Reply

Living network

Annual report 2009

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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 Officers
Sergio Ingegnatti
Tatiana Rizzante

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

Statutory Auditors

President
Cristiano Antonelli

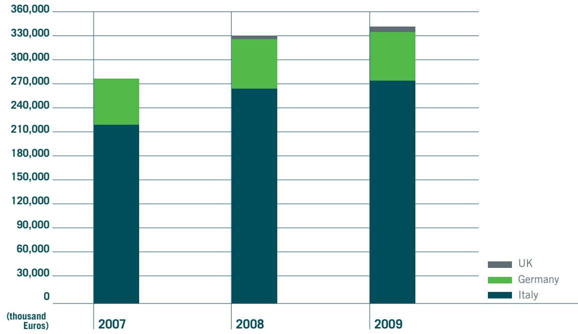
Statutory Auditors
Paolo Claretta Assandri
Ada Alessandra Garzino Demo

Independent auditors

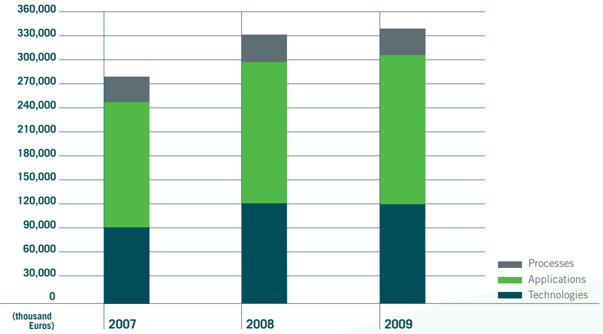
Deloitte & Touche S.p.A.

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

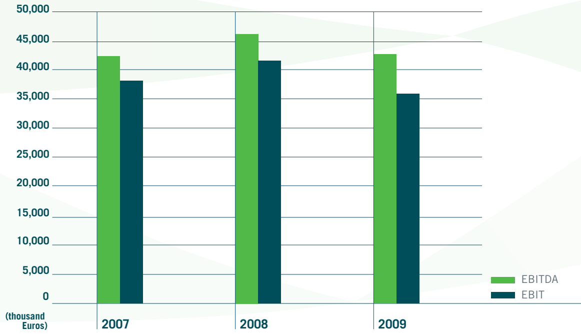
Revenues



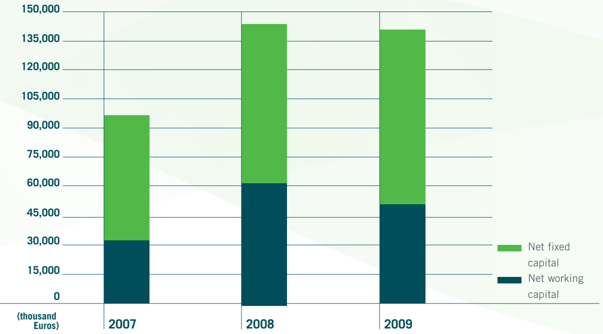
Revenues by Business lines



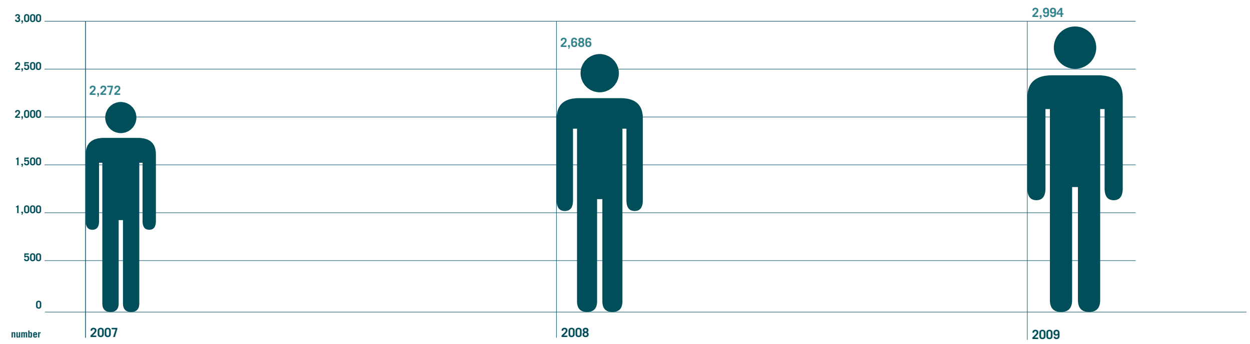
Profit margins



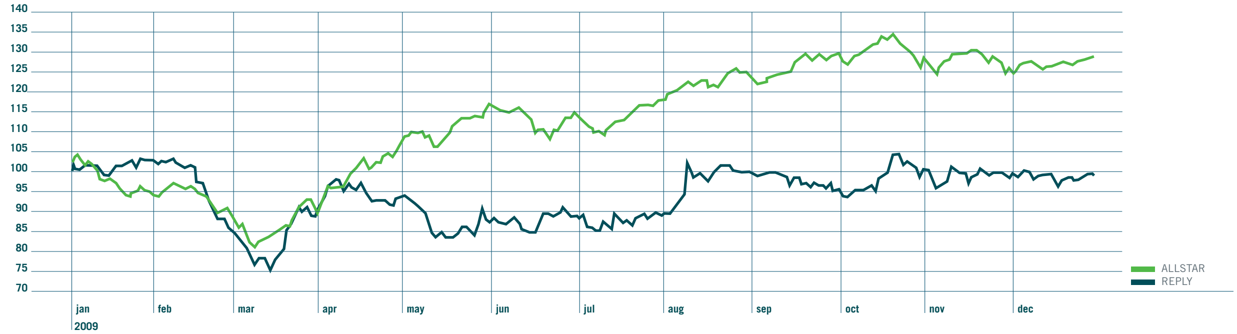
Net invested capital



Human resources



Reply share in 2009



Financial highlights

Economic figures (thsd. Euros)	2009	%	2008	%	2007	%
Revenues	340,166	100.0	330,210	100.0	277,176	100.0
Gross operating income	42,860	12.6	46,044	13.9	42,282	15.3
Operating income	35,882	10.5	41,159	12.5	38,036	13.7
Income before taxes	33,968	10.0	40,135	12.2	37,820	13.6
Group net income	16,628	4.9	18,924	5.7	15,719	5.7

Financial figures (thsd. Euros)	2009	2008	2007
Group shareholders' equity	123,823	111,646	94,493
Non controlling interest	6,462	13,278	12,713
Total assets	309,072	301,038	235,140
Net working capital	89,345	81,358	63,846
Net invested capital	140,785	143,551	96,788
Cash Flow (*)	26,022	10,267	19,650
Net financial position	(10,500)	(18,627)	10,418

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

Data per single share (in Euros)	2009	2008	2007
Number of shares	9,222,857	9,222,857	9,079,920
Operating income per share	3.89	4.46	4.19
Net result per share	1.80	2.05	1.73
Cash Flow per share	2.82	1.11	2.16
Shareholders' equity per share	13.43	12.11	10.41

Other information	2009	2008	2007
Number of employees	2,994	2,686	2,272


Re

Letter to the Shareholders

Dear Shareholder

The 2009 trading period was a very busy year for all concerned. The general economic scenario led companies to reduce investment drastically and postpone the development of new projects. Regardless of these concerns, Reply still managed to achieve a turnover of over 340 million Euros and a net profit of more than 16 million Euros.

During the economic downturn we were able to establish solid foundations for the future of our company.

We acquired new and important areas of business with existing clients and at the same time we initiated several new opportunities.

We invested in niche skills; know-how that is increasingly becoming fundamental to the redefinition of business models by enterprises such as Cloud Computing, Composite Applications, SaaS Social Network and Digital Store.

Furthermore, during 2009 we broadly and significantly re-engineered the Group's offer, realigning it to a radically transformed market demand and to technology ever more cohesive and aligned to wide-ranging and rapid business processes.

We invested in Machine 2 Machine, where we are now one of the most important centres of excellence in Europe to increase its offer in this segment, the Internet of Things, which will be fundamental in the process of proliferation of new technology both in enterprises and daily life.

Today, Reply is a financially robust enterprise, strongly inclined towards innovation with a notable range in new technologies and a consolidated position in all the main industry sectors: Telco and Media, Industry and Service, Banking and Insurance, Utilities and Energy, Public Administration.

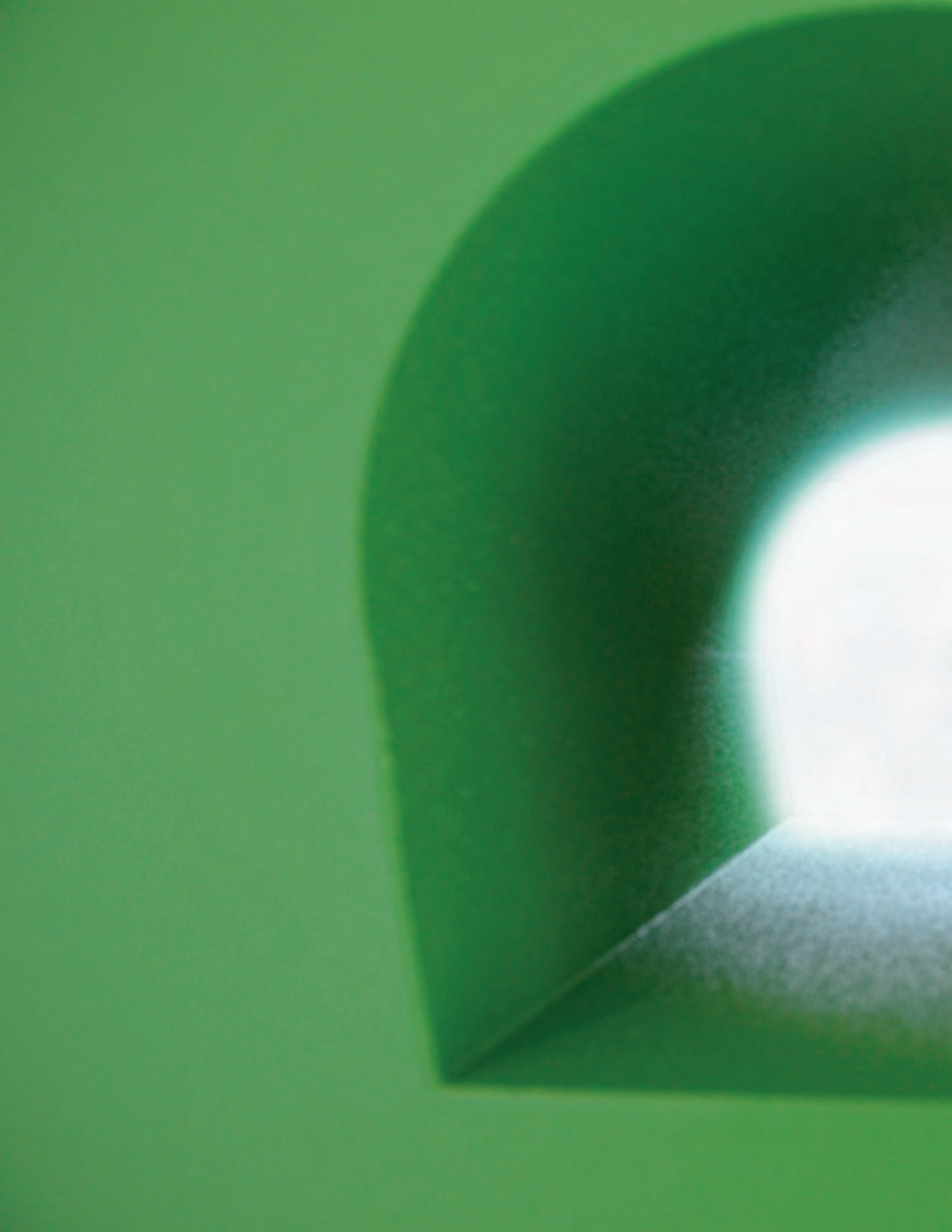
2010 will be another challenging year. The first months have featured uncertainty, especially in our sector of industry, where the labour market is still suffering. At the same time however, early signs have emerged that point to a new, potential, structural growth phase.

Many months of hard work await Reply, where team spirit will be fundamental along with our continual capacity to innovate and improve the quality of services. Reply has the strength, the determination and the agility necessary to enter into and conquer new areas both in Italy and in Europe.

The conditions for believing in ourselves and succeeding are to hand. Reply has the capacity to achieve and is looking forward with great composure and optimism.

The Chairman

Mario Rizzante




Reply Living network

Reply specialises in consultancy, planning and implementing new solutions based on new communication networks and digital media. Today, Reply is one of the market leaders in Italy in the Information and Communication Technology segment.

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

Reply's distinguishing features:

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

The business model

With over 2,900 employees (as at December 31, 2009) Reply operates with a network of companies specialising respectively in Processes, Applications and Technologies, forming centres of excellence capable of winning "Best in Class" positions in their specific area of competence.

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

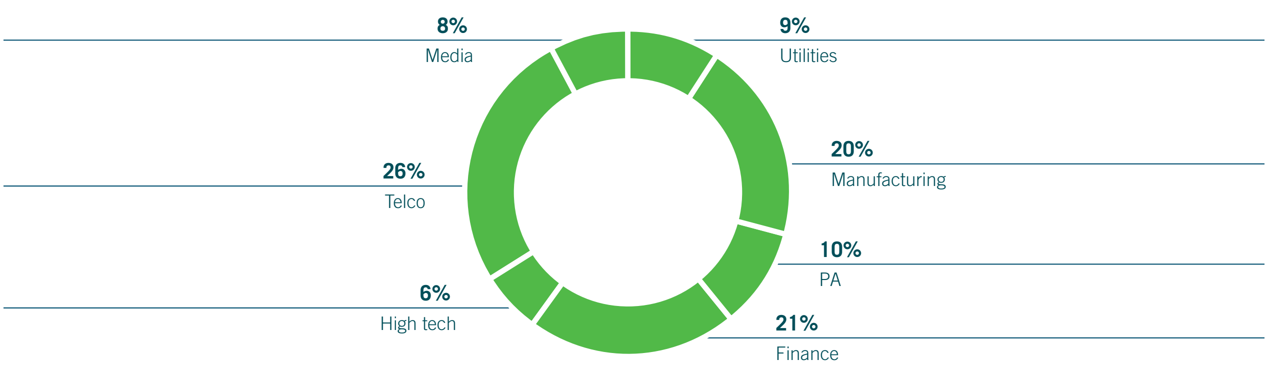
Reply services include:

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

Market focus

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

2009 Group revenue by market segment:



Telco & Media

In recent years, the Telecommunications market has been marked by a rapid transformation from mere connectivity providers to providers of digital content and innovative services. In 2009, the major players in this sector invested enormous amounts in new value-added services, made possible by the technological evolution of devices (e.g. Smartphones, PDAs, e-books, STB multichannel), the use of new generation networks (NGN) and the development and broad proliferation of Social Networks, which has become the new "media" of today's generation.

Against this highly erratic scenario, Reply was able to anticipate evolution and the market by joining technological knowledge with operating process skills and business in the two main segments: BSS/OSS and Value Added Services.

The areas of Business Support Systems (BSS) and Operation Support Systems (OSS) are characterised by a constant demand on the containment of operating costs without influencing the quality and time-to-market services of sell2cash. Reply, using its experience in SOA models, has provided its clients with process and service integration activities, exploiting the usability of SW components and structuring managed services applications with IT Governance instruments and ITIL V.3 operating models able to guarantee process effectiveness and efficiency.
The high diffusion of latest generation devices, supported by giants like Apple and Google, along with the exponential increase of Social Networks and User Generated Content has led to an actual convergence between diffusion channels and value added services especially for the Web, TV and Mobile.

By means of an integrated consulting, communication and creativity supply, Reply devises content and enables innovative services by harnessing all the potential of new digital channels. A new example is the Digital Store, which is able to offer, via a channel-independent user experience, digital content that is always available and accessible through high quality formats, on PC, TV and mobile.

