Director*)
→ Professor Marco Mezzalama
→ Professor Carlo Alberto Carnevale Maffè

The independent Directors constitute as a whole the Remuneration and Appointments Committee and the Internal Control and Risks Committee.
The same Independent Directors also qualify as, in the capacity of members of the Internal Control and Risks Committee, members of the Related party transaction committee established by the related procedure.
The Independent Non-Executive Directors have the same characteristics as the Independent Directors, in compliance with paragraph 3.C.1. of the 2011 edition of the Corporate Governance Code that provides that a Director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

a) If he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;
b) If he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;
c) If he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
   → with the issuer, one of its subsidiaries, or any of its significant representatives;
   → with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or – in case of a company or an entity – with the relevant significant representatives;

   or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;
d) If he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer and compensation for participation in committees recommended by the Code, 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 external audit of the issuer;
h) If he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held 27 April 2012, also being the first meeting following its renewal on 14 March 2013, and subsequently on an annual basis, with positive results, the independence 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, resolving not to apply the criteria stated in point e) in view of the Directors' authority, reputation and moral statute. This was limitedly verified with regards to Prof. Marco Mezzalama accruing from September 2009.
The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.
In 2012 it was not necessary for the independent Directors to convene in specific individual meetings as they periodically meet when the Internal Control and Risks Committee and Remuneration and Appointments Committee meetings are convened representing as a whole such bodies.

F. Lead Independent Director

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a "Lead Independent Director", that represents a reference and coordination point of the motions of the Non-Executive Directors and more specifically the independent ones; and cooperate with the chairman of the Board of Directors in order to ensure that Directors receive adequate information in good time; for this scope, should these circumstances occur, in accordance with article 2.C.3 of the Code, the role of Lead Independent Director is head by the Non-Executive and Independent Director, Mr. Fausto Forti.

6. Processing of confidential information

The Chairman and Chief Executive Officer, Mr. Mario Rizzante and the *Investor Relator*, Mr. Riccardo Lodigiani, handle the *processing* of internal and external communication of confidential company information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.

More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.

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

It is also acknowledges that, following the introduction in Italy of the so-called "*market abuse*" directive enacted by Community Law 2004 (Law 18, April 2005 no. 62) and endorsed by the corresponding Consob regulation a law was passed concerning the obligation to notify the public about any transactions carried out by "key 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. ever since 1 January 2003, was abolished as of 1 April 2006 date in which the new Consob Regulation no. 11971/99 was implemented.

In execution of the new regulation of 1 April 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Key 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 1 April 2006 following the Board of Directors' resolution of 31 March 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 comprises nine paragraphs that define 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"; all in accordance with the regulations issued by Consob.

Executive Director, Mr. Daniel Angelucci, is the person responsible for the handling of confidential information.

The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu – Investors – Corporate Governance).

Aside from the above, the Board of Directors of the Company has not, for the moment, adopted additional resolutions of adoption of procedures for the internal management and external communication of documents and information concerning the issuer.

7. Committees within the Board of Directors

The Board of Directors has set up consulting committees, The Internal Control and Risks Committee and the Remuneration and Appointments Committee (previously Remuneration Committee).
During 2012, the Board of Directors decided to set up an internal committee to propose candidates for appointment to the position of Director, identified by the Remuneration Committee. As of today no issues related to the appointment of Directors have been submitted to the Committee.

8. Remuneration Committee

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with Article 123-ter of TUF.
The Board of Directors has internally constituted a Remuneration and Appointments Committee composed of Professor Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, Non-Executive and Independent Directors and Mr. Fausto Forti, Lead Independent Director.
In 2012 the Remuneration and Appointments Committee, in order to carry out its duties, met twice (2) with the presence of all members.
In 2013 one (1) meeting has been planned, and already held.
At present the Committee has not utilized external consultants.
In accordance with art. 6.C.6 of the Corporate Governance Code, no Director shall participate in meetings of the Remuneration and Appointments Committee in which proposals are submitted to the Board of Directors relating to his/her remuneration; meetings will be attended by the Chairman of the Board of Statutory Auditors.

9. Remuneration of Directors

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with Article 123-ter of TUF.

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' meeting of 27 April 2012, upon nomination, and equal to 30,000.00 Euros gross of any withholding amounts foreseen by law.

Remuneration of Directors invested with special roles, was established by the Board of Directors in line with the Remuneration and Appointments Committee, upon proposal of the Committee, authorised by the Board of Statutory Auditors.

In compliance with article 20 of the Company by-laws, amended by the Shareholders' meeting of 28 April 2011, the total amount of remuneration to Directors, including those invested with strategic powers, can also be determined by the Annual General Shareholders' meeting.

In March 2012 the Company complied with the recommendations contained in Art. 7 of the Code of Conduct of March 2006, as amended in March 2010 (now categorised as art. 6, in the version of the Code of December 2011).

In compliance with Article 6.C.1 of the Code of the March 2006 release, article 22 of the Company by-laws provides the possibility to attribute a variable fee to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, which is resolved by the Annual General Shareholders' meeting approving the annual Financial Statements.

Such a possibility, that has already been adopted ever since allocation of the 2004 net result (with the exception of 2009), considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to 31 December 2012.

10.Control and Risks Committee

Under Article 8.P.4 of the Code, the Board of Directors has internally constituted a Remuneration and Appointments Committee composed of Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, Non-Executive and Independent Directors, and Mr. Fausto Forti, Lead Independent Director.

The Internal Control and Risks Committee

- Evaluates together with the Director responsible for the preparation of the company's accounting documents, the auditor, and the Board of Statutory Auditors, the correct utilisation of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- Expresses opinion on specific aspects relating to the identification of the principal risks for the company;
- Examines the periodic reports relating to the evaluation of the system of internal control and risk management, and those of particular relevance prepared by the Internal Audit function;
- Monitors the independence, appropriateness, effectiveness and efficiency of the Internal Audit function;
- May ask the Internal Audit function to perform checks on specific operating areas, simultaneously notifying such request to the Chairman of 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 and risk management system.

The Chairman of the Board of Statutory Auditors or another auditor appointed by the aforementioned participates in the work of the Control and Risk Committee; a written report shall be prepared at the end of each meeting, which will include the Committee's proposals.

In order to carry out its duties, the Committee can request information and data from the head of the Internal Audit function, the Board of Statutory Auditors and the independent auditors.

During 2012 the Internal Control and Risks Committee met three times (3) and once (1) in 2013. All members were present and examined the following:

- Revision of the Impairment Test policy – Impairment (IAS 36);
- The separate Financial Statements and the consolidated Financial Statements of 2012-2012, and half-year report of 2011;
- Update on activities in relation to Law no. 262/2005 (Legge sul Risparmio) and other related internal improvement projects;
- Update on the introduction of the Risk Management system.

With reference to the examination of issues related to the Financial Statements, the Committee requested the participation, as well as that of the Head of Internal Audit, also that of Mr. Conti on behalf of the audit firm Ernst & Young S.p.A.

The Committee reported two (2) times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the Internal Control and Risks System.

The Internal Control and Risks Committee must also express its opinion in relation to transactions with related parties when required by the Procedures (available on internet: www.reply.eu).