As regards the Media and Broadcast market, 2009 saw a precise change in investment strategy towards multichannel and the Web. As a consequence Media Companies redefined their business models, which today are based primarily on the increase of distribution channels and the customisation of Themed Channels or VOD. In this scenario, where both technological components and "time to market" are essential factors in the new media value chain, Reply, with its experience gained in Telecommunications and Industry has worked with some of the key players in this sector in the planning and implementation of SOA platforms to support production processes and content distribution.

Banking, Insurance and Financial companies

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

More specifically, Reply operates in defining end to end strategies and solutions by integrating the various components and making available all the necessary skills such as consultancy, process, development, application and technology.

Reply assists clients in areas defined as "mission critical" where a high percentage of innovation is needed. Examples are all areas of retail multichannel networks, with innovative CRM solutions and segment orientated marketing, advanced platforms for mobile banking and on-line trading, development of innovative digital products, new generation of internet banking sites, the transformation of call centres into new generation contact centres at a technological and organisational level and the development of multichannel portals.

With regard to Wealth management solutions, Reply has defined a diverse range both for distribution network support (promoters, private bankers, and high net worth management) and for investment and risk control in Asset Management.

For most banks a very critical and rapidly growing issue is credit. Reply's offer focuses on new generation monitoring systems and risk control on one side and on integrated solutions for consumer credit and retail loans on the other.

Reply also assists clients in constructing revolutionary strategies based on new technologies (SOA, Cloud Computing, SaaS) with the aim of reducing costs, and at the same time improving flexibility and "time to market".

Industry and Services

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

→ Customer relationship management - Reply specialises in defining CRM solutions as a means of supporting Marketing, Sales and Customer Service.

→ Logistics and distribution - Reply helps its customers integrate operating partners, designing optimized Supply Chain Execution models in Warehouse Management, Transportation Management, Planning and Inventory components.

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

Energy & Utilities

Following regulatory change and the progressive tendency towards renewable sources of energy and growing competition, in recent years Energy and Utilities operators have undertaken strategic initiatives on process and technology innovation, more specifically in energy and gas distribution.

Reply has defined a specific offer regarding the main industry's vertical areas for supporting Retailers and Distribution Companies in relation to change and operational, organizational and technological alignment.

In 2009, Reply has not only continually consolidated its capacity in designing models and creating application solutions in the main processes of CRM and Billing in the Utilities market, but has also worked with the main European Energy providers in implementing solutions in Pricing, Forecasting and Meter Data Management.

In the remote meter data management sector, thanks to its experience in Italy - increasingly acknowledged as a reference for best practice globally - Reply is involved, across the major European markets, in projects adopting Smart Metering and Meter Data Management technologies.

Public Administration

The economic crisis concerning the major international markets has led Public Administration to reward merit, innovation and participation.

Thanks to the *Brunetta* legislative decree 150/09, this is also the situation in Italy.
For these reasons public expenditure is more concentrated within the territory and aims to reward the best practices, thereby assuring a better service and simplified relations between citizens and enterprises.
Consulting ability and domain technology represent an essential factor in achieving strategic objectives set out by the Public Administrations.
Against this scenario Reply, through its experience and know-how, will accompany Central and Local Public Administration through this phase of transition towards innovation.

Reply's offer responds to the needs of the *new* Public Administration on various levels:

→ Context/process - supporting strategic planning and reorganization of front and back office processes;

→ Skilled infrastructures - in areas such as the management of data, application co-operation, organisation and retrieval of information, social networking and security;

→ Technology - through planning and implementing solutions able to guarantee efficiency and operating flexibility.

Technology innovation

Social Networks

The increasing popularity of user-driven on-line services based on social network models also in enterprise has introduced a new way to experience the network: a view of the Internet based around user collaboration and enabled by tools such as Web Services, peer-to-peer-networking, blogs, podcasts, social networks and wikis.

A starting point for new methodologies and software application, under the banner of sharing and collaborating.

Reply has developed Social Networks in three specific areas:

Enterprise Social Networks and Collective Intelligence

Today many companies are asking questions like *Can tools used on web-based Social Media bring value if integrated into my company?* or *Which is the best practice to obtain the maximum value from relations between existing employees and knowledge sharing?* Applying models and social networking technologies can in fact, introduce to a company new forms of collaboration based on broad and unstructured knowledge. Knowledge management platforms, in order to allow users to have a say (as more and more often happens) open up bottom-up approaches to generation and sharing of information based on wikis, chat, forums and blogs. Reply meets the business social network demand (whether within an organisation, or the public consumer market) with a proprietary platform, TamTamy™ and professional service for helping enterprises define a strategy of Social Engagement and follow it over time.

Social Presence and Social Engagement

Companies consider it increasingly important to measure and monitor their Social Presence, which is a set of actions, services and content through which they relate to customers, clients and distribution networks, by connecting to various forms of media where present. It is becoming essential to define a systematic approach in the use of public relations with corporate communication and the communication campaigns on traditional channels. New forms of communication strategy and social interaction are developed on the web based on Social Engagement models. Reply supports clients in defining Social Engagement plans in order to optimize, via the Web, the involvement of both clients and stakeholders. In particular, Reply's Social Presence solution integrates into the Social Hub model communication strategies and social interaction on the Web with best-in-class technology.

Social Listening

Using the right instruments to monitor and engage conversation and interact in the community is an important tool for keeping the brand or the organization well informed on the thoughts expressed by the specific social panorama. Presently thousands of messages are exchanged, which include reference, news or evaluation of products and it should be regarded as an important source providing precious indications on evaluations expressed by the market or immediate answers related to communication on products, services or business operations. Such information is usually under estimated or even ignored.

Social Listening, like the strategy of Social Engagement, which has to cover a wide range of channels and Social Media, has to integrate a vast array of instruments and services. Optimized Widgets which are capable of generating alarms for specific events or community actions, semantic engines to interpret opinions and messages present on Blogs and Social Media, data mining and social search instruments can be dedicated to real time analysis of conversations.

Digital Communication

The brand communication market has witnessed a growth in the importance attributed to the presence of single brands, products and services on digital platforms. It can be defined as a new, active dialogue with the user, much different compared to the classic exposure but not interactive model common to all brands in the last decade.

While in past years this was following a trend, although not in a structured and significant way, in the brand investment panorama, in 2009 its limitations were truly overcome and brand presence on digital channels has become a necessity for every company's marketing mix.

This phenomenon is universal and affects all markets from the luxury goods niche to sectors of large consumer goods such as groceries, free time and finance.

In this new scenario only a new and more effective relationship between creativity and technology has become crucial for a good communication idea capable of sustaining the brand's competitive edge.

Creative competence, which gives added value to an efficient advertising project, should be added to the need for high technological competence/planning or rather everything that makes creativity live and interactive on the new channels: Internet, mobile phones, also digital P.O.S., game platforms etc.

As a response to this market need, Reply and Armando Testa decided in 2009 to merge Aware and Testawebedv, creating Bitmama; giving life to a digital creative agency with expertise in multichannel brand marketing. Reply holds 51% of the share capital and Armando Testa 49%.

Apart from the creation and management of every aspect of brand image in interactive digital format, Bitmama's competencies include the creative and technological aspects applied to important sectors as mobile telephones and e-commerce, which also represent key objectives (both in the present and for the future) for commercial brands, as shown by the most important international markets.

Mobile & Wireless

Network infrastructures and applications currently allow the creation of a new generation of convergent services that can be built by users and used anytime and anywhere.
Access via the browser goes side by side with access via client, essential in offering a higher quality experience to those who access through advanced devices such as smartphones.

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

For Reply, building a Mobile eco-system means:

- enabling an *always on* infrastructure, making it available for companies and service providers to manage and distribute services;
- enabling wireless and wired devices to communicate and collaborate to offer integrated services;
- enhancing the experience of mobile users with context-dependent services delivered proactively.

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

Cloud Computing & Alternative Delivery Models

Satisfying the needs of services and applications for end users through the net is a solution which is becoming popular.

One of the main benefits of a cloud application is that it can be economic (data recoverability on demand) and it has the potential for using flexible and scalable server resources.

Reply's Cloud computing platform is structured around three points:

- End to End Consultancy support (from the process to the operations) which is able to support clients in understanding, in choosing and in the evolution of the best technological and application solution;
- Enterprise Private Cloud platform to help organizations to rapidly introduce this new method of supplying services in companies;
- SaaS solutions based on Reply's main application platforms (TamTamy, SideUp Reply, Gaia Reply, Discovery Reply).

The consolidated partnerships with Amazon, Google, Microsoft and Oracle enable Reply to anticipate innovative technological competencies in Cloud Computing and SaaS platforms and make them immediately available to clients.

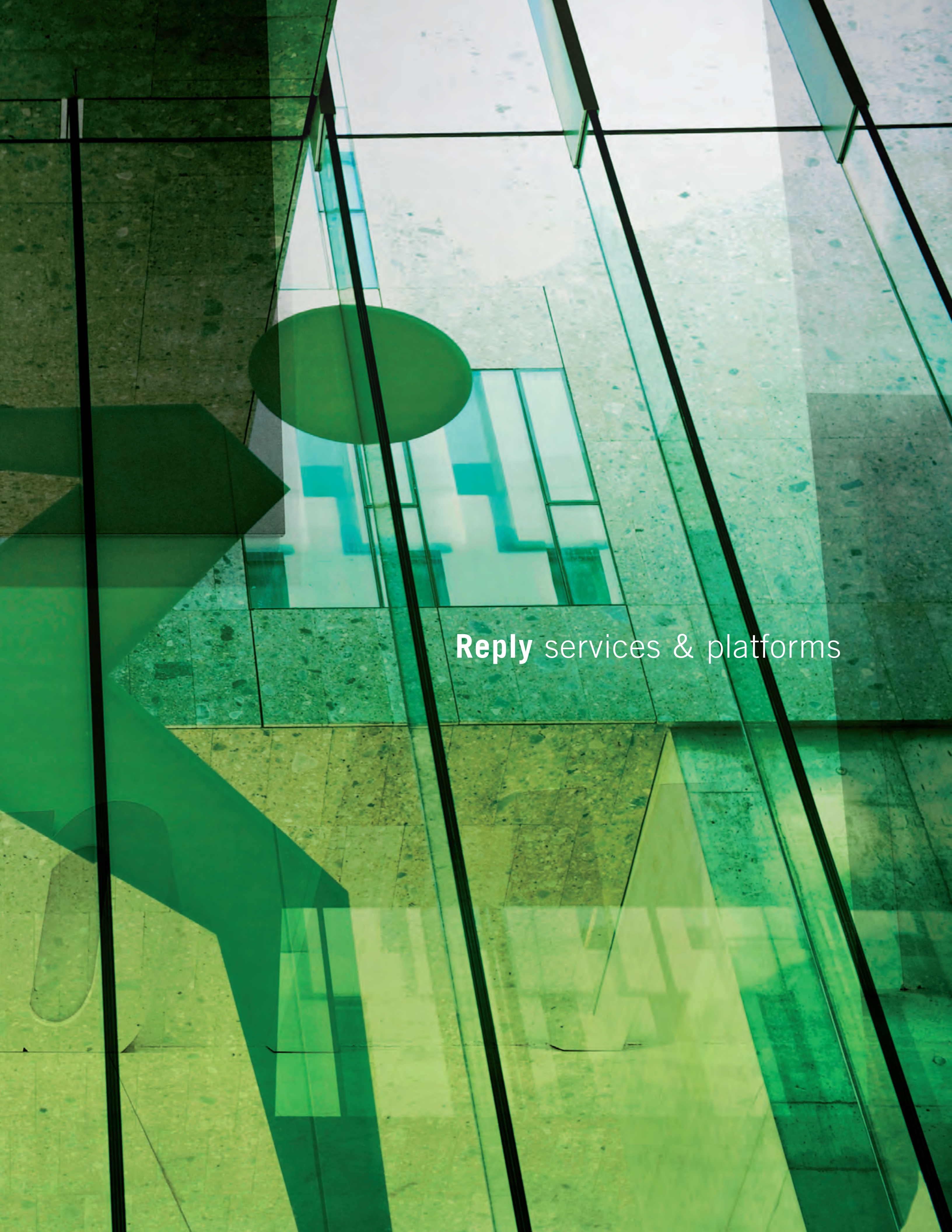
Security

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

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

In 2009 Reply further extended its offer in Business Security & Data Protection by introducing components related to Managed Security Services.
This is the result of Reply's capability for offering this service through a Security Operation Centre which operates 24/7.

Reply services & platforms



The network today is a distributed information system, where a larger quantity of data, information and complex content can be accessed in real time. This new way of using the Internet introduces new competitive models based on service approach enabled by three fundamental components: software platforms, insight and domain of processes and service management

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

Click Reply™

Click Reply™ is the Reply platform that supports Supply Chain Execution by optimizing the processes of Inventory, Warehouse, Transportation and Order Management. The architecture of this solution, fully oriented towards services and based on open standards, enables integration with both ERP systems and SCE and MES systems.

Click Reply™ allows for the management and control of a wide range of devices used to read and write RFID-based tags and the traditional devices of barcode and voice recognition.

Definio Reply™

Reply's Risk Management and Wealth Management platform Definio Reply™, was designed for financial institutions such as Banks, Savings Companies, Insurance Companies, Pension Funds, Banking Funds, Investment and Private Banks, who have to analyze and control financial activities, directly or on behalf of others.

Discovery Reply™

Reply's Digital Asset Management platform Discovery Reply™ offers companies an opportunity to improve efficiency in the management of the entire life-cycle of digital assets, thanks to innovative methods of workflow organization, a high level of interoperability with the other business systems, and advanced multi-channel content distribution systems.

Discovery Reply™ facilitates the transition towards integrated models of content production, use and archiving, through an open and flexible platform and a simple and intuitive interface for the entry, processing, cataloguing, access, search and distribution of digital assets on various channels, whether traditional (analogue and digital TV) or IP based (IPTV, WebTV, MobileTV, DVB-H).

Gaia Reply™

Gaia Reply™ is based on a flexible open source framework, which enables the delivery of content and services over various mobile devices. Gaia Reply™ makes it possible to extract data from any structured source, to aggregate them according to the logic required by the type of service in use and to make them available in a homogeneous way and on any channel or mobile device. In addition, the framework optimizes the display and navigation of content to render it ergonomic in consideration of the different characteristics of the very many different devices in use.

High scalability, tools for services management and the flexible delivery options make GAIA Reply™ adapt to meet different needs: from the development of complex and advanced services (i.e.: mobile banking) to simple services (i.e.: competitions; advertising, landing pages; etc).

TamTamy™

TamTamy™, a Social Network platform developed by Reply, is the answer to the increasingly urgent requirement expressed by companies keen to facilitate and speed up the sharing of individual knowledge, collaboration and implement new ways to communicate.

With TamTamy, Reply has developed a single and unique customizable interface, where the main and most widespread community tools presently available online (wikis, blogs, tags, video and photo sharing, podcasts, rss, etc.) are integrated with a set of basic services like identity and presence management, categorization, rating, search as well as online messaging.

Business Process Outsourcing

Reply provides highly specialized BPO services in three areas:

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

CFO Services

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

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

Application Management

Reply has identified an Application Management model featuring:

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

Partnership / Research and Development

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

Reply has important partnerships with the main global market leaders in offering the best solutions to the different needs of companies. In particular, both in Italy and Germany Reply has obtained the maximum level of certification by three technological market leaders in the Enterprise field: Microsoft, Oracle and SAP.

Microsoft

Reply, one of the primary Microsoft centres of excellence in Italy, both in the technological environment and Microsoft Business Suite, in 2009 consolidated know-how and experience in fields connected to Cloud Computing, SAAS and virtual environments. Platforms like Azure (Microsoft platform for Cloud Computing) and BPOS (on line services) today form the heart of projects entirely created on virtual infrastructure platforms and not physical ones, a fundamental principal of Cloud Computing. Furthermore, Reply has a centre of excellence dedicated to Microsoft Surface - HW/SW platform based on innovative ways of interacting in the management of digital content, for which several projects are in progress related to fashion and design. Reply has also participated in worldwide programs of pre-launch testing of new platforms alongside Microsoft and helped with the creation of assets on Windows7 and Office 2010. Reply works on other Microsoft projects through a continuous updating, adoption and utilization of application platforms, infrastructure, CRM and ERP.

Oracle

Reply is an Oracle Platinum Partner and has always kept up with Oracle's offer both in terms of technology and product, making Reply one of the major European Competence Centres able to provide the entire stack with application suites and vertical solutions by industry.
In 2008 Reply entered into an agreement with Oracle to develop, at a global level, solutions based on the open standard business process of third parties, an End2End process in a standard and open way. In 2009 Reply was awarded Best technological Oracle partner. At the beginning of 2010 Reply was acknowledged as the first partner, on a global level, to achieve specialization in Oracle Business Intelligence Foundation.
Reply has set up a Demoground at its Milan Headquarters where companies can access, in real time, the latest Oracle integration technological developments.

SAP

Reply has gained experience in SAP application and technological sectors at an international level and is capable of supporting change processes introduced by the market by approaching, in an integrated way, the design and development of business information technology systems based on SAP. The competencies cover Enterprise and Supply Chain, Financial & Controlling services (CFS and GRC) and Extended Enterprise (CRM and SRM). The great experience gained in SAP Business Intelligence (BW, Business Objects and Outlooksoft) allows Reply to support clients, not only in the definition and implementation of reporting structures and dashboard control, but also simulations and planning.
An important area based on technological competences and planning, founded on SAP Netweaver, is capable of steering Application Integration (SAP XI/PI) and People and Knowledge Integration (SAP Portal) main themes, exploiting e-SOA services which SAP introduced in its architecture.

Since its incorporation, Reply has dedicated resources to Research and Development activities by concentrating on two fields: Development and evolution of the proprietary platforms and definition of a constant process of Scouting, Selection and Learning of new technologies aimed at bringing to the market innovative solutions while creating value within the company.

Development of proprietary platforms

Click Reply™

2009 saw the release of the new integration module Universal Link, certified by SAP. This application allows a natural integration of logistic processes supported by Click Reply™ WM with the scenarios envisaged by SAP ECC 6.0 both with tRFC technology and XI technology. Other modules have been released with regard to dispatching of spooling operations in open standard and the new module for the management of mobile devices on Microsoft.NET technology.

Discovery Reply™

In 2009 new functions were made available in response to needs in the Broadcasting sector, requiring integration between the management of audiovisual content and back office.
Discovery Reply's functions were extended to manage content and digital media for industries other than Broadcasting, such as industry and Security.

Furthermore in 2009 Discovery Reply™ adopted a client which allows the consultation based on multi-touch technology and in particular MS Surface. This makes the consultation of audiovisual files simple and intuitive and it allows the user to move the focus point towards the public with the aim of making it popular and marketable.

Gaia Reply™

Developments carried out in 2009 were aimed at bringing the platform closer to the needs of enterprises and users of the services. Not only has Gaia Reply™ increased the number (more than 5,200 at year ended 2009) of types of mobile devices supported (mobiles, games, Net TV), Gaia Reply has also continued its classic on-premises installation and made it available in SaaS mode. In order to facilitate companies in collecting money, Gaia Reply™ was integrated with important advertising networks (AdMob; DoubleClick; etc) to facilitate the collection of on site advertisements.

TamTamy™

In 2009 Reply continued with the development of the TamTamy™ platform to increase the social functions it made available and with the aim of being incisive and accessible in different business contexts. At the end of 2009, version 1.9 was released and this represents the fifth release during the year.
Delivery through Saas (Software as a Service) was also developed.
This exploits the recent technologies and the distribution models of online services based on Cloud Computing. It allows for business continuity with a pricing model based on Pay-As-You-Go, consequently lowering start-up time and expenses. The model and infrastructure used by Cloud Computing, single-tenant, allows for both high data security and the potential for applying important customisation. In 2010 new investment will be made into this platform, with releases of new functions and services coherent with the "Perpetual Beta" approach adopted by Reply for the development of TamTamy™.

Scouting, selection & adoption of new technology

Internet of Things

The continuous push for convergence between Telco, Media and Consumer Electronics will bring in the coming years the necessity to interpret how on line devices, objects not linked to any form of connectivity (appliances, controllers for home automation, integrated system,…) will integrate with other machines. Machine 2 Machine, or the Internet of Things is destined to become a fundamental sector for the diffusion of new technologies both in companies and in daily life. Reply intends to become an important point of reference for this sector and its associated services. The Internet of things proposes an evolution of the paradigm of communication on the internet, which is dominated by an exchange of information where the user is always receiver or the source of information. In the new paradigm objects acquire the capability of interacting without the intervention of man and if necessary they can self-set up and self-govern, guided by information which is autonomously drawn from context awareness. The fields in which the Internet of Things can be applied are many: Industrial applications (product process), logistic and information to energy efficiency and environmental safe-guard.

This is one reason why in February 2009, Reply acquired the Motorola research centre in Turin and set up its own Research and Development Centre aimed at working on the new internet of objects. The aim of Reply's new research centre is to create a platform of services, devices and middleware to support specific vertical applications such as info-mobility, advanced logistics, environmental safety, contactless payment and product traceability.

Widget Factory

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

Digital Store

The Web has now become the neural centre of multi channelled services where ideas are transformed into shared content and the use of mobile digital services demands extra effort to design custom-made user experience and content for different digital devices. The video content remain by and large, the most widely effective means of communication and the new technologies offer a greater possibility of choosing what to see and when. The greater convergence Web and TV content has prompted Reply to plan and project new application solutions supporting the most advanced technologies like Digital Store are able to offer, through a channel-independent user experience, high quality digital content always available and accessible through on PC, TV and mobile. Reply has developed an advanced Digital Store platform able to be used vertically on specific digital tools, like mobile Applications including widgets, e-books, and music and video. The platform is accessible from any device and enables the search and selection of more interesting and customised content thanks to the recommendation and social add-on functions connected to the content. Furthermore, the complete view of the user, from whatever channel he or she accesses "shop front", from web portals or mobile, allows for the development of cross and up selling campaigns, giving more emphasis on value content that fits with the users preference pattern.

Reply's platform integrates a Content Delivery component addressed to the developer community intending to create content (Video, Apps, …).

The value of people

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

Reply Group comprises professionals coming from the best universities and further education centres. The Group intends to continue investing in human resources by cementing special relations and collaboration with different universities with the aim of reinforcing its human resources with high profile personnel.

Recruitment is mainly targeted at young graduates. In particular the faculties of main interest are: IT Engineering, Electronic Engineering, Telecommunication Engineering, Management Engineering and Economics and Commerce. Furthermore, collaboration between Reply and the universities also exists at the class level, in the preparation of theses and participation in lectures and seminars.

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 capacity for imagining, experimenting and studying new solutions create a foundation for more rapid and efficient innovation.

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

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

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

Reply team

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

Excellence: background culture, study, focus on quality, reliability, building on results.
Team: co-operation, transfer of ideas and knowledge, sharing objectives and results, respect for personal characteristics.
Customer: sharing objectives, satisfying the customer, conscientiousness, professional expertise, sense of responsibility, integrity.
Innovation: imagination, experimentation, courage, study, effort of improvement.
Rapidity: methodology, experience in project management, co-operation, commitment in achieving customer results and targets.

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Annual report 2009

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. 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 unfavorable 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 and professionalism and skills to be combined in the realization of services, with the need to continuously develop and update new products and services. Therefore, future development of Group activities will also depend on the capability of anticipating the technological evolutions and contents of the Group's services even through significant investments in research and development activities.

Risks associated with competition

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

Risks associated with increasing client needs

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

Risks associated with segment regulations

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

Internal risks

Risks associated with key management

The Group's success is largely dependent on the ability of its senior executives and other members of management to manage the Group such as the Chairman and the Executive Directors of the Parent Company Reply S.p.A.

The Group is structured with a group of directors (Senior Partners and Partners) with many years of experience in the segment and have a key role in the management of the Group's business. The loss of any of these key figures without an adequate replacement or the inability to attract and retain new, qualified personnel could therefore have an adverse effect upon the Group's business prospects, earnings and financial position.

Management deems that in any case the Group has a sufficient operational and managerial structure enable to guarantee continuity in the running of business.

Risks associated with relationship with client

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

Risks associated with 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's solutions are rich in technological content and of great value, the underlying related contracts can foresee the application of penalties in relation to timeliness of delivery and qualitative standards.

The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.

The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount 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 honor payments. With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

Liquidity risk

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

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

Risks associated with fluctuations in currency and interest rates

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

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

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

Financial review of the Group

Foreword

The financial statements commented and illustrated on in the following pages have been prepared on the basis of the company's statutory financial statements at December 31, 2009, to which reference should be made, prepared in compliance to International Financial reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, and with the provisions implementing article 9 of Legislative Decree no. 38/2005.

Trend of the period

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

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

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

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

In 2009 the consolidated turnover amounted to 340.2 million Euros with an increase compared to the consolidated turnover of 2008 which amounted to 330.2 million euros.

EBITDA amounted to 42.9 million Euros (46.0 million Euros in 2008) with EBIT of 35.9 million Euros (41.2 million Euros in 2008). Net result totaled 16.6 million Euros (18.9 million Euros in 2008).

The Net Financial Position stood at a negative 10.5 million Euros and has had a substantial improvement compared to December 31, 2008 when it reported a negative value worth 18.6 million Euros.

In 2009, in an economic circumstance that has led companies to significantly reduce investments, the Group has continued its pattern of growth. The Group has invested in new market segments such as Cloud Computing and Machine to Machine, while continuing the development and consolidation of offering in strategic areas such as CRM, Business Intelligence, Digital Communication and Value Added Services for Media.

Reclassified consolidated Income statement

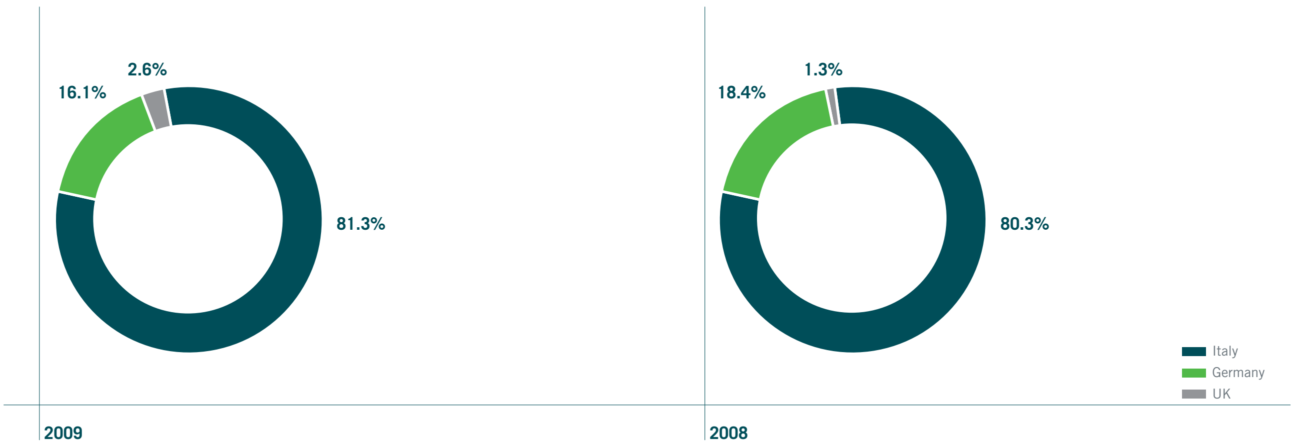
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

(thousand Euros)	2009	%	2008	%
Revenues	**340,166**	**100.0**	**330,210**	**100.0**
Purchases	(8,205)	(2.4)	(10,262)	(3.1)
Personnel	(176,652)	(51.9)	(162,396)	(49.2)
Services and other costs	(115,496)	(34.0)	(111,299)	(33.7)
Other unusual operating income/(expenses)	3,047	0.9	(209)	(0.1)
Operating costs	**(297,306)**	**(87.4)**	**(284,166)**	**(86.1)**
Gross operating margin (EBITDA)	**42,860**	**12.6**	**46,044**	**13.9**
Amortization, depreciation and write-downs	(6,978)	(2.1)	(4,885)	(1.5)
Operating income EBIT)	**35,882**	**10.5**	**41,159**	**12.5**
Financial income/(expenses)	(1,914)	(0.6)	(1,024)	(0.3)
Result before tax of continuing operations	**33,968**	**10.0**	**40,135**	**12.2**
Income tax	(17,098)	(5.0)	(18,266)	(5.5)
Net result of continuing operations	**16,870**	**5.0**	**21,869**	**6.7**
Result from discontinued operations	125	0.0	(119)	(0.0)
Non controlling interests	(367)	(0.1)	(2,826)	(0.9)
GROUP NET RESULT	**16,628**	**4.9**	**18,924**	**5.7**

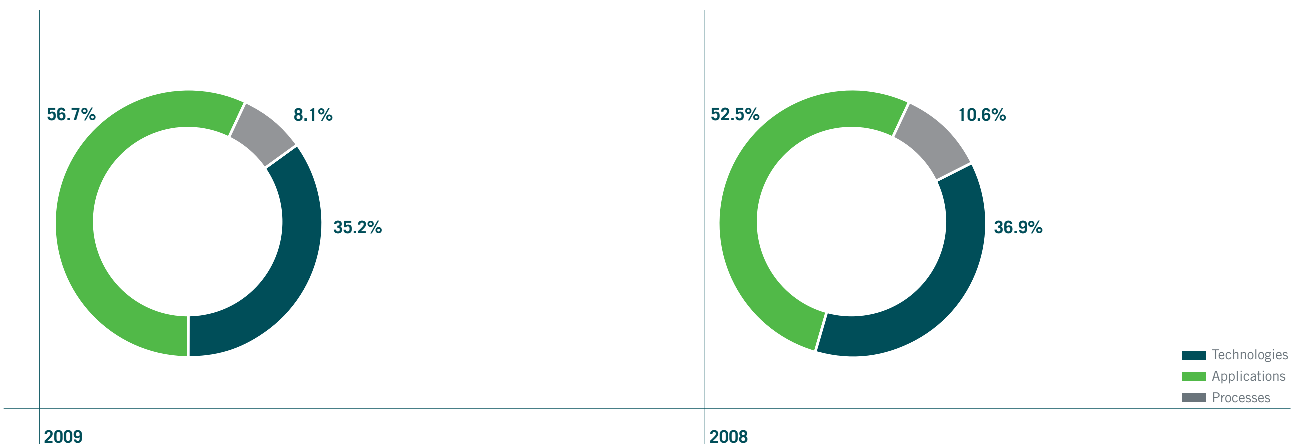
Key events of 2009 are summarized below:

- February 2009: Reply finalized the acquisition of the Motorola research centre based in Turin. Using existing skills and facilities, the Reply Group has set up a research and development centre in the field of M2M (Machine to Machine) in Turin. The aim of Reply's new research centre is to create a platform of services, devices and middleware to support specific vertical applications such as info-mobility, advanced logistics, environmental safety, contactless payment and product traceability. The new research centre allows Reply to round out its offering through the ability to design integrated hardware and software solutions, enabling the Group to strengthen its position in the markets where it operates (Telco-Media-Utilities, Banking and Insurance, Industry and Services, Health and Public Administration).
- May 2009: Reply together with Armando Testa merge their competencies in digital communication into a new entrepreneurial reality: bitmama comes to light in order to satisfy the requirements of a rapidly evolving market, where the Internet and digital media penetration is dramatically changing lifestyles, consumption patterns and the languages of communication and creativity applied to the brand.
- May 2009: Reply established Live Reply, (Business Unit of Sytel Reply) a new company committed to providing advanced services and digital contents for Mobile, Web and TV. Live Reply specializes in the design, development and distribution of services and contents on Mobile and TV, in the definition of Community and Entertainment services for Web, Mobile and TV as well as the development of advanced applications for Mobile Devices and Set-Top-Box.
- May 2009: Google and Open Reply, a Reply group company specialized in Open Source technology and Web 2.0 on line solutions and services, have announced a partnership for Google Apps Premier, cloud computing technology for the Google Enterprise division. According to the agreement Open Reply will offer the Italian market complete solutions based on Google technology, aimed in particular at medium and large enterprises.
- June 2009: Hermes Reply expands its partnership with Apriso to help Italian manufacturers cut costs and improve production operations. The longstanding relationship between the Turin-based company and the software manufacturer from California has been further consolidated following renewed interest in the Italian market, with a special focus on manufacturing companies, the heart and soul of Italy's industrial fabric.
- September 2009: Aktive Reply received an Adobe award as the best Solution Partner, thanks to a comprehensive solution they provided to a major worldwide Italian energy corporation.
- September 2009: GAIA Reply™ for the mobile platforms of *la Repubblica* and Radio DeeJay. Through GAIA Reply™ the mobile area of Gruppo Espresso optimizes the display and use of the mobile sites of *la Repubblica* and Radio DeeJay on all new and old generation mobile phones.
- October 2009: Reply, has made available the Definio Reply platform to enhance its offering to companies operating in the field of Finance. Definio Reply, which is already being used successfully by several companies in the asset management market, stands out as an open and flexible platform for the management of information relating to finances and assets, with its integration of the main instruments used for monitoring, analyzing and supporting financial consulting.
- November 2009: Vordel appoints Spike Reply (Business unit of Security Reply) as partner to further strengthen position in Italian SOA (Service Oriented Architecture) security market. The two companies will work closely together to build out their complementary SOA Governance product and service offerings into key industry sectors including Government, Financial services and Telecoms.