11. Internal Control and Risk Management System

The internal control and risk management system is a set of rules, procedures and organizational structures that contribute to safeguarding the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information, the identification and monitoring of the main risks, and the compliance with laws and regulations.
The Board of Directors is responsible for the system of internal control and risk management, that, after receiving the opinion of the Control and Risks Committee, establishes guidelines and a work plan, evaluating its adequacy.
In this regard, during the year, the Board of Directors and the Control and Risks Committee expressed a favourable judgement regarding the adequacy of the Internal Control System for monitoring the level of risk consistent with the objectives of the Group.

Foreword

Reply has put in place a system of internal control and risk management for financial reporting based on the "*COSO Framework*", defined as a set of rules, procedures and tools designed to provide, through an adequate process of identification, the measurement, management and monitoring, of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.
The objective of the internal control and risk management system is also to ensure that the financial reporting disclosed within the required timeframe provides a fair and correct representation of operations, in order to guarantee the reliability, accuracy, truthfulness and timeliness of the financial information.
In relation to the Company's objectives, whether business or compliance, as well as reporting, the Company has adopted the following key instruments:

Instruments monitoring business objectives

- Planning and management control – Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the Company's objectives/strategies and operational planning through a *budget* and monitoring them by means of a monthly *review* of performance.
- Company operational procedure system - Reply S.p.A. has implemented a group of procedures that regulate internal processes, in order to properly apply the Company directives and to limit the risks connected with the achievement of the Company's objectives, regulating both the activities carried out within individual departments, as well as relations with other entities.
- Risk Management System - Reply S.p.A. has implemented a Risk Management system, based on the Control Risk Self Assessment model, a self assessment methodology recognized by sector standards.

The objective of such procedure is to develop a corporate culture in view of raising risk awareness, through a continuous and pervasive process, implemented by the Board of Directors and by top management, aimed at identifying any potential events that might involve the Company as well as pursuing a risk level that is consistent with achieving the Company's objectives.
The methodology used is articulated in the following phases:

- Identification of objectives, strategies, critical success factors and the specific related risks that conflict with the achievement of the objectives;
- Self-assessment process based on indicators associated with the different risk categories (named the Key Risk Indicators).

Such system thus enables the identification, measurement, management and control of the Company's level of exposure to the different risk factors, considering (i) the probability that the risk occurs, (ii) the impact of the risk on the Company's objectives, (iii) the overall scope of the risk, (iv) the Company's ability to reduce the impact of the risk on business operations, and (v) possible relationships among the different risk factors.
The procedure provides for monitoring the adequacy and effective functioning of the internal control and risk management system, as well as its review, to be completed annually, in order to consider the trend of business operations and the context of reference. Such process, coordinated by the Internal Audit department, provides for the use of questionnaires so that risk belonging to each profile can be assessed by Top Management and the Directors of the Company's various departments as well as by the Partners of the Italian subsidiaries.

Instruments monitoring compliance objectives

- Law 262/2005 on financial and accounting reporting – Consistently with what is provided by Law 262/2005 on the protection of savings, Reply S.p.A. implemented accounting and administrative processes relevant for purposes of the reliability of the financial-economic reporting disclosed to the market, that provide for:
  - Mapping of the main sub-processes within the administration and relevant accounting procedures;
  - Assessment of the adequacy of the existing controls and ongoing implementation of further controls in view of *compliance* and increased reliability of the processes considered;
  - Drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
  - Creation of future control and monitoring instruments.
- Legislative Decree 231/2001 – see the relevant paragraph.
- Security, environment and quality – Reply has implemented a system of procedures and an organizational structure dedicated to the management of data security (also in view of the laws on *Privacy*), environmental protection, the safety of equipment and personnel and the quality of the services carried out (ISO certification 9001:2008).
- Other laws and regulations - Monitoring the evolution of laws and regulations and that relative compliance is carried out internally.

Instruments monitoring reporting objectives

- Accounting disclosures - the drafting of accounting disclosures and disclosures in the consolidated and separate Financial Statements is regulated by the procedures of an administrative-accounting system.
- Confidential Information: see the relevant paragraph.
- Internal Communications – Reply S.p.A. has implemented an internal communications system aimed at facilitating and promoting internal communications within the Company and the Group, including by means of a structured management and coordination Committee system.

Characteristics of the current internal control and risk management system in relation to the financial reporting process.
The approach adopted by Reply in relation to the assessment, monitoring and continuous updating of the internal control and risk management system is based on a process that is consistent with the "*COSO Framework*" model, which allows making assessments focusing on areas of higher risk and/or materiality, that is, where there are risks of significant errors in elements of the Financial Statements and related documents.

The key components of the process are:

1. Identification and evaluation of the source and probability of significant errors in elements of financial reporting;
2. Identification of the key controls aimed at covering the risks;
3. Assessment of the adequacy of the above controls with respect to the above risks, enabling ex ante or ex post identification of potential misstatements in elements of financial-economic reporting;
4. Verification of the operating effectiveness of controls.

Identification of the risk of misstatements which could have material effects on *financial reporting* is carried out through an administrative-accounting *risk assessment* process, under the supervision of the Director in charge of drawing up the Financial Statements along with the Chief Executive Officer, that identify the organizational entities, processes and the related accounting items that are generated, in addition to specific activities which could potentially generate significant errors. According to the methodology adopted by Reply, risks and related controls are associated with the accounting and business processes upon which accounting information is based.
Significant risks, identified through the *risk assessment* process, require definition and evaluation of specific controls ("key controls") that guarantee "coverage", thereby mitigating the risk that financial reporting will contain any material misstatements.
According to international *best practice*, there are two principal types of existing controls:

- → Controls that operate at Group or subsidiary level, such as: the delegation of authorities and responsibilities, separation of duties and assignment of privileges and rights for access to IT systems;
- → Controls that operate at process level, such as authorizations, reconciliations, verifications of consistency, etc. This category includes controls referring to operational processes and controls of accounting closure processes. Such controls can be "*preventive*" aimed at preventing errors or fraud which could result in misstatements in financial reporting, or "*detective*", aimed at revealing errors or fraud which has already occurred. They may also be defined as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

The process of identifying the above risks and key controls has led to the elaboration of control matrixes (*RCM – "Risk Control Matrix"*) that identify, for each significant process, the potential impact on financial reporting:

- → Risks subsequent to not having fulfilled the "Financial Statement assertion" control objectives, (existence, occurrence, completeness, rights and obligations, evaluation and accounting, presentation and disclosures) and other control objectives (such as authorization, segregation of tasks, data security, documentation and traceability of operations, etc.);
- → The related "*best practice*" (i.e. *CoSO Framework*);
- → The standard control activities (key controls) over these processes/procedures, and their principal characteristics (preventive/detective manual/automatic) and the related process owners;
- → The assessment of the aforesaid controls in relation to the adequacy of mitigating the risks identified;
- → Suggestions to improve shortages identified in the assessment of control activities.

The control activities related to significant processes of financial reporting are fully detailed in the "Reply Group's Manual of administration and accounting procedures", recently updated/integrated pursuant to Law No. 262/2005, commented on below.