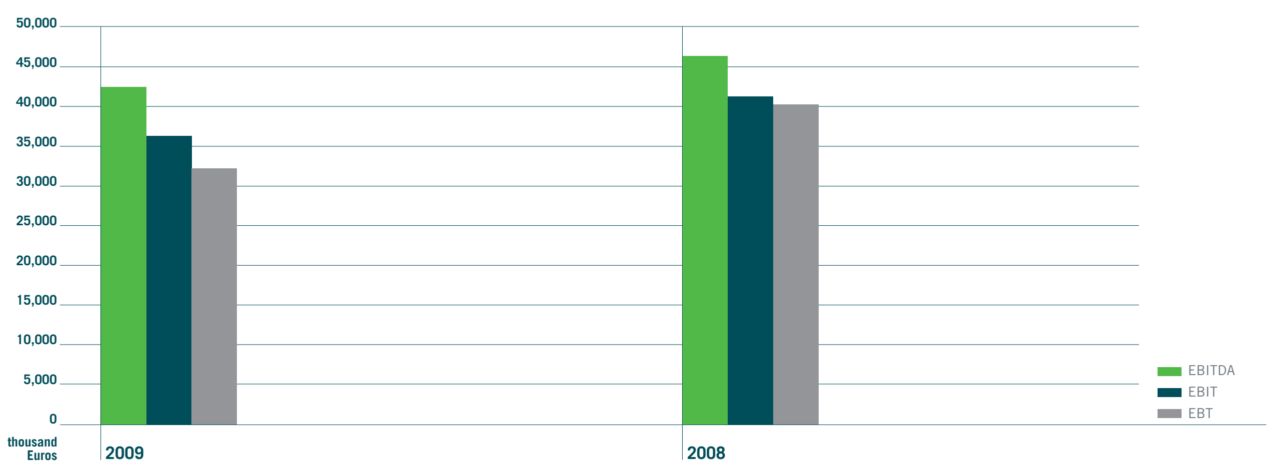
Revenues by geographical area



Revenues by business line



Trends in margins



Analysis of the financial structure

The table below details the Group's financial structure as at December 31, 2009 compared to December 31, 2008:

(thousand Euros)	31/12/2009	%	31/12/2008	%	Change
Current operating assets	183,677		172,483		11,194
Current operating liabilities	(94,332)		(91,125)		(3,207)
Net working capital (A)	**89,345**		**81,358**		**7,987**
Non current assets	91,428		88,637		2,791
Non current financial liabilities	(39,988)		(26,444)		(13,544)
Net fixed capital (B)	**51,440**		**62,193**		**(10,753)**
Net invested capital (A+B)	**140,785**	**100.0**	**143,551**	**100.0**	**(2,766)**
Shareholders' equity (C)	130,285	92.5	124,924	87.0	5,361
NET FINANCIAL POSITION (A+B-C)	**10,500**	**7.5**	**18,627**	**13.0**	**(8,127)**

Net invested capital as at December 31, 2009 amounted to 140,785 thousand Euros and was financed by Shareholders' equity for 130,285 thousand Euros, with a net debt of 10,500 thousand Euros.

The following table provides a breakdown of net working capital:

(thousand Euros)	31/12/2009	31/12/2008	Change
Inventories	15,084	18,020	(2,936)
Trade receivables	153,725	144,711	9,014
Other operating assets	14,868	9,752	5,116
Current operating assets (A)	**183,677**	**172,483**	**11,194**
Trade payables	36,185	32,652	3,533
Other current liabilities	58,147	58,473	(326)
Current operating liabilities (B)	**94,332**	**91,125**	**3,207**
Net working capital (A-B)	**89,345**	**81,358**	**7,987**
% return on revenues	*26.3%*	*24.6%*	

Net financial position and cash flows statement

(thousand Euros)	**31/12/2009**	**31/12/2008**	**Change**
Cash and cash equivalents	33,163	39,356	(6,193)
Due to banks	(21,037)	(23,858)	2,821
Other providers of finance	(600)	(254)	(346)
Short term financial position	**11,526**	**15,244**	**(3,718)**
Non financial assets	804	562	242
Due to banks	(22,223)	(33,994)	11,771
Other providers of finance	(607)	(439)	(168)
M/L term financial position	**(22,026)**	**(33,871)**	**11,845**
Total net financial position	**(10,500)**	**(18,627)**	**8,127**

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

(thousand Euros)	**31/12/2009**
Cash flows from operating activities (A)	26,022
Cash flows from investment activities (B)	(14,931)
Cash flows from financial activities (C)	13,597)
Change in cash and cash equivalents (D) = (A+B+C)	**(2,506)**
Cash and cash equivalents at beginning of period (*)	31,769
Cash and cash equivalents at year end (*)	29,263
Total change in cash and cash equivalents (D)	**(2,506)**

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

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

Significant operations

Acquisition of Motorola Research centre

In February 2009 Reply Group, through the subsidiary company Santer Reply S.p.A., finalized the acquisition of the Motorola research centre based in Turin.

The acquisition, accountable as a "net asset acquisition" was purchased by Reply for a symbolic amount of 1 Euro and comprised 339 employees, 20.6 million Euros in cash, 2.9 million Euros of assets and liabilities for 23.5 million Euros.

Reply has committed to the operation on the basis of the research perspectives outlined at the time of acquisition and the agreements defined with the public administrations (Region and Ministry of Development).

Such agreements foresee that the Piedmont Region finance through a free grant a maximum of 10 million Euros on the condition that the Research centre carries out projects within the research and development of Machine to Machine ("M2M") and that proof can be provided. Furthermore, the *Ministero dello Sviluppo Economico* (S.M.E.) has made a commitment to grant the Research centre a loan for a maximum of 15 million Euros of which 10 million a free grant for research and development projects similar to those agreed with the Piedmont Region.

In the last months the Board of directors of Reply Group and Santer Reply S.p.A have outlined and defined organizational strategies of the course of business of the Centre. More specifically costs related to research projects have been quantified and the financial resources necessary for such research projects and means of disbursement have been defined by the Public Administrations.

Joint venture Reply - Armando Testa

At the beginning of May, Reply and Armando Testa announced the launch of Bitmama, a new company within the digital communication segment. The transaction was realized through the incorporation of TestaWebEDV in Aware Reply, giving life to the new company Bitmama, of which Reply holds 51% and the remaining 49% is held by Armando Testa.

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.

Throughout the year, the Investor Relator also communicates with the financial community and organizes meetings to present the financial results or other events that require direct communication to the market.

In 2009 Reply achieved distinguished appreciation on behalf of important Italian and foreign financial institutions with over 50 one-to-one in-depth meetings held by management throughout the year.

Shareholders that have exceeded the threshold of 2% are Kairos Partners, Highclere International Investors Limited and Anima SGR. Such mix of shareholders confirms the interest in the Reply share by Italian and foreign institutes.

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.

The Reply share

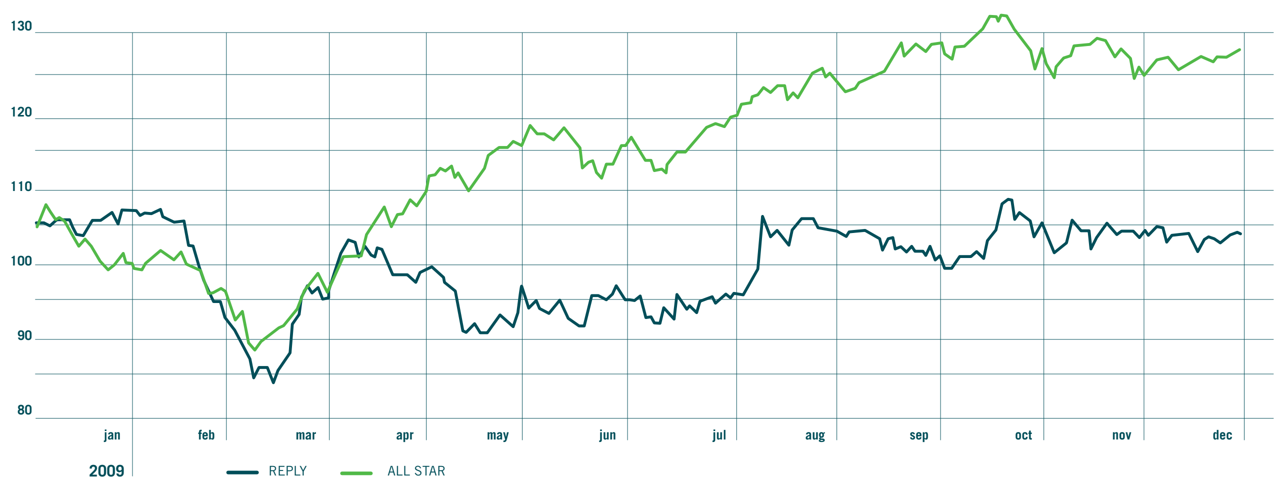
Year ended 2009 was characterized by a worsening of the global economy, the trend recorded by the global stock markets portray a positive situation: the stock markets of the most important countries have recuperated a large part of the losses recorded in the previous 18 months, closing well over the values reached at the end of 2008.

More specifically, two time frames can be identified during the year: up until March 9, 2009 the stock markets were experiencing heavy losses, from March 9 until year end, the world stock markets increased (with the exception of a few, some of which related to the "slump" in Dubai). The discontinuity registered is strictly correlated to the considerable and unusual flow of capitals introduced into the system but also – according to optimistic commentators – to the financial market capability of anticipating the real economy as occurred in the opposite sense with the 2007 crisis.

As far as Italy is concerned, the Italian market as a whole, represented by the Ftse Italia All index increased by 19.2%. The blue chip (Ftse Mib) practically achieved an equivalent result, increasing by 19.5%. A little late coming but above the breakeven point was the Ftse Italia Small Cap, with an increase of 17.5% and Ftse Italia Micro Cap increasing by 12.2%. The Ftse Italia Mid Cap and the Ftse Italia Star closed off 2009 with an increase of 23.6% and 31.5% respectively.

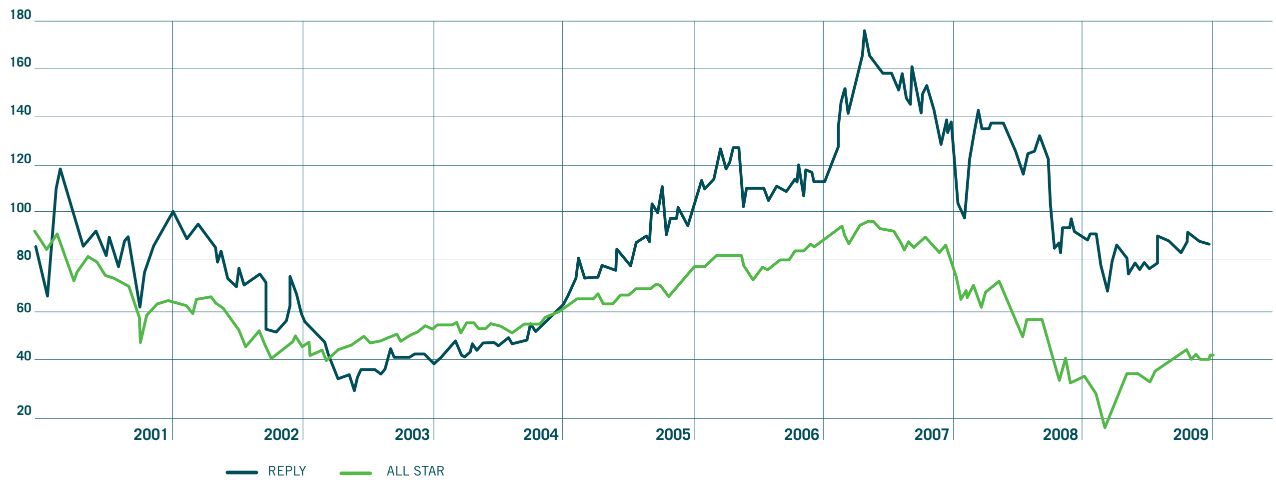
On the Italian stock market, during the year only one market listing occurred on the principle market and five micro cap listings on non-regulated markets (AIM Italia); as a whole domestic capitalization rose to 459 billion Euros, equal to 30.4% of the GDP compared to the 375 billion Euros of 2008 (23% of GDP). The slowing down of the economy and the credit crunch witnessed in 2009 also brought listed companies to increase its share capital, recording the highest value in the last 10 years; 17 billion Euros collected.

Under such circumstances – the slowing down of the economy on one hand and a comeback of the markets on the other – the Reply share in 2009 did not benefit from a positive trend as in the past. Starting from mid April, as the All Star index was recuperating and representative of the entire stock market, the Reply share maintained quite a linear trend, stuck at approximately 16 Euros and closing a little lower than the market.

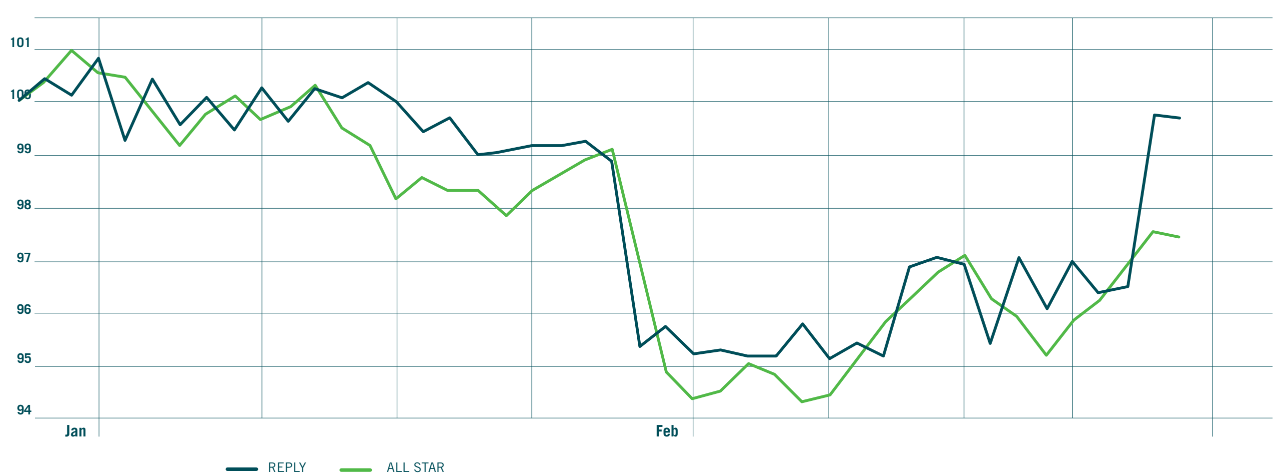


However, extending the time frame from the highest value recorded by the Italian market prior to the crisis (mid May 2007) the comparison with the market index brought down to 100 becomes positive, which leads to the conclusion that the Reply share gained less in the recovery of 2009 even because it was able to maintain a major stability during the crash of the markets.