As Reply S.p.A.'s shares are listed and negotiated on the Italian stock market, it is mandatory for the Board of Directors to nominate a Director in charge of drawing up the Financial Statements (Nominated Director); The Director in charge of drawing up the Financial Statements is responsible for setting up adequate administrative and accounting procedures to prepare the financial information disclosed to the market, and to monitor the proper application of such procedures. The Administration and accounting procedures manual defines the guidelines that must be applied within Reply and more specifically with reference to obligations under art. 154-bis of legislative decree 58/1998 governing company's Financial Statements and related attestation obligations.
More specifically the Administration and accounting procedures manual has:

- Defined the roles and responsibilities of the Organizational Units involved in the general activities of drafting, communication and control of the financial reporting disclosed to the market;
- Defined the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- Introduced, in order to support the drafting of the legal attestations/statements required by law of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally attest, through the internal communication processes, the correct functioning of the Accounting Control System pursuant to Law 262/2005 related to the accounting processes/flows regulated by such law and which fall within their administrative responsibility, the completeness and reliability of the information flows, as well as the adequacy and effective application of the key controls summarized in the control matrixes.

The company processes, the administrative-accounting procedures and the related control matrixes, along with the list of persons in charge of the operational units enacting the control, are subject to periodic assessments and if the case are updated.
The administrative-accounting procedures and the related control matrixes are shared with the relative process-owners, who attest that the controls have been planned and are operational, Administrative Management, with the support of the Internal Audit department, agree upon the implementation of any corrective measures.

The Internal Audit department carries out periodic assessments of the adequacy and effective application of the key controls every six months at the time of the preparation of the Financial Statements and interim report through audit procedures performed on specific areas determined by the Director in charge of drawing up the Financial Statements.
The Chief Executive officers and administration Directors of the foreign companies undersign an attestation on a periodic basis confirming the adequacy of the accounting procedures in relation to any underlying risks and is sent to the Director in charge and the Chief Executive Officer of the Parent company.
The persons in charge of the relevant administrative and accounting processes pursuant to Law 265/2005 issue an attestation letter addressed to the Director in charge of drawing up the Financial Statements, confirming the effective application of the administrative-accounting procedures for which they are responsible.
The audit plan is aimed at identifying a number of processes to be tested in order to cover the major processes during the year. The audit is performed on several Group companies, selected according to quantative parameters, (material thresholds with respect to the consolidated Financial Statements) and qualitative ones.
In order to carry out the monitoring controls check lists are prepared according to the different processes being controlled which summarize the ways of testing the key controls included in the Procedures Manual and in the RCM, the sample to be tested and the outcome of the test.
Sample testing is the criteria used and the data and assessments included in the check lists are supported by the documentation gathered during the monitoring activities, that are an integral part of the same check lists.

The outcome of the tests performed and any suggestions made concerning the opportunity of implementing further controls where shortages were identified, are summarized by the Internal Audit Officer in a special report, object of an internal communications flow, and addressed to the Director in charge of drawing up the Financial Statements and to the Board of Directors. By sharing this document, two flows are activated:

- The attestation process addressed externally based on the declarations made by the Director in charge in compliance with art. 154-bis of legislative decree 58/1998, in occasion of the drafting of the annual Financial Statements or the half-year financial report, as described above.
- The internal process of sharing with the related *process owners* the outcome of the control assessments, any compensation controls, corrective measures or improvement plan proposals.

The Head of the Internal Audit department periodically refers periodically to the Internal Control and Risk Management Committee, the Board of Statutory Auditors and to the Supervisory Body with reference to the activities carried out within the assessment process of the Internal Control System.

A. **Director in charge of the Internal Control and Risk Management System**

The Board of Directors, at its meeting of 27 April 2012, confirmed Mr. Oscar Pepino as the Director in charge of the Internal Control and Risk Management system, responsible for maintaining the internal control and risk management system in an efficient manner and in conformity with what is required by the Corporate Governance Code, and allows the Head of the Internal Audit department to carry out his role in accordance with the cited provisions of the Code.

B. **Head of the Internal Audit department**

The Board of Directors, at its meeting of 27 April 2012, appointed Mr. Edoardo Dezani – already tied to the Company as an employee – as the Head of the Internal Audit department, upon a proposal of the Director responsible for the Internal Control System, with the favourable opinion of the Internal Control and Risk Management Committee and having heard the Board of Statutory Auditors, who is responsible for controlling that the internal control and risk management system is operational and adequate.

The Head of the Internal Audit department works on the basis of an audit plan approved by the Board of Directors, which provides for periodic reports on the assessment of the internal control and risk management system's adequacy and the reliability of the reporting systems, including the accounting reporting systems, advising the members of the Board of Directors, Top Management, the Internal Control and Risk Management Committee and the Board of Statutory Auditors of his activities.

C. **Organizational Model pursuant to Legislative Decree 231/01.**

In November 2004 the Company's Board of Director's approved an "*Ethics Code*", which confirmed the ethical principles and transparency that guide the Company's internal and external activities, outlining all of the fundamental principles required to guarantee legality, loyalty, and correctness when conducting Reply's business. During the course of 2007 a project was initiated to adopt an updated organizational, management and control Model pursuant to the provisions of Article 6 of Legislative Decree 231/2001 (the "Model") in relation to the responsibilities of enterprises, in order to prevent the crimes provided by such Decree. The Model was approved by the Board of Directors at a meeting held 28 March 2008, and was subsequently updated through resolutions on 13 March 2009 and 4 August 2011.

The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules of conduct, control instruments and organizational procedures, formation and informational activities and disciplinary system finalized at assuring, the prevention of offences.

The types of crime contemplated by Legislative Decree No. 231/2001 and that have been considered at risk for the Group, as outlined in the annex to the Model, are the following:

(i) Relations with the Public Administration;
(ii) Enterprise obligations;
(iii) Privileged information;
(iv) Security, prevention, health and hygiene in the workplace;
(v) IT crimes and illegal use of personal data;
(vi) Laundering crimes;
(vii) Offences related to violation of copyright laws.

The Model was adopted during 2008 and updated in 2009 and 2011 by all the Italian Group companies.
The Organizational Model of Reply S.p.A is available on the company website (www.reply.eu – Investors – Corporate Governance).
The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.
The Board of Directors has appointed a Supervisory Body, which has the duty to verify the correct functioning of the Model and to update it accordingly. The Compliance Committee refers to the Board of Directors and to the Internal Control and Risk Management Committee. The Supervisory Body, which has its own internal Regulations, is comprised of an outsider (Eng. Franco Gianolio) as its President, the Lead Independent Director (Mr. Fausto Forti), and the Head of the Internal Audit department (Mr. Edoardo Dezani), who will remain in office until the approval of the Financial Statements as at 31 December 2014.
The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Supervisory Body of the Parent Company, on the basis of specific agreements.
In 2012 the Supervisory Body met four (4) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

Independent audit firm

The Shareholders' General Meeting held on 29 April 2010, approved the appointment of Reconta Ernst & Young S.p.A. as the Company's independent auditors for the nine-year period 2010-2018 which includes the audit of the separated Financial Statements, the annual consolidated Financial Statements and the half-year condensed consolidated Financial Statements.

D. **Director in charge of drawing up the Financial Statements and legal documents**

The Board of Directors, at its meeting of 27 April 2012, in accordance with the provisions of Law 262/2005, confirmed as *the Director responsible for drawing up the Company's Financial Statements*, upon the proposal of the Chairman and Chief Executive Officer, and with the favourable opinion of the Board of Statutory Auditors, Mr. Giuseppe Veneziano, based on the experience matured in such department during the previous three years, as well as in the context of the Group's administrative and management control areas ever since it was listed; on 17 May 2012, the power of attorney was renewed for the same Director in order to enable him to carry out the powers attributed to him.

Pursuant to article 24 of the Company by-laws, 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 undersign an attestation, annexed to every Financial Statement and to any other financial communication in accordance with specific laws and regulations.

With reference to his tasks, the *Director responsible for drawing up the Financial Statements* 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.

Coordination between those involved in the Internal Control and Risk Management system

At present, the company does not consider it necessary to set up formal procedures for coordination between the various parties involved in the Internal Control and Risk Management system, as they already work in a spirit of mutual cooperation.

12. Directors' 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 and/or vote.

Beginning from the 15 June 2006 the Company has adopted a Regulation on Significant Operations with related parties.

In accordance with Consob regulation no. 17221 of 12 March 2010, the Company has adopted, effective 1 January 2011, procedures for transaction with related parties (the "Procedures") to ensure full transparency and substantial and procedural fairness in transactions with related parties and is available on the Company website (www.reply.eu – Investors – Corporate Governance).

Recalling the definition of Consob Regulation no. 17221 of 12 March 2010, the Procedures establish "significant transactions" those requiring the prior approval of the Board of Directors, with the exception of those subject to law and/or the General Shareholders, "minor transactions" (unless pertaining to the residual category of non significant transactions) those that can be delegated to one or more members of the Board and "exempt transactions" those falling under the types disciplined by Consob regulations.

The Company has exercised the option to apply the procedures related to minor transactions to significant

transactions, as it is a smaller sized company.
Under a procedural perspective, when a transaction with a related party is deemed probable, the Designated Director (that is the Director in charge of supervising the Internal Control System) timely provides the Committee (identified within the Internal Control Committee) written communication with a brief description of the transaction.
If the transaction falls under the significant transaction category and the Designated Director has proposed the application of the specific procedures, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavourable opinion, the Board of Directors could choose to submit to the General Shareholders' meeting the decision concerning the transaction; in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favourable vote, provided that they represent at least 10% of the voting share capital.
If the transaction falls under the minor transaction category, the Committee submits to the Director its non binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction prior to the presentation of the contractual proposal, or, in case the decision is taken by the Board of Directors of the Company, at least three days prior to the board's meeting.
If the transaction falls under the General Shareholders' competencies or must be authorized by the latter, in addition to what has been described above, depending on whether the transaction is significant or minor, the Committee must express a motivated opinion in relation to the Company's interest in carrying out the transaction along with the convenience and substantial correctness of the terms and conditions of the transaction when the Board of Directors is called to approve the motion to submit to the General Shareholders' meeting the decision.
If, in relation to a significant operation the motion to submit to the General Shareholders' meeting the decision is approved by the Board of Directors despite an unfavourable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary resolutions by the General Shareholders' meeting – cannot be approved unless the majority of the non Related Shareholders express a favourable vote, provided that they represent at least 10% of the voting share capital.
In case there is an urgency, the operation, as long it is not competence of the Shareholders and does not need their authorization, may be concluded in derogation of the procedures as long as all mandatory information has been provided to the public and under the condition that:

- Should the transaction fall under the Chief financial officer's powers, the Chairman of the Board of Directors must be informed the reasons of the urgency prior to the transaction being executed;
- The transactions are subsequently approved in a following Shareholders' meeting;
- The body convening the Shareholders' meeting must draw up a report with adequate motivations of the urgency and the Board of Statutory Auditors must refer to the Shareholders their opinion in relation to the reasonableness of the urgency;
- The report and valuation of the previous point must be made available to the public at least 21 days prior to the Annual Shareholders' meeting and in accordance with the means set out by Consob;
- Within one day following the Annual Shareholders' meeting, the Company must make available to the public the information regarding the results of the voting.

The Designated Director, on at least a quarterly basis, submits to the Committee, to the Board of Directors and to the Board of Statutory Auditors, a detailed report concerning transactions previously approved by the Board of Directors and/or carried out by the Chief Executive Officer.
The Head of the Internal Control Function periodically carries out – in any case at least on a half-year basis – control activities over the fulfilment of obligations of the Procedures herein by the competent company departments and refers to the Committee and Board of Statutory Auditors.

During 2012, the Committee for transaction with related parties, identified within the Internal Control Committee (now called the Control and Risks Committee), met one time to resolve on a minor transaction in relation to which the Committee deemed the existence of an interest of the Company to execute the transaction and expressed a favourable opinion with regards to the convenience and correctness of the related conditions.

13. Appointment of Statutory Auditors

The appointment and substitution of Auditors is disciplined by Art. 23 (Board of Statutory Auditors) of the by-laws, and is available on the Company's *website* (www.reply.eu under –Investors – Corporate Governance).
Art. 23 of the Company by-laws has been amended by the Board of Directors resolution passed on 26 October 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies) and the resolution of the Extraordinary Shareholders' meeting on 28 April 2011.

Art. 23 of the Company by-laws, regulates that:

- → The lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least twenty-five days prior to the date set for the Shareholders' meeting on first call; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- → Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance with binding laws or regulations; should at the expiry date stated above, only one list be presented, or only lists presented by shareholders that are inter-related in accordance with the regulations in force, lists can be presented up to five days following such date. In this case the above threshold is reduced by half;
- → The voting mechanism foresees that the votes obtained from each list, with separate sections for Statutory Auditors and Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. The ratios will then be progressively assigned to the candidates on each list and ranked in descending order. The candidates with the highest ratio will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- → If candidates obtain the same percentage of votes, the candidate will be selected from the list which has not elected a Statutory Auditor, whereas if all the lists have elected the same number of candidates, the Statutory Auditor will be chosen from the list which obtained the most votes. If the result in percentage and vote is the same the Shareholders vote once more and the candidate with the highest percentage will be appointed;
- → The office of President of the Board of Statutory Auditors is held by the Statutory Auditor which was elected from the minority list that obtained the highest number of votes;
- → In the event of a Statutory Auditor being replaced, the first alternate auditor belonging to the same list as the auditor will take his place. Where this is not possible, the alternate auditor will be replaced by the non elected candidate having the highest percentage of votes among the list that the leaving auditor has chosen.

With regard to the application of the criterion of allocation in connection with the election of auditors, under Art. 148, paragraph 1 bis of the TUF, Law no. 120 of 2011 established that the above provisions shall apply from the first renewal of the body one year from the date of entry into force of the above-mentioned law; such rules will apply to Reply to S.p.A. as from the renewal of the corporate bodies on the approval of the Financial Statements at 31 December 2014, upon the adoption of the necessary statutory changes.

14. Statutory Auditors

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

- Mr. Cristiano Antonelli	President
- Dott.ssa Ada Alessandra Garzino Demo	Statutory Auditor
- Mr. Paolo Claretta – Assandri	Statutory Auditor
- Mr. Alessandro Mikla	Alternate auditor
- Mr. Alessandro Pedretti	Alternate auditor

The Board of Statutory Auditors was appointed during the Shareholders' meeting on 27 April 2012 based on the list which was presented by the majority shareholders of Alika S.r.l., the office expires on 31 December 2014 with the approval of the Financial Statements.