Moreover, expanding the performance analysis of the share since it was listed, compared to the entire Italian stock market, Reply has over performed in the last eight years *Piazza Affari* with a gap of nearly 40 percentage points. In addition, in the time frame considered, dividends have been distributed.



In the first months of 2010, with markets once again on a down fall, the Reply share has recorded a better trend compared to the Star index, confirming its characteristic of a de-multiplier of the market fluctuations and therefore having a low correlation with the indexes.



The parent company Reply S.p.A.

Foreword

The following review is based on the 2009 financial statements prepared in accordance with the International Financial Reporting Principles ("IFRS") issued by the International Accounting Standard Board ("IASB") and adopted by the European union and with regulations implementing Article 9 of Legislative Decree no. 38/2005.

Reclassified income statement

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

As at December 31, 2009 the Parent Company had 98 employees (average no. of 105) compared to 118 employees in 2008 (average no. of 118).

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

The company's income statement is summarized as follows:

(thousand Euros)	**2009**	**2008**	**Change**
Revenues from operating activities	25,637	24,447	1,190
Other revenue	139,863	111,444	28,419
Purchases, services and other costs	(159,157)	(125,796)	(33,361)
Other unusual operating income/(expenses)	(10,397)	(10,764)	367
Gross operating margin	**(4,054)**	**(669)**	**(3,385)**
Amortization, depreciation and write-downs	(903)	(857)	(46)
Operating income	**(4,957)**	**(1,526)**	**(3,432)**
Financial income, net	95	1,708	(1,613)
Income from equity investments	17,146	18,654	(1,508)
Loss on equity investments	(2,071)	(2,414)	343
Result before tax	**10,213**	**16,422**	**(6,209)**
Income tax	914	(627)	1,541
NET RESULT	**11,127**	**15,795**	**(4,668)**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 8,461 thousand Euros (7,577 thousand Euros in year ended 2008);
- Activities carried out centrally for the subsidiary companies for 13,394 thousand Euros (13,598 thousand Euros in 2008);
- Management services for 3,909 thousand Euros (3,196 thousand Euros in 2008).

Operating income 2009 marked a negative result of 4,957 thousand Euros after having deducted amortization expenses of 903 thousand Euros (319 thousand Euros referred to intangible assets and 584 thousand Euros to tangible assets).

The item Financial income net, amounting to positive 95 thousand Euros includes interest income for 2,443 thousand Euros and interest expenses for 2,055 thousand Euros connected to the utilization of the credit facility for M&A operations.

Income from equity investments are related to dividends distributed in 2009 by the subsidiary companies for a total of 17,146 thousand Euros.

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

Net income for year ended 2009, amounted to 11,127 thousand Euros after income taxes worth 914 thousand Euros.

Financial structure

The financial structure of Reply S.p.A. at December 31, 2009, with comparative figures at December 31, 2008, is provided below:

(thousand Euros)	31/12/2009	31/12/2008	Change
Tangible assets	541	978	(437)
Intangible assets	1,419	1,558	(139)
Equity investments	88,650	81,097	7,553
Other intangible assets	694	603	91
Non current assets	**91,303**	**84,236**	**7,067**
Net working capital	**4,359**	**(6,013)**	**10,372**
INVESTED CAPITAL	**95,662**	**78,223**	**17,439**
Non current liabilities	849	954	(105)
Total shareholders' equity	93,525	85,020	8,505
Net financial position	1,288	(7,751)	9,039
TOTAL	**95,662**	**78,223**	**17,439**

Net invested capital, totaling 95,662 thousand Euros was financed through medium/long term non-financial liabilities amounting to 849 thousand Euros, which includes the reserve for employee termination indemnity (562 thousand Euros) and reserve for deferred tax liabilities (287 thousand Euros) and through Shareholders' equity for 93,525 thousand Euros, with a negative net financial debt of 1,288 thousand Euros.

Changes in balance sheet items are fully analyzed and detailed in the explanatory notes to the financial statements.

Financial position

The table below details the Parent company's net financial position as at December 31, 2009 compared to December 31, 2008; detail is as follows:

(thousand Euros)	31/12/2009	31/12/2008	Change
Cash and cash equivalents	10,758	10,635	123
Cash pooling accounts, net	18,181	37,457	(19,276)
Due to banks	(15,714)	(18,533)	2,819
Short-term financial position	**13,225**	**29,559**	**(16,334)**
Loans to subsidiaries	1,450	644	806
Due to banks	(15,963)	(22,452)	6,489
Non current financial position	**(14,513)**	**(21,808)**	**7,295**
Total net financial position	**(1,288)**	**7,751**	**(9,039)**

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 July 28, 2006, the equity and profit of the parent company are reconciled below with the related consolidated amounts.

	31/12/2009		31/12/2008	
(thousand Euros)	Net equity	Result	Net equity	Result
Reply S.p.A.'s separate financial statements	**93,525**	**11,128**	**85,020**	**15,795**
Results of the subsidiary companies	83,900	25,401	86,198	27,419
Carrying value of investments in consolidated companies	(44,411)	2,071	(43,288)	2,515
Elimination of dividends from subsidiary companies	-	(17,146)	-	(18,656)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(2,729)	(4,459)	(3,006)	(5,323)
Non controlling interests	(6,462)	(367)	(13,278)	(2,826)
Net Group consolidated financial statement	**123,823**	**16,628**	**111,646**	**18,924**

Corporate Governance

Reply Group adopted and adheres to the Corporate Governance Code for Italian Listed Companies issued in March 2006, with additions and amendments related to the specific characteristics of the Group.

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

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

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

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 contents they work in and of clearly communicating 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 year ended 2009 the number of employees of the Group were 2,994 compared to 2,686 in 2008. During 2009 354 were employed and approximately 279 left the Group.

Security Planning Document

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

Transactions with related parties and group companies

During the period, there were no transactions with related parties, including 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.

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

Treasury shares

At the balance sheet date, the Parent Company holds no. 131,502 treasury shares, amounting to 1,471,658 Euros, nominal value of 68.381 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount. During 2009 Reply S.p.A. acquired no. 187,958 treasury shares for a total out payment amounting to 2,316,648 Euros and disposed of no. 242,955 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.

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

Member of the Board	Office held in Reply S.p.A.	No. of shares held at 31/12/2008	No. of shares bought in 2009	No. of shares sold in 2009	No. of shares held at 31/12/2009	% of share capital
Mario Rizzante	Chairman	11,381	-	-	11,381	0.1234%
Tatiana Rizzante	Chief Executive Officer	15,734	-	-	15,734	0.1706%
Sergio Ingegnatti	Chief Executive Officer	9,800	300	-	10,100	0.1095%
Oscar Pepino	Executive Director	13,710	-	-	13,710	0.1487%
Claudio Bombonato	Executive Director	-	27,500	-	27,500	0.2982%
Marco Mezzalama	Independent director	250	-	-	250	0.0027%
Key management		720,256	4,607	(2,080)	722,783	7.8369%

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

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 18% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds no. 4,936,204 Reply S.p.A. shares, equivalent to 53.5214% of the Company's share capital.

Events subsequent to December 31, 2009

Subsequent to December 31, 2009 no significant events have occurred.

Outlook on operations

During 2009 the economic difficulties brought companies to drastically reduce investments and to postpone the development of new projects. Notwithstanding, the Group was able to grow and invest in competences that will be fundamental in the near future such as *Cloud Computing, Machine2Machine, Composite Applications, SaaS, Social Computing.*

Furthermore Reply has re-engineered its offer, realigning it to a radically transformed market demand and to technology ever more so cohesive and aligned to wide-ranging and rapid business processes.

During the economic crisis Reply was able to establish solid bases for the future

2010 will be another challenging year. The first months have been characterized by uncertainty, especially in the industry sector, where the labor market is still deeply suffering; at the same time however, first signs that anticipate a new, possible structural phase of growth have emerged.

Many months of hard work await Reply in which team spirit will be fundamental as well the capacity to continuously innovate and improve the quality of services. Reply has the strength, the determination, and the rapidity necessary to emerge and conquer new areas both in Italy and in Europe. The conditions to believe and succeed are at hand and Reply has the capability of achieving such objectives.

For this reason, today, Reply anticipates the future of the Group with great optimism and serenity.

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

The financial statements at year end 2009 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 11,127,575 Euros and shareholders' equity amounted to 93,525,071 Euros:

(in Euros)	**31/12/2009**
Share capital	4,795,886
Share premium reserve	19,846,549
Legal reserve	959,177
Reserve for treasury shares on hand	1,471,658
Other reserves	55,324,226
Total share capital and reserves	**82,397,496**
Net result	11,127,575
Total	**93,525,071**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at December 31, 2009 showing a net result of 11,127,575.00 Euros, proposes that the shareholders resolve:

→ To approve Reply S.p.A.'s separate statements recording a net result of 11,127,575.00 Euros;

- → To approve the motion to allocate the net result of 11,127,575.00 Euros as follows:
- → Dividends to the shareholders', in the amount of 0.35 Euros per ordinary share having the right and that are in circulation as at May 31, 2010 with fixed payment date set on June 3, 2010, excluding treasury shares;
- → The residual amount, that is variable in relation to the treasury shares acquired and the floating shares at the time of dividend yield date, brought forward and stated at Extraordinary reserve as the Legal Reserve has already reached one fifth of the share capital limit in accordance with the Article 2430 of the Civil Code.

Turin, March 15, 2010

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

Consolidated financial statements as at December 31, 2009

Reply Consolidated income statement(*)

(thousand Euros)	**Note**	**2009**	**2008**
Revenues	5	340,166	330,210
Other revenues		1,877	1,459
Purchases	6	(8,205)	(10,262)
Personnel	7	(176,652)	(162,396)
Services and other costs	8	(117,373)	(112,758)
Amortization, depreciation and write-downs	9	(6,978)	(4,885)
Other unusual operating income/(expenses)	10	3,047	(209)
Operating income		**35,882**	**41,159**
Financial income/(expenses)	11	(1,914)	(1,024)
Result before tax of continuing operations		**33,968**	**40,135**
Income tax	12	(17,098)	(18,266)
Net result of continuing operations		**16,870**	**21,869**
Result from discontinued operations	13	125	(119)
Non controlling interest		(367)	(2,826)
GROUP NET RESULT		**16,628**	**18,924**
Net result per share	*14*	*1.84*	*2.12*
Diluted net result per share	*14*	*1.81*	*2.08*

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

Reply Consolidated statement of comprehensive income

(thousand Euros)	Note	2009	2008
Profit of the period (A)		**16,995**	**21,750**
Gain/(Losses) on cash flow hedges	25	(899)	(110)
Gain/(Losses) on exchange differences on translating foreign operations	25	57	(62)
Actuarial gains/(losses) from employee benefit plans	25	285	-
Total other comprehensive net of tax (B)		**(557)**	**(172)**
Total comprehensive income (A)+(B)		**16,438**	**21,578**
Total comprehensive income attributable to:			
Owners of the parent		16,103	18,800
Non-controlling interests		335	2,778

Reply Consolidated statement of financial position(*)

(thousand Euros)	Note	31/12/2009	31/12/2008
Tangible assets	15	9,823	8,237
Goodwill	16	66,047	66,827
Other intangible assets	17	6,644	6,050
Equity investments	18	8	-
Other financial assets	19	3,685	3,161
Deferred tax assets	20	6,024	4,924
Non Current assets		**92,231**	**89,199**
Inventories	21	15,084	18,020
Trade receivables	22	153,725	144,711
Other receivables and current assets	23	14,868	9,752
Cash and cash equivalents	24	33,163	39,356
Current assets		**216,840**	**211,839**
TOTAL ASSETS		**309,071**	**301,038**
Share capital		4,796	4,796
Other reserves		102,399	87,926
Group net result		16,628	18,924
Group shareholders' equity	25	**123,823**	**111,646**
Non controlling interest	25	6,462	13,278
SHAREHOLDERS' EQUITY		**130,285**	**124,924**
Financial liabilities	26	22,830	34,433
Employee benefits	27	15,492	14,518
Deferred tax liabilities	28	8,584	5,615
Provisions	29	15,912	6,311
Non current liabilities		**62,818**	**60,877**
Financial liabilities	26	21,637	24,112
Trade payables	30	36,185	32,652
Other current liabilities	31	52,167	53,889
Provisions	29	5,979	4,584
Current liabilities		**115,968**	**115,237**
TOTAL LIABILITIES		**178,786**	**176,114**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**309,071**	**301,038**

(*)Pursuant to Consob Regulation no. 15519 of July 27, 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 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 interest	Total
Balance at January 1, 2008	**4,722**	**(1,253)**	**47,325**	**43,279**	**420**	**-**	**-**	**12,713**	**107,206**
Capital increase	74	-	3,072	-	-	-	-	-	**3,146**
Dividends distributed	-	-	-	(3,118)	-	-	-	(614)	**(3,732)**
Change in treasury shares	-	(2,438)	-	-	-	-	-	-	**(2,438)**
Total comprehensive income for the period	-	-	-	18,924	(62)	(62)	-	2,778	**21,578**
Other changes	-	-	(137)	900	-	-	-	(1,599)	**(836)**
Balance at December 31, 2008	**4,796**	**(3,691)**	**50,260**	**59,985**	**358**	**(62)**	**-**	**13,278**	**124,924**

(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 interest	Total
Balance at January 1, 2009	**4,796**	**(3,691)**	**50,260**	**59,985**	**358**	**(62)**	**-**	**13,278**	**124,924**
Capital increase	-	-	-	-	-	-	-	-	-
Dividends distributed	-	-	-	(3,222)	-	-	-	(473)	(3,695)
Change in treasury shares	-	2,219	-	-	-	-	-	-	2,219
Total comprehensive income for the period	-	-	-	16,628	(903)	57	321	335	16,438
Other changes	-	-	(1,417)	(1,506)	-	-	-	(6,678)	(9,601)
Balance at December 31, 2009	**4,796**	**(1,472)**	**48,843**	**71,885**	**(545)**	**(5)**	**321**	**6,462**	**130,285**

Reply Consolidated statement of cash flows

(thousand Euros)	**2009**	**2008**
Net result for the year	16,995	21,869
Income tax	17,098	18,266
Depreciation and amortization	6,978	4,886
Impairment of intangible assets	780	-
Change in inventories	2,936	(9,329)
Change in trade receivables	(9,013)	(19,236)
Change in trade payables	3,532	5,676
Change in other assets and liabilities	95	11,358
Income tax paid	(11,601)	(21,460)
Interest paid	(2,204)	(2,912)
Interest collected	426	1,168
Other non-monetary income/(expenses), net	-	(19)
Net Cash flows from operating activities (A)	**26,022**	**10,267**
Payments for tangible and intangible assets	(7,528)	(8,579)
Payments for financial assets	(524)	(193)
Payments for the acquisition of subsidiaries net of cash acquired	(6,879)	(21,252)
Net cash flows from investment activities (B)	**(14,931)**	**(30,024)**
Dividends paid	(3,695)	(3,732)
Payments for acquisition of treasury shares	2,220	(2,438)
In payments from financial loans	4,911	23,600
Payment of installments	(16,444)	(4,200)
Other changes	(589)	(2,514)
Net Cash flows from financing activities (C)	**(13,597)**	**10,716**
Net cash flows (D) = (A+B+C)	**(2,506)**	**(9,041)**
Cash and cash equivalents at beginning of year	31,769	40,810
Cash and cash equivalents at year end	29,263	31,769
Total change in cash and cash equivalents (D)	**(2,506)**	**(9,041)**

Detail of net cash and cash equivalents		
Cash and cash equivalents at the beginning of the year:	**31,769**	**40,810**
Cash and cash equivalents	39,356	40,810
Bank overdrafts	(7,587)	-
Cash and cash equivalents at the end of the year:	**29,263**	**31,769**
Cash and cash equivalents	33,163	39,356
Bank overdrafts	(3,900)	(7,587)

Notes to the consolidated financial statements

Note 1 - General information

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

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

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

Note 2 - Accounting principles and basis of consolidation

Compliance with International accounting principles

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

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

General 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.