The table below summarises the Board of Statutory Auditors with the main information requested in accordance with Article 144-duodecies issued by Consob

Name	Office	In office	List(*)	Independent from Code	% of attendance in meetings Meeting of Board of Statutory Auditors	Other offices held (1)
Cristiano Antonelli	President	From 1.1.12 to 31.12.14	M	X	100%	2
Ada Alessandra Garzino Demo	Statutory Auditor	From 1.1.12 to 31.12.14	M	X	100%	17
Paolo Claretta-Assandri	Statutory Auditor	From 1.1.12 to 31.12.14	M	X	100%	34
Alessandro Mikla	Alternate auditor	From 1.1.12 to 31.12.14	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 1.1.12 to 31.12.14	M	X	NA	NA

Key:
M/m: M/majority list m/minority list
(1) Where applicable a list of all positions held has been annexed, according to Art. 144-quinquies decies of RE, as replaced by Resolution no. 17326 of 13 May 2010.
(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favourable votes equal to 59.199% of the share capital.

Following is a brief description of personal and professional characteristics of the members of the Statutory Auditors of the Company:

Cristiano Antonelli President of the Board of Statutory Auditors

is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis at the University of Turin; Director of the Bachelor degree in Institution and Business Communication; Director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine and along with Bo Carlsson edits the column 'Economics of Science Technology and Innovation' of Springer. He is member of the Board of Fondazione CRT, Pirelli&C and President of the Statutory Board of Transalpina di Energia. His education background includes a Master in Economics at ISTAO of Ancona. During 1978 and 1979 he was a junior economist of the Science and Technology department of the OCSE and Rockefeller Fellow in the Sloan School of Massachusetts Institute of Technology from 1983 to 1985. He has taught in the universities of Sassari, Calabria, the Polytechnic of Milan and in the universities of Manchester, Nice, Lyon, Lumiere, Aix-en-Provence, Paris XIII and Paris XII. During the academic year 1999-2000 he taught in the university of Dauphine Paris IX. In the past Mr. Antonelli was member of the Board of Directors of Telecom Italia in the two-year period 1998-99 and of Pirelli&C for the three-year period 2008-2011; Member of the Science Committee of Confindustria in 1999 and 2000; Techno-scientific Committee of ENEA from 2000-2004. Furthermore he held office as Chairman of ICER (International Centre for Economic Research from 2008 to 2011 and was Vice-president of the International Schumpeter Society from 1999 to 2004.

Ada Alessandra Garzino Demo Statutory Auditor

Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1991 and the Registry of Auditors ever since 1995. She works as a Charted accountant and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals. Mrs. Ada Alessandra Garzino Demo is specialized in Telecommunication tax matters and fiscal planning. She covers the role of both Statutory Auditor and president in other companies.

Paolo Claretta Assandri Statutory Auditor

Mr. Paolo Claretta Assandri received a graduate degree in Economics and Commerce at the University of Turin in 1978, has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1981 and the Registry of Auditors ever since 1983. She works as a Charted accountant in Turin and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2012 the Statutory Auditors met five (5) times.

The compensations paid to the Statutory Auditors is disclosed in the Annual Report on Remuneration pursuant to Article 123-ter of TUF.

Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of the committee for control and risks and audits responsible for supervising: (i) the financial disclosure process, (ii) the effectiveness of the internal control, internal audit and risk management systems, (iii) the audit of the annual separate and consolidated accounts, (iv) the independence of the independent auditors.

15. Relations with Shareholders

The Board of Directors ensures that a person in charge of relations with investors id identified and periodically assesses the need to constitute a structural function within the company.

With a resolution of the Board on 27 April 2012 Mr. Riccardo Lodigiani, in charge of relations with institutional investors and with shareholders (Investor relator) in order to create an ongoing dialogue with the market.

The abovementioned person must exclusively and periodically inform the Chairman and the designated member of the board of his activities.

On the Company's website (www.reply.eu, Investors – Corporate Governance), the following documents are available:

- Company by-laws;
- Annual calendar for 2013 of company events;
- Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the Code of Ethics;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Annual Report on Remuneration;
- Procedures on Related party transactions.

16. General Shareholders' meeting

The company encourages and facilitates the participation at the Annual General Meetings providing any necessary information or explanation in order to guarantee a smooth and conscientious participation of the Shareholders.
The Company, with the resolution by the Board of Directors on 26 October 2010 and by the Extraordinary Shareholders' meeting on 28 April 2011, has introduced the amendments to the Company's by-laws required by Legislative Decree no. 27 of 27 January 2010 enacting the Community Directive no. 2997/36/EC in relation to the shareholders' rights in listed companies.
Art. 12 of the Company by-laws establishes that shareholders are entitled to intervene during the General Shareholders' meeting if they are shareholders at the end of the seventh accounting day of open markets preceding the General Shareholders' meeting and have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code.
The Company can designate for each general meeting one or two persons to whom confer the voting rights with specific instructions for one or more proposals on the agenda.
The designated persons, the means and terms of the conferred delegation are communicated on the notice calling the general meeting.
The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at regulating the running of the meetings), as the Company's by-laws provide adequate provisions concerning the matter.
Five (5) Directors out of 7 (seven) spoke at the General Shareholders' meeting held on 27 April 2012. On that occasion, the Board of Directors reported on its activities during the year 2011.

17. Other Corporate Governance Practices

System of the Company's operational procedures – in order to properly apply the Company's regulations and to reduce risks connected with achieving the Company's objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, governing both the activities carried out by the single departments as well as relations with other entities; Reference is made in this regard to what has been described in the paragraph on the Internal Control and Risk Management System.

18. Changes subsequent to the year end under review

Following the year end close no significant changes have been made to the structure of the Corporate Governance, other than what has been disclosed above.
With respect to the modifications of the Corporate Governance Code approved in December 2011, which issuers were requested to apply by the end of 2012, it is noted that the Company has adjusted to the most significant recommendations contained in the Code.

Turin, 14 March 2013

For the Board of Directors
The Chairman
Mario Rizzante

Reply S.p.A.

Annual Report on Remuneration

1. Introduction

This document ("The Annual Report on Remuneration", the "Report"), was prepared and approved by the Board of Administration on 14 March 2013 according to Article 123-ter of Legislative Decree No. 58/1998 ("TUF") and Article 6 of the Corporate Governance Code, the December 2011 version, approved by the Corporate Governance Committee established at Borsa Italiana S.p.A.
The Report describes the Remuneration policy adopted by Reply S.p.A (hereon "Reply") with reference to remuneration to (i) members of the Board of Directors and in particular to Executive Directors and Directors invested with special charges (ii) Directors with Strategic Responsibility.

2. Section I

2.1. Drafting, approval and implementation of the Remuneration Policy

The corporate bodies and persons responsible for drafting, approving and implementing the remuneration Policy are the following:

- Shareholders' meeting;
- The Board of Directors;
- The Remuneration and Nominating Committee;
- Executive Directors;
- Statutory Auditors.

Shareholders' meeting

With regard to remuneration, the Shareholders' meeting:

- Determines the remuneration of each member of the Board of Directors and the Executive Committee, if appointed in accordance with Article 2364(1) (3) of the Italian Civil Code; and shall establish, a total amount to all the Board. This amount is established in a concrete manner as to attract, retain and motivate the staff invested with high professional skills necessary to manage the Company with success;
- Determines the participation in the profit of the present Company, dependent on the Gross consolidated margin, to Directors invested with special charges in accordance with the Company bylaw;
- Expresses its advisory, non-binding vote on the Annual Report on Remuneration approved by the Board of Directors, upon the proposal of the Remuneration and Nominating Committee;
- Receives adequate information with regards to the remuneration policy;
- Resolves on the Remuneration Plans based on shares or other financial instruments for Directors, employees and collaborators, including Managers with strategic responsibilities pursuant to Article 114-bis TUF.