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

Basis of consolidation

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements as at December 31, 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 values of the identifiable assets and liabilities of the company at the date of acquisition and post acquisition adjustments. Subsequently, any losses attributable to non controlling interests that exceed their share of net equity is attributed to the Group net equity unless non controlling interest is able to make further investments to cover losses according to contractual bonds.

Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

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

Business combinations

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

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

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

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

	Average 2009	At December 31, 2009	Average 2008	At December 31, 2008
GBP	0.89094	0.881	0.7965	0.9525
CHF	1.51002	1.4836	1.58739	1.485

Tangible fixed assets

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

Fixed assets are stated at purchase, production or transfer costs including related charges and other direct or indirect expenses incurred to bring the asset to its intended use.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

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

The recoverable value of such assets is determined through the principles set out in IAS 36 and outlined in the paragraph “Impairment” herein.

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.

Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.

Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are 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, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

In the context of IFRS First-time Adoption, the Group elected not to apply IFRS 3 – Business Combinations retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts, subject to impairment testing at that date.

Other intangible assets

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

Other purchased and internally-generated intangible assets are 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. straight-line basis over the lease terms.
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; and
- 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, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.

Impairment

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

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

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been 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 fulfill 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.

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.

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

Trade payables and receivables and other current assets and liabilities

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

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

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

Cash and cash equivalents

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

Assets and liabilities from discontinued operations

This item includes the assets and liabilities from discontinued operations whose carrying amount will be recovered principally through a sales transaction rather than through continuing use.

Assets held for sale are measured at the lower of their carrying amount and fair value less disposal costs.

Treasury shares

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

Financial liabilities and equity investments

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

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

→ Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its 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 Group's activities are primarily subject to financial risks associated with fluctuations in interest rates. Such interest rate risks arise from bank borrowings; in order to hedge these risks the Group's policy consists in converting fluctuating rate liabilities in constant rate liabilities and treat them as cash flow hedges. The use of such instruments is disciplined by written procedures in line with the Group risk strategies that do not contemplate derivative financial instruments for trading purposes.

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

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

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

If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is 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 hedging against change in fair value of specific items, the item hedged is restated to the extent of the change in fair value attributable to the risk hedged and recognized at 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 do not qualify as hedge accounting are recognized in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument 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 correlated to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the income statement.

Employee benefits

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan until December 31, 2006. The legislation regarding this scheme and leading to this classification was amended by Law no. 296 of 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 December 31, 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.

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

Through actuarial valuation, current service costs are recognized as "personnel expenses" at the income statement and represent the amount of rights matured by employees at 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 unrecognized past service cost, reduced by the fair value of plan assets.

Share-based payment plans (stock options)

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

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

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

Provisions and reserves for risks

Provisions for risks and liabilities are costs and liabilities having an established nature and the existence of which is certain or probable that at the reporting date the amount cannot be determined or the occurrence of which is uncertain. Such provisions are 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 fulfill 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 possible that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

Revenue from sales and services is 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 main items affected by these situations of uncertainty are allowance for doubtful accounts, goodwill and deferred taxation.

Change in accounting principles

Pursuant to IAS 8, these are recognized on the face of the income statement starting from the year of adoption.
Changes in accounting estimates and reclassifications

Changes in accounting estimates and reclassifications

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

New accounting principles

Accounting principles, amendments and interpretations adopted from January 1, 2009

The Group has applied the following Standards, amendments and interpretations, which include those revised in conjunction with the IASB's 2008 annual improvements project, since January 1, 2009.

IAS 1 Revised – Presentation of financial statements

The revised version of IAS 1 - *Presentation of Financial Statements* does not permit the presentation of components of comprehensive income (that is "non-owner changes in equity") in the statement of changes in equity, requiring these to be presented separately from owner changes in equity. Under the revised standard, all non-owner changes in equity are required to be presented in one statement showing performance for the period (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income). These changes are also required to be shown separately in the Statement of changes in equity.

The Group has adopted the revised standard retrospectively from January 1, 2009, electing to present both the Income statement and the Statement of comprehensive income and has consequently amended the presentation of the Statement of changes in equity. In addition, as part of its 2008 annual improvements project, the IASB published an amendment to IAS 1 (Revised),which requires an entity to classify hedging derivative financial instruments between current and non-current assets and liabilities in the Statement of financial position. Adopting this amendment did not lead to any effect on the presentation of derivative financial instruments in the Statement of financial position as the Group uses the mixed current/non-current distinction format for presentation that is permitted by IAS 1.

IFRS 8 – Operating segments

IFRS 8 has been adopted as a substitution of IAS 14 – *Segment Reporting.* The new standard requires the information provided in segment reporting to be based upon the components of the entity that management uses to make decisions about operational matters. The standard requires these operating segments to be identified on the basis of internal reports that are regularly reviewed by the entity's management in order to allocate resources to the segment and assess its performance. The operating segments related to IFRS 8 have not varied in comparison the segments analyzed in accordance to IAS 14.

Amendment to IFRS 2 – Vesting conditions and Cancellations

The amendment to IFRS 2 – *Vesting Conditions and Cancellations* clarifies that for the purpose of measuring share-based payments, only service conditions and performance conditions may be considered vesting conditions. Any other clauses shall be considered non-vesting conditions and included in the determination of fair value at the grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

The Group retrospectively adopted the amendment from January 1, 2009; no effects arose from first-time adoption because the share-based payments outstanding within the Group and not fully vested do not provide for vesting conditions different from performance conditions and service conditions as defined by the amendment and because no awards were cancelled during the period.

Improvement to IAS 19 – Employee benefits

The improvement to IAS 19 – *Employee Benefits* clarifies the definition of positive/negative past service costs and states that in the case of a curtailment, only the effect of the reduction for future service shall be recognized immediately in the income statement, while the effect arising from past service periods shall be considered a negative past service cost. This amendment should be adopted prospectively to changes to plans occurring on or after January 1, 2009, but there was no significant accounting effect at June 30, 2009 for the Group following the adoption.

The improvement also revises the definition of the return on plan assets, stating that this amount should be stated net of any costs for administering the plan (other than those included in the measurement of the defined benefit obligation) and clarifies the definition of short-term employee benefits and other long-term employee benefits. The Group adopted this amendment retrospectively from January 1, 2009 for the definitions of return on plan assets and short-term and long-term employee benefits, although no effects arose as the Group's accounting treatment of these items was already consistent with the requirements of the amendment.

Improvement to IAS 20 – Government grants and Disclosure of Government Assistance

The improvement to IAS 20 – *Government Grants and Disclosure of Government Assistance* requires the benefit of a government loan at a below-market rate of interest to be treated as a government grant and then accounted for in accordance with IAS 20. The previous version of IAS 20 required no benefits to be separately recognized in the case of a government loan received as a grant at a below-market rate of interest; the Group accordingly recognized loans at the amount of the proceeds received and recognized the lower interest expense on such loans directly in income statement as financial income (expenses).

In accordance with the transition rules, the Group adopted the improvement on January 1, 2009 to government loans obtained on or after that date at below-market rates. For such loans, on disbursement the Group recognizes the loan at its fair value and deferred income for the amount corresponding to the benefit yet to be received of obtaining the loan at a below-market interest rate (namely the grant, the difference between the fair value of the loan and the amount received). This benefit is then recognized in income when and only when all conditions for the grant to be recognized are satisfied, on a systematic basis over the periods necessary to match the income with the costs which it is intended to offset. No significant accounting effects arose at December 31, 2009 from adopting the improvement.

Improvement to IAS 38 – Intangible Assets

The improvement to IAS 38 – *Intangible Assets* requires expenditure on advertising and promotional activities to be recognized as an expense. Further, in the case expenditure is incurred to provide future economic benefits to an entity but no intangible asset is recognized, an entity shall recognize the expenditure as an expense when it has the right to access the goods in the case of the supply of goods or when it receives the services in the case of the supply of services. The standard has also been amended in order to allow entities to use the unit of production method for determining the amortization charge for an intangible asset with a finite useful life.

The Group adopted the amendment to IAS retrospectively on January 1, 2009, although adoption had no effect on the Group's financial statements as the Group already recognized such expenditure as an expense. In connection with the possibility of using the unit of production method for determining the amortization charge for an intangible asset with a finite useful life, the Group amortizes these assets on the straight-line-basis.

Amendment to IFRS 7 – Improving Disclosures about Financial Instruments

The amendment, effective from January 1, 2009, was issued in order to improve the disclosure requirements for fair value measurements and reinforce existing principles for disclosures concerning the liquidity risk associated with financial instruments. In particular, the amendment requires disclosures to be made that are based on a hierarchy of the inputs used in valuation techniques to measure fair value. The adoption of the amendment only affected the disclosures in the notes and had no effect on the measurement of items in the financial statements.

Amendments and interpretations effective from January 1, 2009 but not applicable to the Group

The following amendments, improvements and interpretations have also been issued and are effective from January 1, 2009; these relate to matters that were not applicable to the Group at the date of these financial statements.

- *Amendment IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation.*
- *IAS 23 Revised – Borrowing Costs*
- *Improvement to IAS 16 – Property, plant and equipment*
- *Improvement to IAS 28 – Investments in associates connected to IAS 31 – Investments in joint venture*
- *Improvement to IAS 36 – Impairment of Assets*
- *Improvement to IAS 39 – Financial instruments: Recognition and Measurement*
- *Improvement to IAS 40 – Investment Property*
- IFRIC 13 – *Customer Loyalty Programmes*
- IFRIC 15 – *Agreements for the Construction of Real Estate*
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*

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

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

With regards to *Improvement 2008* issued by IASB, modifications connected to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations: this amendment, requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liability of that subsidiary as held for sale, regardless of whether the entity will retain a non controlling interest in its former subsidiary after the sale. This amendment will be applied prospectively from January 1, 2010

On July 31, 2008 IASB issued an amendment to IAS 39 – *Financial Instruments: Recognition and Measurement* which is to be applied retrospectively from January 1, 2010. The amendment clarifies how the existing principles underlying hedge accounting should be applied in particular situations. As of the date of this Consolidated financial statements, the amendment had not yet been endorsed by the European Union.

On November 27, 2008 the IFRIC issued interpretation IFRIC 17 – *Distributions of Non-cash Assets to Owners* that will standardize practice in the accounting treatment of the distribution of non-cash assets to owners. In particular, the interpretation clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity should recognize the difference between the dividend paid and the carrying amount of the net assets used for payment in income statement. The interpretation is effective prospectively from January 1, 2010. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On January 29, 2009 the IFRIC issued the interpretation IFRIC 18 – *Transfers of Assets from Customers* that clarifies the accounting treatment to be followed for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer which will then be used to acquire or construct the item of property, plant and equipment to be used to fulfill the requirements of the contract. The interpretation is effective prospectively from January 1, 2010. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On March 5, 2009 IASB issued an amendment to IFRS 7 – *Improving Disclosures about Financial Instruments* to improve the disclosure requirements for fair value measurements concerning the liquidity risk associated with financial instruments. The amendment is applicable from January 1, 2009. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On March 12, 2009, issued amendments to IFRIC 9 – *Reassessment of Embedded Derivatives* and to IAS 39 – *Financial Instruments: Recognition and Measurement* that allow entities to reclassify certain financial instruments out of the “fair value through profit or loss” category in specific circumstances. The amendments clarify that on the reclassification of a financial asset out of the “fair value through profit or loss” category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The amendments are effective retrospectively from December 31, 2009. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On April 16, 2009 the IASB issued a series of amendments to IFRS (Improvements to IFRSs). Details are provided in the following paragraphs of those identified by the IASB as resulting in accounting changes for presentation, recognition and measurement purposes, leaving out any amendments regarding changes in terminology or editorial changes which are likely to have minimal effects on accounting and amended standards or interpretations not applicable to the Reply Group.

IFRS 2 – *Share-based Payment:* this amendment, applicable from January 1, 2010, clarifies that following the change made by IFRS 3 to the definition of a business combination, the contribution of a business on the formation of a joint venture within the scope of IFRS 2.

IFRS 5 – *Non-current Assets held for sale and Discontinued Operations:* this amendment, which shall be applied prospectively from January 1, 2010, clarifies that IFRS 5 and other IFRSs that specifically refer to non- current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

IFRS 8 – *Operating Segments:* this amendment, effective from January 1, 2010, requires an entity to report a measure of total assets for each reportable segment if such amount is regularly provided to the chief operating decision maker. Before the amendment, disclosure of total assets for each segment was required even if that condition was not met.

IAS 1 – *Presentation of Financial Statements:* this improvement, effective from January 1, 2010, amends the definition of a current liability contained in IAS 1. The previous definition required liabilities which could be extinguished at any time by issuing equity instruments to be classified as current. That led to liabilities relating to convertible bonds which could be converted at any time into the shares of the issuer to be classified as current. Following this amendment the existence of a currently exercisable option for conversion into equity instruments becomes irrelevant for the purposes of the current/non-current classification of a liability.

IAS 7 – *Statement of Cash Flows:* this amendment, applicable from January 1, 2010, clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities in the statement of cash flows; cash flows originating from expenditures that do not result in a recognized asset (as could be the case for advertising and promotional activities and staff training) must be classified as cash flows from operating activities.

IAS 17 – *Leasing:* following the changes, the general conditions required by IAS 17 for classifying a lease as a finance lease or an operating lease will also be applicable to the leasing of land, independent of whether the lease transfers ownership by the end of the lease term. Before these changes the standard required the lease to be classified as an operating lease if ownership of the leased land was not transferred at the end of the lease term because land has an indefinite useful life. The amendment is effective from January 1, 2010. At the date of adoption the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognized retrospectively.

IAS 36 – *Impairment of Assets:* this amendment, effective prospectively from January 1, 2010, states that each unit or group of units to which goodwill is allocated for the purpose of impairment testing shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before any aggregation on the basis of similar economic characteristics and other similarities as permitted by paragraph 12 of IFRS 8.

IAS 38 – *Intangible Assets:* IFRS 3 (as revised in 2008) states that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure its fair value reliably; amendments are made to IAS 38 to reflect that revision of IFRS 3. Moreover these amendments clarify the valuation techniques commonly used to measure intangible assets at fair value when assets are not traded in an active market; in particular, such techniques include discounting the estimated future net cash flows from an asset, and estimating the costs the entity avoids by owning an intangible asset and not having to license it from another party in an arm's length transaction or the costs to recreate or replace it (as in the cost approach). The amendment is effective prospectively from January 1, 2010.

IAS 39 – *Financial Instruments: Recognition and Measurement:* this amendment restricts the non-applicability of IAS 39 under paragraph 2(g) of the standard to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date when the completion of the business combination is not dependant on further actions of either party and only the passage of a normal period of time is required. Option contracts, whether or not currently exercisable, which allow one party to control the occurrence or non-occurrence of future events and on exercise will result in control of an entity are therefore included in the scope of IAS 39. The amendment also clarifies that embedded prepayment options whose exercise price compensates the lender for the loss of interest income resulting from the prepayment of the loan shall be considered closely related to the host debt contract and therefore not accounted for separately. Finally, the amendment clarifies that the gains or losses on a hedged instrument must be reclassified from equity to profit or loss during the period that the hedged forecast cash flows affect profit or loss. The amendment is effective prospectively from January 1, 2010.

IFRIC 9 – *Reassessment of Embedded Derivatives:* this amendment excludes from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture. The amendment is applicable prospectively from January 1, 2010.

The European Union had not yet endorsed the improvements described above at the date of these financial statements.

In June 2009, the IASB issued an amendment to IFRS 2 – *Share based payment: Group Cash-settled Share-based Payment transactions.* The amendment clarifies the scope of IFRS 2 and the interactions of IFRS 2 and other standards. In particular, it clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash; moreover, it clarifies that a 'group' has the same meaning as in IAS 27 - *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. In addition, the amendment clarifies that an entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognized by the consolidated group. The amendments also incorporate guidance previously included in IFRIC 8 - *Scope of IFRS 2* and IFRIC 11 - *IFRS 2 - Group and Treasury Share Transaction.* As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.The amendment is effective from January 1, 2010; the European Union had not yet endorsed the amendment at the date of these financial statements.

On October 8, 2009, the IASB issued an amendment to IAS 32 – *Classification of Rights Issues* in order to address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable from January 1, 2011 and the Group is currently assessing any effects this change may have on the financial statements.

On November 4, 2009, the IASB issued a revised version of IAS 24 - *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after January 1, 2011. The revised standard had not yet been endorsed by the European Union at the date of these financial statements.

On November 12, 2009, the IASB issued a new standard IFRS 9 – *Financial Instruments* on the classification and measurement of financial assets, having an effective date for mandatory adoption of January 1, 2013. The new standard represents the completion of the first part of a project to replace IAS 39. 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. IFRS 9 also requires a single impairment method to be used. The new standard had not yet been endorsed by the European Union at the date of these financial statements.

On November 26, 2009, the IASB issued a minor amendment to IFRIC 14 - *Prepayments of a Minimum Funding Requirement.* The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of January 1, 2011; the amendment had not yet been endorsed by the European Union at the date of these financial statements.

On November 26, 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The amendment has an effective date for mandatory adoption of January 1, 2011; the amendment had not yet been endorsed by the European Union at the date of these financial statements.

Note 3 - Financial risk management

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honor payments.

With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

Liquidity risk

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

The present difficulties both in the markets in which the Group operates and in the financial markets necessitate special attention being given to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2010, which promises to be a difficult year. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Currency risk and interest rate risk

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

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

Note 4 - Consolidation

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

No change in consolidation has occurred compared to December 31, 2008.

Note 5 - Revenues

Revenues from sales and services, including change in work in progress, amounted to 340,166 thousand Euros and are detailed as follows:

(thousand Euros)	2009	2008	Change
Consulting services and fixed price projects	311,274	298,395	12,879
Assistance and maintenance services	26,323	25,430	893
Other	2,569	6,385	(3,816)
Total	**340,166**	**330,210**	**9,956**

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

Country	2009	2008
Italy	81.3%	80.3%
Germany	16.1%	18.4%
UK	2.6%	1.3%
	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)	2009	2008	Change
Software licenses for resale	4,600	5,164	(564)
Hardware for resale	1,084	2,224	(1,140)
Other	2,521	2,874	(353)
Total	**8,205**	**10,262**	**(2,057)**

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

The item *Other* mainly includes the acquisition of fuel amounting to 1,734 thousand Euros and office material amounting to 297 thousand Euros.

Note 7 - Personnel

Detail is as follows:

(thousand euro)	2009	2008	Change
Payroll employees	161,201	145,738	15,463
Executive Directors	12,292	13,929	(1,637)
Project collaborators	3,159	2,729	430
Total	**176,652**	**162,396**	**14,256**

The increase in personnel expenses amounting to 14,256 thousand Euros refers to the overall increase of the Group's business and the number of employees.

Personnel expenses include the fair value of the stock options vested as at December 31, 2009 (50 thousand Euros).

The average number of personnel at year end 2009 amounted to 2,932 (2,516 in 2008).

Detail of personnel by category is provided below:

(number)	31/12/2009	31/12/2008	Change
Directors	231	197	34
Managers	447	386	61
Staff	2,316	2,103	213
Total	**2,994**	**2,686**	**308**

At December 31, 2009 the number of employees of the Group were 2,994 compared to 2,686 at December 31, 2008. During 2009 approximately 354 employees were hired and approximately 279 left the Group.

The acquisition of the business unit Motorola and the merger with TestaWebEDV brought an increase of approximately 217 employees in the Group.

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

Note 8 - Services and other costs

Service expenses comprised the following:

(thousand Euros)	2009	2008	Change
Commercial and technical consulting	52,994	53,068	(74)
Travelling and professional training expenses	16,974	17,811	(837)
Other service costs	27,895	23,947	3,948
Office expenses	9,105	8,302	803
Lease and rentals	6,047	6,155	(108)
Other	4,358	3,475	883
Total	**117,373**	**112,758**	**4,615**

Change in *Services and other costs* amounted to 4,615 thousand Euros and owes to an overall increase in the Group's activities.

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

Office expenses include charges from related parties in connection to service contracts for the use of premises and centralized secretarial services amounting to 5,303 thousand Euros.

Note 9 - Amortization, depreciation and write-downs

Depreciation of tangible assets, amounting to 4,064 thousand Euros at December 31, 2009, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible assets.

This item also includes the government grant established by the Regional laws 34/2004 and 4/2006 in relation to the financed research project "Internet of things" amounting to 326 thousand Euros.

Amortization of intangible assets for the year ended 2009 amounted to 2,502 thousand Euros. The details are provided at the notes to intangible assets herein.

The *Impairment Test* in accordance to IAS 36 resulted in a partial impairment of goodwill which amounted to 738 thousand Euros.

Note 10 - Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 3,047 thousand Euros is related to events falling out of the ordinary course of business. More specifically, 1,628 thousand Euros is due to the fair value of the assets transferred with the acquisition of the Motorola research center branch.

Note 11 - Financial income/(expenses)

Detail is as follows:

(thousand Euros)	**2009**	**2008**	**Change**
Financial gains	438	2,001	(1,563)
Interest expenses	(2,377)	(2,991)	614
Other	25	(34)	59
Total	**(1,914)**	**(1,024)**	**(890)**

The item *Financial gains* mainly includes interest on bank accounts for 426 thousand Euros.

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

Note 12 - Income taxes

Income taxes for financial year 2009 amounted to 17,098 thousand Euros and are detailed as follows:

(thousand Euros)	**2009**	**2008**	**Change**
IRES and other	11,613	10,786	827
IRAP	6,358	6,693	(335)
Current taxes	**17,971**	**17,479**	**492**
Deferred tax liabilities	2,840	1,594	1,246
Deferred tax assets	(3,713)	(807)	(2,906)
Deferred taxes	**(873)**	**787**	**(1,660)**
Total income taxes	**17,098**	**18,266**	**(1,168)**

The tax burden was equivalent to 50.3% (45.5% in 2008).

Note 13 - Assets, liabilities and result of discontinued operations

The amount is referred to a tax refund received at the end of 2009 with reference to discontinued operations of 2008.

Note 14 - Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2009 was calculated with reference to the profit for the period of the Group which amounted to 16,628 thousand Euros (18,924 thousand Euros at December 31, 2008) divided by the weighted average number of shares outstanding during the year which were 9,041,267 (8,940,366 at December 31, 2008).

	2009	**2008**
Net profit for the year	16,628,000	18,924,000
Weighted average number of shares	9,041,267	8,940,366
Basic earnings per share	1.84	2.12

Diluted earnings per share

Diluted earnings per share at December 31, 2009 was calculated with reference to the profit for the period of the Group which amounted to 16,628 thousand Euros divided by the weighted average number of shares outstanding at December 31, 2009 taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

	2009	**2008**
Net profit for the year	16,628,000	18,924,000
Weighted average number of shares	9,041,267	8,940,366
Diluting effect	168,400	162,400
Weighted number of diluted shares	9,209,667	9,102,766
Diluted earnings per share	1.81	2.08

Note 15 - Tangible assets

Tangible assets as at December 31, 2009 amounted to 9,823 thousand Euros and are detailed as follows:

(thousand Euros)	31/12/2009	31/12/2008	Change
Buildings	2,758	2,900	(142)
Plant and machinery	1,942	1,286	656
Hardware	3,558	3,157	401
Other	1,565	894	671
Total	**9,823**	**8,237**	**1,586**

Change in tangible assets during 2009 is summarized in the table below:

(thousand Euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4,023	4,227	13,520	3,538	25,308
Accumulated depreciation	(1,123)	(2,941)	(10,363)	(2,644)	(17,071)
Balance at 31/12/2008	**2,900**	**1,286**	**3,157**	**894**	**8,237**
Historical cost					
Additions	-	637	2,202	1,137	3,976
Disposals	-	(303)	(191)	(91)	(585)
Other changes	-	872	1,101	176	2,149
Accumulated depreciation					
Depreciation	(142)	(816)	(2,522)	(584)	(4,064)
Utilization	-	269	170	41	480
Other changes	-	(3)	(359)	(8)	(370)
Historical cost	4,023	5,433	16,632	4,760	30,848
Accumulated depreciation	(1,265)	(3,491)	(13,074)	(3,195)	(21,025)
Balance at 31/12/2009	**2,758**	**1,942**	**3,558**	**1,565**	**9,823**

In 2009 the Group carried out investments amounting to 3,976 thousand Euros mainly for computers and network equipment.

The item *Buildings* includes a building belonging to a syskoplan group company located in Gutersloh, with a net book value amounting to 2,751 thousand Euros.

The item *Plant and machinery* includes the lease of video conference equipment amounting to 20 thousand Euros.

Change in *Hardware* owes to investments made by the Italian subsidiaries for 948 thousand Euros and 1,232 thousand Euros to purchases made by the German companies. Furthermore this item includes financial leases for 1,118 thousand Euros (641 at December 31, 2008).

The item *Other* at December 31, 2009 includes improvements to third party assets (1,213 thousand Euros) and office furniture (300 thousand Euros).

The item Other changes refer to the acquisition of the research centre of Motorola and the incorporation of TestaWebEDV.

At December 31, 2009 68.2% of tangible assets have been depreciated compared to 67.5% in 2008.

Note 16 - Goodwill

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

Goodwill in 2009 developed as follows:

(thousand Euros)

Balance at December 31, 2008	**66,827**
Decrease	(780)
Balance at December 31, 2009	**66,047**

Goodwill is allocated to the Cash Generating Units ("CGU") which is normally identified as a single company or business unit of a company.

(thousand Euros)

Company originating goodwill	**CGU/Legal entity**	**Year of acquisition**	**% acquired**	**31/12/2009**
@Logisitcs Reply S.r.l.	@Logisitcs Reply S.r.l.	2000	30.0%	459
Business Reply S.r.l.	Business Reply S.r.l.	2000	30.0%	160
Cluster Reply S.r.l.	Cluster Nord	2000	15.0%	155
Sytel Reply S.r.l.	Sytel Roma	2000	20.0%	223
Sysproject Reply S.r.l.	Cluster Nord	2002	100.0%	1,665
Aware Reply S.r.l.	Bitmama Srl	2001 - 2003	100.0%	2,418
Blue Reply S.r.l.	Blue Reply S.r.l.	2004	12.0%	285
Planet Reply S.r.l.	Sytel Nord	2004	20.0%	1,191
E*Finance Reply S.r.l.	E*Finance Reply S.r.l.	2001 - 2005	42.0%	2,561
Eos Reply S.r.l.	Eos Reply S.r.l.	2005	(*)	360
IrisCube Reply S.p.A.	IrisCube Reply S.p.A.	2003 - 2005	100.0%	1,563
IrisCube Reply S.p.A. (***)	Live	2003 - 2005	100.0%	5,100
Spike Reply S.r.l.	Security Reply S.r.l.	2005	10.0%	298
Discovery Reply S.r.l.	Discovery Reply S.r.l.	2005	(*)	210
syskoplan AG	syskoplan Group	2006	63.8%	9,611
Interactiv! (**)	Interactiv!	2006	85.1%	709
Macros Innovation (**)	Macros Innovation	2006	100.0%	4,652
Discovery sysko Gmbh (**)	Discovery sysko Gmbh	2006	20.0%	11
Santer Reply S.p.A.	Santer	2002 - 2006	100.00%	1,062
Xuccess Consulting GmbH (**)	Xuccess Consulting GmbH	2007	100.0%	5,195
Axcel Reply S.r.l.	Aktive Reply S.r.l.	2007	100.0%	558
Axcel Reply S.r.l.	Live	2007	100.0%	250
Communication Valley S.p.A.	Security Reply S.r.l.	2008	1000%	11,868
glue Reply Ltd.	glue Reply Ltd.	2008	100.0%	10,772
Reply Consulting S.r.l.	Reply Consulting S.r.l.	2008	44.0%	4,306
Hermes Reply S.r.l.	Hermes Reply S.r.l.	2008	5.0%	116
Other (*)				289
Total				**66,047**

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

Reply has adopted a structured system of periodic planning and budgeting aimed at defining the objectives and business strategies in drafting the annual budget.

The impairment model adopted by the Group is based on future cash flows calculated through the *Discounted cash flow analysis.*

In applying this model, Management utilizes assumptions which are applied to the single CGU from the first year following the annual budget. The estimates are as follows:

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

The recovering 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 recovering value is higher than the carrying amount of the CGU, there is no impairment of the asset, on the contrary when the model indicates a difference between the carrying amount and the recovering value there is impairment.

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

Terminal value growth rates:	1%
Discount rate, before taxes:	7.5%
Net selling price:	7x Ebitda

As to all CGUs subject to impairment at December 31, 2009, no indications emerged that such businesses may have been subject to impairment apart from the subsidiary Interactiv! which has undergone a partial impairment (738 thousand Euros).
Reply has also developed a sensitivity analysis of the estimated recoverable value by using discounted cash flows. The Group considers that the discount rate is a key indicator in estimating the fair value and has therefore determined that an increase of 150 basis points in the discount rate would not, also considering the presumable value, lead to an excess of the carryimg 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. In this respect pessimistic trends of the world economy, have led management to reconsider the expected rates of growth of the revenues and margins incorporated in the business plan drawn up in previous years and to revise the plan using a more cautious basis. This means that the growth objectives included in the most recent plan will be achieved more slowly, although without causing situations to arise in which the carrying amount of goodwill may be significantly impaired. However, estimating the recoverable amount of cash generating units requires discretion and the use of estimates by management. The Group cannot guarantee that there will be no goodwill impairment in future periods.
In fact, various factors connected to the current challenging market environment could require a reassessment of [reduction in] the value of goodwill. Circumstances and events which could potentially cause further impairment losses are constantly monitored by the Group.

Note 17 - Other intangible assets

Intangible assets as at December 31, 2009 amounted to 6,644 thousand Euros (6,050 thousand Euros at December 31, 2008) and detail is as follows:

(thousand Euros)	**Historical cost**	**Accumulated amortization**	**Net book value at 31/12/2009**
Development costs	8,135	(5,455)	2,680
Software	11,399	(9,854)	1,545
Trademarks	527	-	527
Other intangible assets	2,950	(1,058)	1,892
Total	**23,011**	**(16,367)**	**6,644**

Change in intangible assets during 2009 is summarized in the table below:

(thousand Euros)	**Net book value at 31/12/2008**	**Increases**	**Other changes**	**Accumulated amortization**	**Net book value at 31/12/2009**
Development costs	1,640	2,000	-	(960)	2,680
Software	1,464	920	174	(1,013)	1,545
Trademarks	525	2	-	-	527
Other intangible assets	2,421	-	-	(529)	1,892
Total	**6,050**	**2,922**	**174**	**(2,502)**	**6,644**

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

The item *Software* is related mainly to software licenses purchased and used internally by the Group companies. This item also includes work in progress of internally developed software for 229 thousand Euros. The other changes refer to the incorporation of TestawebEdv in Bitmama.

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

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

Note 18 - Equity investments

The item equity investments amounting to 8 thousand Euros refers to the company Tender Reply S.r.l which was constituted in the month of December 2009 but not yet running at the balance sheet date.

Note 19 - Financial assets

Other financial assets amounted to 3,685 thousand Euros compared to 3,161 thousand Euros at December 31, 2008.

Detail is as follows:

(thousand Euros)	31/12/2009	31/12/2008	Change
Receivables from insurance companies	2,413	2,220	193
Guarantee deposits	457	378	79
Long term securities	804	562	242
Short term securities	11	1	10
Total	**3,685**	**3,161**	**524**

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

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

Note 20 - Deferred tax assets

This item amounted to 6,024 thousand Euros at December 31, 2009 (4,924 thousand Euros at December 31, 2008), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

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

(thousand Euros)	31/12/2008	Accruals 2009	Utilization 2009	31/12/2009
Prepaid tax on costs that will become deductible in future years	2,991	1,740	(1,305)	3,426
Prepaid tax on greater provision for doubtful accounts	429	241	(26)	644
Deferred fiscal deductibility of amortization	360	583	(2)	940
Consolidation adjustments and other items	1,144	426	(556)	1,014
Total	**4,924**	**2,989**	**(1,889)**	**6,024**

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 21 - Inventories

The item inventories amounted to 15,084 thousand Euros and is detailed below:

(thousand Euros)	31/12/2009	31/12/2008	Change
Contract work in progress	57,633	49,581	8,052
Finished products and goods for resale	35	167	(132)
Advance payments from customers	(42,584)	(31,728)	(10,856)
Total	**15,084**	**18,020**	**(2,936)**

Note 22 - Trade receivables

Trade receivables at December 31,, 2009 amounted o 153,725 thousand Euros with an increase of 9,014 thousand Euros.