Board of Directors

The Board of Directors:

- Establishes a Remuneration and Nominating Committee from among its members. One member must have adequate knowledge and experience with regards to financial and remuneration policy; the persons competence is evaluated by the Board when he/she is elected;
- Determines, upon a proposal of the Remuneration and Nominating Committee, the remuneration policy for members of the administrative bodies. The remuneration policy defines guidelines which all company members involved must follow as to determine the remuneration of Executive Directors, Directors invested with special charges and

Directors with strategic responsibilities. Such guidelines are illustrated in the present document;

- Approves the Annual Report on Remuneration which shall be submitted to the General Shareholders' meeting;
- Upon the proposal or opinion of the Remuneration and Nominating Committee determines, based on the guidelines of the Remuneration Policy, and in any case upon consulting the Board of Statutory Auditors, the remuneration of the Executive Directors and other Directors with specific responsibilities; prepares, with the assistance of the Remuneration and Nominating Committee, the remuneration plans based on the allocation of shares or other financial instruments and submits them to the approval of the Shareholders' meeting in accordance with Article 114-bis TUF;
- Carries out the Remuneration plans based on shares or other financial instruments delegated by the Shareholders' meeting.

Remuneration and Nominating Committee

The Remuneration and Nominating Committee:

- Makes proposals and advises the Board of Directors in relation to the remuneration to Executive Directors and other Directors with special charges, and furthermore advises on the identification and fixing of adequate performance objectives that enable the calculation of the variable components of the compensation;
- Makes proposals to the Board of Directors on the remuneration policy;
- Assists the Board of Directors in drawing up and implementing remuneration plans based on shares or other financial instruments;
- Periodically evaluates the adequacy and correct application of the remuneration policy, making use of information provided by the Executive Directors when the evaluation is referred to a Director with strategic responsibility;
- Provides the Board of Directors' opinions and proposals about remuneration;
- Monitors implementation of the decisions adopted by the Board of Directors regarding remuneration, evaluating that the performance target has been achieved;
- Refers to the Shareholders' the methods of the Committees functions; for such reason, the presence of the Chairman of the Remuneration and Nominating Committee or another member of the Committee is recommended at the annual Shareholders' meeting;
- If it is deemed necessary or appropriate an external consultant with expertise in remuneration policy can be utilized to carry out such task; the independent expert must not carry out any form of activity in favour of Reply Human resource department, shareholders', Executive Directors and Directors with strategic responsibilities. The independence of external consultants is verified by the Remuneration and Nominating Committee before they are appointed.

On 27 April 2012, Reply S.p.A.'s Board of Directors appointed the members of the Remuneration and Nominating Committee.
As at the date of approval of this Report, the Remuneration and Nominating Committee was comprised as follows:
Fausto Forti, Chairman of the Committee and Lead Independent Director;
Marco Mezzalama, Independent Director;
Carlo Alberto Carnevale Maffé, Independent Director.

The Chairman of the Remuneration and Nominating Committee has gained adequate knowledge and experience on financial issues and remuneration policy given his professional experience characterized by operational responsibility in large companies.

In 2012 the Remuneration and Nominating Committee did not rely on the support of independent remuneration policy experts to draw up the Remuneration Policy.

For further information regarding the operation and activities of the Remuneration and Nominating Committee for the financial year ended as at 31 December 2012, see the 2012 Report on Corporate Governance and Ownership Structure.

Executive Directors

Executive Directors:

- Provide the Remuneration and Nominating Committee all useful information so to evaluate the adequacy and concrete application of the Remuneration Policy, with particular regard to the remuneration of Directors with strategic responsibilities;
- Establish the remuneration to Directors with Strategic Responsibilities based on the guidelines set out by the Remuneration Policy.

Statutory Auditors

The Board of Statutory Auditors has the task of providing opinion in relation to the Remuneration Policy; in particular the Board provides opinions on the remuneration of Executive Directors and Directors invested with special charges; in expressing their opinion the Board verifies the consistency of the proposals with the Remuneration Policy:

2.2. Remuneration Policies

The 2013 Remuneration Policy has remained substantially unvaried with respect to 2012, in view of the assessments made by the Remuneration and Nominating Committee at the meeting of 14 March 2013 and subsequently, on the same date, by the Board of Directors. The Remuneration Policy is intended to ensure the Company has the ability to attract, retain and motivate individuals who have professional skills and experience to pursue the achievement of the Company's objectives. The Policy is also instrumental in aligning the interests of the Company's *management* with those of the shareholders, pursuing the primary objective of the creation of value over a medium-long term period, through the creation of a strong link between remuneration and individual *performance*.

2.3. Remuneration of Directors

In 2012 the members of the Board were as follows:

Mario Rizzante	Chairman and Chief Executive Officer
Tatiana Rizzante	Chief Executive Officer
Oscar Pepino	Executive Director
Claudio Bombonato	Executive Director
Daniele Angelucci	Executive Director
Filippo Rizzante	Executive Director
Fausto Forti	Non-Executive Director, Independent and Lead Independent Director
Marco Mezzalama	Non-Executive Director and Independent
Carlo Alberto Carnevale Maffè	Non-Executive Director and Independent

In 2012 remuneration of Directors not invested with operational proxies is as follows:

- 30,000 Euros for each member of the Board, as resolved by the Shareholders' meeting of 27 April 2012.

In 2012 the remuneration of Board members of the Supervisory Body – with reference to Mr. Fausto Forti – was determined as follows:

- 1,000 Euros for each participation in the Supervisory Body meeting.

A specific remuneration component in relation to the participation in the Committee meetings or to the execution of specific engagements not related to operational proxies is not foreseen, being the beneficiaries of the compensation only the Executive Directors that are also members of the Committee, the compensation to the Directors already takes into consideration the commitment deriving from the participation in the Committee meetings.

In line with best practices, Non-Executive Directors are not eligible for any variable form of compensation linked to the achievement of financial targets.

In line with *best practice*, the Company has an insurance policy on third party liability for damage inflicted by the Board of Directors (apart from the General Manager, but also Directors with Strategic Responsibilities) in performing their duties, with the aim of safeguarding the beneficiaries and the Company from any connected indemnity, excluding cases of malice or gross negligence.

2.4. Remuneration of Executive Directors

Under a legal and statutory perspective, remuneration of the Company's Executive Directors are established in accordance with:

- Article 2389(3) of the Italian Civil Code – "The remuneration of Directors invested with special responsibilities in conformity with the by-laws is determined by the Board of Directors after consultation with the Board of Statutory Auditors";
- Article 22(2) of the by-laws –"Directors invested with special responsibilities are entitled to share in the profits of the Company, dependent on the Consolidated Gross Operating Margin, whose quantification is established annually by the Shareholders' meeting at the time the Financial Statements are approved".

From the perspective of the Remuneration Policy, the remuneration of the Executive Directors is generally comprised of the following elements:

- A gross annual fixed component;
- A variable component linked to general predetermined, measurable objectives connected to the creation of value over a medium period of time. Establishing a twelve month timeframe should allow targets to be determined that are suitably consistent with the trend of the market in which the Company operates, and is consistent with the objective of aligning the interests of the Executive Directors with the pursuit of the creation of value for shareholders in the medium-long term, considering that, in the Company's case, almost all of the Executive Directors are also shareholders of the Company.

The payment of the variable compensation is deferred in respect of when it has matured of approximately four to five months which enables a proper risk management within the Remuneration Policy of the Company.

The Board of Directors keeps in mind two factors when determining remuneration and its single components: (*i*) the specific proxy that each Executive Directors holds and/or *(ii*) the function and the role actually carried out by each Executive Director within the Company, thus ensuring that the variable component is coherent with the tasks assigned.

Under an accounting perspective, the remuneration of the Executive Directors is recorded in the Financial Statements in the year in which the services are rendered both for the fixed gross annual component and the variable component, even though payment is made through profit sharing in accordance with Article 22 of the Company By-laws; This is consistent with the International Financial Reporting Standards IAS/IFRS in as much as profit-sharing is considered to all effects as part of the remuneration and therefore the relative al location is recorded in the Financial Statements in the year in which the Executive Directors' services are rendered; for such reason, the proposal to attribute profit-sharing is the object of resolution by the Board of Directors at the same time as approval of the draft annual Financial Statements.

With reference to 2012,

- During the meeting of 15 March 2012, the Board of Directors approved resolutions on the Remuneration Policy for 2012, upon the proposal of the Remuneration Committee;

- The Shareholders' meeting of 27 April 2012 approved, with a non-binding resolution, the Remuneration Report containing the Remuneration Policy;
- During the meeting of 15 March 2012, the Board of Directors approved resolutions on the attribution of the fixed component to the Executive Directors, upon the proposal of the Remuneration and Nominating Committee;
- During the meeting of 15 May 2012, the Board of Directors, upon the proposal of the Remuneration and Nominating Committee, determined the variable component of the remuneration for the Executive Directors for 2012 by allowing profit-sharing in accordance with Article 22 of the Company's By-laws, and at the meeting of 14 March 2013 it verified performance and made the profit-sharing proposal to be submitted to the Shareholders' meeting, together with the relative division;
- On 23 April 2012 the Shareholders' meeting shall be called to approve the proposal regarding the variable component of remuneration as described.

With reference to 2013, remuneration is based on the following criteria:

- The consistency between the elements as to determine remuneration and the objectives;
- The correct balance between the fixed and variable component based on the strategic objectives and risk management policy of the Company, keeping in mind the field in which it operates and the characteristics of the activities concretely carried out;
- The weight of the variable component is approximately 60% of the whole remuneration package, being understood that the fixed component must be sufficient to compensate the performance of Executive Directors in case the variable component is not paid out when performance objectives established by the Board of Directors are not achieved;
- Pre-established performance targets, i.e. financial results or other specific objectives linked to the payment of the variable component, are measurable and linked to the creation of value for shareholders over the medium to long term;
- The relationship between the variance of the results achieved and the variance of the remuneration is guaranteed through scaling of the variable compensation up to a maximum limit related to a scale of objectives;
- Several month deferral of payment of the variable component with respect to when the compensation matures in order to enable a proper risk management of the company within the Remuneration Policy requirements.

With reference to the variable components of the remuneration for the Executive Directors, the Remuneration and Nominating Committee proposes objectives and, during the subsequent year, *performance* checks in order to verify whether the objectives established the previous year were achieved.

The criteria utilized in defining remuneration to Executive Directors for 2013 was established by the Board of Directors and is as follows:

- Accrual is subordinated to the achievement of one of the accessible terms represented by the capacity of the profits of the Company;
- Fixing of the annual margin objective represented by the Consolidated Gross Operating Margin as shown in the consolidated Financial Statements, with the identification of a minimum threshold and maximum threshold;
- Fixing of further objectives for the Executive Directors invested with special charges in the Company;
- Quantification of the bonus up to a pre-established maximum amount linked to the achievement of assigned objectives;
- Allocation, in general, of the variable profit-sharing component by dividing it among those entitled to receive it, related to the Consolidated Gross Operating Margin to which Directors invested with special responsibilities are entitled pursuant to Article 22 of the Company By-laws;

The Executive Directors can also be granted other types of benefits typical of the office held and recognized within the Group to Directors having strategic responsibilities and/or managers (i.e. company car).

At present, Directors' severance indemnity (TFM) has been allocated for Executive Directors and Managers with strategic responsibilities having analogous characteristics to employee severance indemnity (TFR) pursuant to Article 2120 of the Italian Civil Code to which the Group's Italian managers are legally entitled.
The Board of Directors can propose to the Shareholders the adoption of the incentive mechanisms through the attribution of financial options. At present no incentive plans of this kind have been established.
The Company deems that the Remuneration Policy is consistent with the pursuit of the long-term interests of the company and its risk management.

2.5. General Managers and Directors with Strategic Responsibility

As at 14 March 2013 the role of General Manager is non existent in the Company's organization.
Four Directors have Strategic Responsibility at 14 March 2013.
Remuneration to Directors with Strategic Responsibilities is composed by a fixed and variable component and established with the same principles and criteria described above for the Executive Directors. For further information see point 2.4 Remuneration to Executive Directors. Directors with Strategic Responsibilities have the right to severance indemnity (TFR) ex Art. 2120 of the Italian Civil Code. Furthermore some Directors who cover strategic positions in subsidiaries have also been assigned post termination treatment determined in the same manner as severance indemnity.
The remuneration to the Director in charge of drawing up the Financial Statements and the Internal Audit manager are in line with the tasks assigned.

2.6. Cessation of office or termination of employment

At the date of the present Report no allowance has been set in event of cessation of office or termination of employment on behalf of Executives and Directors with Strategic Responsibilities apart from what is provided by the ex law and/or the Collective labour agreement in case the persons have a dependent work contract.

3. Section Two

3.1. Remuneration paid to members of the Board of Directors, Statutory Auditors, General Managers and Executives with Strategic Responsibilities

Remuneration paid in 2012 to members of the Board of Directors, Statutory and other Executives with Strategic Responsibilities

(figures in thousands of Euros)

Name Surname	Office held Reply S.p.A.	Period of office	Term of office (*)	Fixed remuneration
Mario Rizzante	Chairman and Chief Executive Officer	1/01/2012-31/12/2012	31/12/2014	460 (1)
	Remuneration paid by subsidiaries			120
	Total			580
Tatiana Rizzante	Chief Executive Officer	1/01/2012-31/12/2012	31/12/2014	210 (2)
	Remuneration paid by subsidiaries			282
	Total			492
Oscar Pepino	Executive Director	1/01/2012-31/12/2012	31/12/2014	300
Claudio Bombonato	Executive Director	1/01/2012-31/12/2012	31/12/2014	400
Filippo Rizzante	Executive Director	27/04/2012-31/12/2012	31/12/2014	142 (3)
	Remuneration paid by subsidiaries			133
	Total			275
Daniele Angelucci	Executive Director	27/04/2012-31/12/2012	31/12/2014	185 (4)
	Remuneration paid by subsidiaries			114
	Total			299
Fausto Forti	Non-Executive Director and Independent	1/01/2012-31/12/2012	31/12/2014	34 (6)
C. A. Carnevale Maffé	Non-Executive Director and Independent	1/01/2012-31/12/2012	31/12/2014	30
Marco Mezzalama	Non-Executive Director and Independent	1/01/2012-31/12/2012	31/12/2014	30
Cristiano Antonelli	Chairman of the Board of Statutory Auditors	27/04/2012-31/12/2012	31/12/2014	46
A.A. Garzino Demo	Statutory Auditor	27/04/2012-31/12/2012	31/12/2014	32
	Remuneration paid by subsidiaries			5 (7)
	Total			37
Paolo Claretta-Assandri	Statutory Auditor	27/04/2012-31/12/2012	31/12/2014	32
Directors with Strategic Responsibility	Remuneration paid by Reply S.p.A.			161
	Remuneration paid by subsidiaries			957
	Total			1,118

To be noted that where no indication has been made, no compensation has been given to Reply S.p.A. subsidiaries.

(*) Board of Directors will hold office until the Shareholders' meeting that will approve the 31 December 2014 Financial Statements.

Following a brief description of the emoluments of the individual operating Director:

(1) Gross emolument for the office of Chairman and Chief Executive Officer of the Board of Directors in Reply S.p.A.;

(2) Gross emolument for the office of Chief Executive Officer of the Board of Directors in Reply S.p.A.;

(3) Gross emolument for the position of Executive Director of Reply S.p.A. covered from the date of appointment 27/04/2012, equal to 75,000 Euros. The remaining amount refers to the gross salary received as an employee,received from 1/01/2012 until the date of appointment;

Remuneration for the participation to internal committees	Non equity variable remuneration		Non monetary benefits	Other remuneration	Total	Fair value of the equity remuneration	Post mandate Indemnity
	Bonus and other incentives	Profit Sharing					
-	-	400	-	-	860	-	-
-	-	-	-	-	120	-	-
-		400			980	-	-
-	-	400	-	-	610	-	-
-	-	-	-	-	282	-	-
-	-	400	-	-	892	-	-
-	-	400	-		700	-	-
-	-	600	-	-	1,000	-	-
-	-	300	-	-	442	-	-
-	-	100	-	-	233	-	-
-	-	400	-	-	675	-	-
-	-	400	-	-	585	-	-
-	-	-	-	3(5)	117	-	-
-	-	400	-	3	702	-	-
-	-	-	-	-	34	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	46	-	-
-	-	-	-	-	32	-	-
-	-	-	-	-	5	-	-
-	-	-	-	-	37	-	-
-	-	-	-	-	32	-	-
-	-	-	-	-	161	-	-
-	-	1,600	-	82(8)	2,639	-	-
-	-	1,600	-	82	2,800	-	-

(4) Gross emolument for the position of Executive Director of Reply S.p.A. covered from the date of appointment 27/04/2012, equal to 165,000 Euros. The remaining amount refers to the gross salary received as an employee, received from 1/01/2012 until the date of appointment;
(5) Post termination treatment;
(6) Gross emolument for the office of Independent Directors in 2012 equal to 30,000 Euros; the residual amount is referred to the presence tokens in 2012 for the participation in the Internal control Committee meetings;
(7) Gross emolument for the office of Chairman of the Board of Statutory Auditors in 2012 in subsidiaries;
(8) Post termination treatment.

3.2. Stock options granted to members of the Board of Directors and Executives with Strategic Responsibility (in Euros)

		Shareholders' meeting resolution of 10/06/2004
Name and Surname	**Office**	**(1)**
Tatiana Rizzante	Chief Executive Officer	Plan 2004
Daniele Angelucci	Executive Director	Plan 2004
Directors with Strategic Responsibility		Plan 2004

(*) It is set forth that 15,000 stock options granted to Director, Daniele Angelucci have been reclassified and presented separately

(1) Plan
(2) Number of options
(3) Exercise price
(4) Possible exercise period
(5) Number of options
(6) Exercise price
(7) Possible exercise period
(8) Fair value on the granting date
(9) Granting date
(10) Market price of the underlying shares at the granting date
(11) Number of options
(12) Exercise price
(13) Market price of the underlying shares at the granting date
(14) Number of options
(15) Number of options
(16) Fair value

3.3. Shares held by members of the Board of Directors and Executives with Strategic Responsibility in companies with listed shares and its subsidiaries

Shares held by members of the Board of Directors

First name and Surname	Office	Shares held	No. of shares held at 31/12/2011	No. of shares bought	No. of shares sold	No. of shares held at 31/12/2012
Mario Rizzante	Chairman and Chief Executive Officer	Reply S.p.A.	11,381	-	-	11,381
Tatiana Rizzante	Chief Executive Officer	Reply S.p.A.	15,734	-	-	15,734
Oscar Pepino	Executive Director	Reply S.p.A.	13,710	-	-	13,710
Claudio Bombonato	Executive Director	Reply S.p.A.	27,500	-	-	27,500
Filippo Rizzante	Executive Director	Reply S.p.A.	3,400	-	-	3,400
Daniele Angelucci	Executive Director	Reply S.p.A.	145,290	-	-	145,290
Fausto Forti	Non-Executive Director and Independent	Reply S.p.A.	-	-	-	-
C. A. Carnevale Maffé	Non-Executive Director and Independent	Reply S.p.A.	-	-	-	-
Marco Mezzalama	Non-Executive Director and Independent	Reply S.p.A.	250	-	-	250

At 31/12/2012 the following members of the Board of Directors indirectly hold shares in the Company:

- Mario Rizzante and Oscar Pepino hold 51% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds no. 4,936,204 Reply S.p.A. shares, equivalent to 53.5214% of the Company's share capital.

Number of options 01/01/2012			Options assigned in 2012						Options exercised in 2012			Options expired in 2012	Total Options held at 31/12/2012	Options relating to the current financial year
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
15,000	21,339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	15,000	-
15,000	21,339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	15,000	-
60,000 (*)	21,339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	60,000	-

in the table.

Stock Options granted to Members of the Board of Directors and Key Management

Number of Directors having strategic responsibility	Shares held	No. of shares held at 31/12/2011	No. of shares bought	No. of shares sold	No. of shares held at 31/12/2012
4	Reply S.p.A.	575,573 (*)	450	24,767	551,256

(*) It is set forth that 145,290 shares held by Director Daniele Angelucci have been reclassified and shown in the above table "Shares held by members of the administrative and control bodies and general Directors".

Definitions

In the present document the definitions of the words in upper case is as follows:

"Board": means all the Board members of Reply, whether Executive, Non- Executive, Independent, etc;

"Executive Directors": means, in accordance with the criteria of the Corporate governance Code for Listed Companies:

- Directors of Reply who have been nominated as Chief Executive Directors of the Company or subsidiaries which has strategic importance;
- Members of the Reply Board of Directors with management duties in the Company or subsidiaries which has strategic importance;
- The Directors of Reply, who may also be the Chairman of the Company, holder of specific individual proxies or having a specific role in the development of the company strategies;

"Other Directors invested with special charges" means Directors who are assigned special charges (i.e. Chairman, Vice- Chairman), different from the Executive Directors;

"Executives with Strategic responsibilities" means those who have power and responsibility in – directly or indirectly- planning, managing and controlling the activities of the Company, in accordance with the Consob Regulation no. 17221/2010 regarding Related Parties.

Corporate Information

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