Trade receivables are shown net of allowances for doubtful accounts amounting to 3,035 thousand Euros at December 31, 2009 (2,335 thousand Euros at December 31, 2008).

(thousand Euros)	31/12/2009	31/12/2008	Change
Domestic receivables	139,334	133,089	6,245
Foreign trade receivables	17,543	14,093	3,450
Credit notes to be issued	(117)	(136)	19
Total	**156,760**	**147,046**	**9,714**
Allowance for doubtful accounts	(3,035)	(2,335)	(700)
Total trade receivables	**153,725**	**144,711**	**9,014**

The *Allowance for doubtful* accounts developed as follows:

(thousand Euros)	31/12/2008	Accrual	Utilized	Other changes	31/12/2009
Allowance for doubtful accounts	2,335	939	(174)	(65)	3,035

Other changes refer to write-offs (100 thousand Euros) and to the incorporation of TestaWebEDV (35 thousand Euros).

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

Trade receivables are all collectible within one year.

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

Aging at December 31, 2009 (thousand Euros)	**Trade receivables**	**current**	**1-90 days**	**91-180 days**	**181-360 days**	**over 360 days**	**Total overdue**
Trade receivables	156,760	136,149	12,774	2,542	2,916	2,379	20,611
Allowance for doubtful accounts	(3,035)	-	(743)	(96)	(884)	(1,312)	(3,035)
Total trade receivables	**153,725**	**136,149**	**12,031**	**2,446**	**2,032**	**1,067**	**17,576**

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

Note 23 - Other receivables and current assets

Detail is as follows:

(thousand Euros)	**31/12/2009**	**31/12/2008**	**Change**
Tax receivables	7,138	6,776	362
Advances to employees	186	108	78
Other receivables	4,595	728	3,867
Accrued income and prepaid expenses	2,949	2,140	809
Total	**14,868**	**9,752**	**5,116**

The item tax receivables mainly included:

- Vat tax receivables (2,880 thousand Euros);
- Advance payment on income tax for some Italian companies (1,517 thousand Euros);
- Receivables for withholding tax (260 thousand Euros).

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

Other receivables include a capital contribution amounting to 3,200 thousand Euros in accordance to the Regional laws 34/2004 and 4/2006 with reference to the research project *"Internet of Things"*.

Note 24 - Cash and cash equivalents

This item amounted to 33,163 thousand Euros, with a decrease of 6,193 thousand Euros compared to December 31, 2008, and reflects the amount of cash at banks and on hand at the balance sheet date.

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

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

Note 25 - Shareholders' equity

Share capital

As at December 31, 2009 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4,795,885.64 Euros and is made up of 9,222,857 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Reserve of treasury share on hand amounting to 1,472 thousand Euros is related to shares held by the Parent company that as at December 31, 2009 were equal in number to 131,502. During 2009 Reply S.p.A. acquired no. 187,958 ordinary shares while 242,955 ordinary shares were disposed. The disposal of 236,399 ordinary shares were transferred for the acquisition of the minority shares in subsidiaries and 6,556 ordinary shares were assigned to personnel as a form of remuneration for services provided. The accounting effects related to treasury shares were entirely accounted in equity.

Capital reserve

At December 31, 2009 capital reserve amounted to 48,843 thousand Euros and is summarized as follows:

- *Share premium reserve* amounted to 19,847 thousand Euros.
- *Reserve for treasury shares on hand* amounting to 1,472 thousand Euros is related to shares held by the Parent company.
- *Reserve for purchase of treasury shares,* amounting to 28,528 thousand Euros, was constituted through withdrawal from the Reserve for treasury shares on hand, following the resolution made by the General Shareholders Meeting of Reply S.p.A. on April 29, 2009 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.

Earnings reserves

Earning reserves amounted to 71,855 thousand Euros and are as follows:

- Legal reserve of Reply S.p.A. amounted to 959 thousand Euros (944 thousand Euros at December 31, 2008).
- Retained earnings totaling 54,298 thousand Euros (retained earnings totaling 40,117 thousand Euros at December 31, 2008);
- The loss attributable to owners of the parent amounting to 16,628 thousand Euros (18,924 thousand Euros at December 31, 2008).

Other comprehensive income

The amount of Other comprehensive income can be analyzed as follows:

(thousand Euros)	**31/12/2009**	**31/12/2008**
Gains/(Losses) on cash flow hedges arising during the period	(899)	(110)
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	**(899)**	**(110)**
Gains/(Losses) on exchange differences on translating foreign operations arising during the period	57	(62)
Gains/(Losses) on exchange differences on translating foreign operations included in income statement	-	-
Gains/(Losses) on exchange differences on translating foreign operations	**57**	**(62)**
Share of Other comprehensive income	285	-
Share of Other comprehensive income	**285**	**-**
Income tax relating to components of Other comprehensive income	**-**	**-**
Total Other comprehensive income, net of tax	**(557)**	**(172)**

Non-controlling interest

The non-controlling interest of 6,462 thousand Euros at December 31, 2009 (13,278 thousand Euros at al December 31, 2008), refers mainly to the following companies consolidated on a line-by-line basis:

(thousand Euros)	**31/12/2009**	**31/12/2008**
Italian companies		
4Cust Reply S.r.l.	(4)	(53)
Hermes Reply S.r.l.	-	24
Open Reply S.r.l.	2	(20)
Plus Reply S.r.l.	-	(106)
Power Reply S.r.l.	190	127
Reply Consulting S.r.l.	-	360
Target Reply S.r.l.	-	60
Twice Reply S.r.l.	94	77
Bitmama S.r.l.	94	-
Foreign companies		
syskoplan AG	5,968	12,729
is4 GmbH & Co. KG	118	80
Total	**6,462**	**13,278**

Share based payment plans

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

The stock option plans have the following purposes:

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

As mentioned in Note 2, with reference to share-based payment plans, the Group has applied the standard set out by IFRS 2 "Share-based payment" and has applied it to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005, and are related to the stock options plans of 2004 and 2006. With reference to these plans, in 2009, the cost incurred for Reply S.p.A. share-based payments amounted to 50 thousand Euros (235 thousand Euros in 2008).

Stock option plans underlying the Parent Company's ordinary shares

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

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

At December 31, 2009 the number of stock options were 168,400 and can be summarized as follows:

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

During 2009 no stock options were exercised nor assigned in reference to the existing plans.

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

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

Stock option plans underlying syskoplan AG's shares

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

At December 31, 2009 the main characteristics of the plan as resolved by the Shareholders' are detailed below:

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

In 2009 no. 1,338 ordinary shares were exercised and at December 31, 2009 no. 52,263 ordinary shares are still to be exercised and no. 31,557 have expired.

Note 26 - Financial liabilities

Detail is as follows:

(thousand Euros)	31/12/2009			31/12/2008		
	current	non current	Total	Current	non current	Total
Advances on receivables and bank overdrafts	3,900	-	3,900	7,587	-	7,587
Financial bank borrowings	17,137	22,223	39,360	16,271	33,994	50,265
Total due to banks	**21,037**	**22,223**	**43,260**	**23,858**	**33,994**	**57,852**
Other financial borrowings	600	607	1,207	254	439	693
Total financial liabilities	**21,637**	**22,830**	**44,467**	**24,112**	**34,433**	**58,545**

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

(thousand Euros)	31/12/2009				31/12/2008			
	Due within 1 year	Between 1 and 5 years	Over 5 years	Total	Due within 1 year	Between 1 and 5 years	Over 5 years	Total
Advances on receivables and bank overdrafts	3,900	-	-	3,900	7,587	-	-	7,587
Syndicated loan - Intesa SanPaolo Tranche B	16,443	16,444	-	32,887	16,443	32,887	-	49,330
Stand-by credit line	-	4,093	818	4,911				
Commerzbank	104	581	523	1,208	201	576	632	1,409
Other financial borrowings	600	607	-	1,207	254	439		693
Fair Value IRS and other	590	(236)	-	354	(373)	(101)		(474)
Total	**21,637**	**21,489**	**1,341**	**44,467**	**24,112**	**33,801**	**632**	**58,545**

The *Syndicated loan* is referred to the contract undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo, pool leader of a group of banks for the granting of the loan. The loan (the maximum total amount of 66 million Euros utilized by December 31, 2008) was finalized for M&A operations.

The total amount utilized amounted to 61,330 thousand Euros and has been divided as follows:

- Tranche A, was used as an overdraft for a total of 12,000,000 Euros with the purpose of entirely reimbursing the previous loan. Installments were paid on a half year basis (Euribor 6 months + 0.75%) and expired on December 31, 2008.
- Tranche B, was utilized for 49,330 thousand Euros with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalized at the acquisition of companies, strategic investments or shares. The residual amount totals 32,887 thousand Euros and the installments are paid on a half-year basis (Euribor 6 months + 0.75%) and expires December 31, 2011.

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

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

As contractually defined, such ratios are as follows:

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

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

The stand-by financial loan is referred to a loan undersigned on March 31, 2009 by Reply S.p.A with Intesa SanPaolo, for an initial line of credit amounting to 30,000,000 Euros and which can be increased to 50,000,000 Euros on the basis that predetermined parameters are respected which will be defined on May 1, 2010. The loan will be reimbursed on a half-year basis (Euribor 6 months + 2.5%) commencing June 30, 2012 and expires on December 31, 2014.

On June 25, 2009 this line of credit amounting to 4,911 thousand Euros was utilized. This loan is also subordinated to parameters herein mentioned and at December 31, 2009 have been respected.

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

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

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

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Net financial position at December 31, 2009 was as follows:

(thousand Euros)	31/12/2009	31/12/2008	Change
Cash and cash equivalents	33,163	39,356	(6,193)
Non-current financial assets	804	562	242
Total financial assets	**33,967**	**39,918**	**(5,951)**
Current financial liabilities	(21,637)	(24,112)	2,475
Non current financial liabilities	(22,830)	(34,433)	11,603
Total financial liabilities	**(44,467)**	**(58,545)**	**14,078**
Total net financial position	**(10,500)**	**(18,627)**	**8,127**

For further detail with regards to the table see Notes 19, 24, and 26.

Note 27 - Employee benefits

(thousand Euros)	31/12/2009	31/12/2008	Change
Employee severance indemnities	12,138	11,413	725
Employee pension funds	2,396	2,325	71
Directors severance indemnities	915	737	178
Other	43	43	-
Total	**15,492**	**14,518**	**974**

Employee severance indemnities

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

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfill its obligations. In accordance to the Law 296/06, the re-proportioning was applied only to those companies having less than 50 employees and that have chosen not to transfer the severance indemnities to complementary welfare funds.

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions	
Mortality	RG 48 survival tables of the italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfillment 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 2009: 2.50% - Frequency of turnover % 2009: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 2.0%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2009 was 3.8%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 0.50% to 1.50%

In accordance to IAS 19 Employment severance indemnities at December 31, 2009 is summarized in the table below:

(thousand Euros)	
Balance at 31/12/2008	**11,413**
Service cost	1,420
Actuarial gain/loss	(285)
Interest cost	468
Indemnities paid during the year	(1,041)
Other changes	163
Balance at 31/12/2009	**12,138**

Pension funds

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

(thousand Euros)	31/12/2009	31/12/2008
Present value of pension obligations	**3,362**	**2,577**
Fair value of plan assets	872	801
Financing status	2,490	1,776
Actuarial losses not recognized in the balance sheet	(94)	549
Liabilities shown on the balance sheet	**2,396**	**2,325**

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

(thousand Euros)	31/12/2009	31/12/2008
Present value at beginning of year	2,577	2,834
Current Service cost	49	55
Interest cost	166	148
Actuarial gains/(losses)	609	(423)
Payments made for services	**(39)**	**(37)**
Present value at year end	**3,362**	**2,577**

Note 28 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2009 amounted to 8,584 thousand Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(thousand Euros)	
Costs stated only for tax return purposes	920
Other costs	7,664
Balance at 31/12/2009	**8,584**

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

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

Note 29 - Provisions

Provisions amounted to 21,891 thousand Euros (of which 15,912 thousand Euros non current).

Change in 2009 is summarized in the table below.

(thousand Euros)	Balance at 31/12/2008	Other	Reclassification	Accruals	Utilization	Write-offs	Balance at 31/12/2009
Payables to minority shareholders	3,123	-		-	(234)	-	2,889
Fidelity provisions	3,762	-		2,379	(2,657)	(59)	3,424
Purchase price adjustment	2,235	-		81	(393)	(44)	1,879
Other provisions	1,775			1,552	(877)	(166)	2,285
Provision for Motorola research center	-	23,536	(1,316)	-	(9,178)	(1,628)	11,414
Total	**10,895**	**23,536**	**(1,316)**	**4,012**	**(13,339)**	**(1,897)**	**21,891**

Payables to minority shareholders for 2,889 thousand Euros represent the fair value of the minority interest equal to 49% of is4, a syskoplan group company. This amount has been stated according to IAS 32 as syskoplan has signed a put option agreement with the minority shareholders to be exercised with a 12 months' notice.

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

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

The *Provision for Motorola Research center* originates from the acquisition of the business branch Motorola Electronics S.p.A., such operation has been commented in the section "Significant Operations" in the Directors' Report on Operations.

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

The movements in this provision are related to:

- Incentives paid out to employees which were not hired after a three month redundancy (at December 31, it was utilized for 8,357 thousand Euros);
- Implementation of research and development projects shared and financed both by Region of Piedmont and Ministry of economic development (utilized 821 thousand Euros).

The fair value of the assets transferred at the acquisition date led to a reclassification of the provision for 1,316 thousand Euros, booked against such assets.

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 as at December 31, 2009 amounted to 36,185 thousand Euros with a change of 3,533 thousand Euros compared to year end 2008.

Detail is as follows:

(thousand Euros)	31/12/2009	31/12/2008	Change
Domestic suppliers	35,628	31,525	4,103
Foreign suppliers	1,998	2,017	(19)
Advances to suppliers	(1,441)	(890)	(551)
Total	**36,185**	**32,652**	**3,533**

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

Note 31 - Other current liabilities

Other current liabilities as at December 31, 2009 amounted to 52,167 thousand Euros and with a decrease of 1,722 thousand Euros compared to 2008.

Details are provided below:

(thousand Euros)	31/12/2009	31/12/2008	Change
Income tax payable	2,220	1,507	713
VAT payable	3,818	4,689	(871)
Withholding tax and other	3,913	3,163	750
Total due to tax authorities	**9,951**	**9,359**	**592**
Social security payables	9,444	8,651	793
Other	1,034	817	217
Total due to social security authorities	**10,478**	**9,468**	**1,010**
Employee accruals	16,556	14,211	2,345
Other payables	12,849	18,341	(5,492)
Accrued expenses and deferred income	2,315	2,510	(195)
Total other payables	**31,720**	**35,062**	**(3,342)**
Total other payables and current liabilities	**52,167**	**53,889**	**(1,722)**

Due to tax authorities amounting to 9,951 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.

Other payables to social security authorities amounted to 10,478 thousand Euros and refer to amounts payable for employee and employer contributions.

Other payables at December 31, 2009 amounted to 31,720 thousand Euros and include:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Amounts due to directors;
- Debt towards minority shareholders in relation to the exercising of the option in the first months of 2010 held in their possession.

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

Note 32 - Segment reporting

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

Economic figures (thousand Euros)	**Italy**	**%**	**Germany**	**%**	**UK**	**%**	**Intrasegment**	**Total 2009**	**%**
Revenues	**276,808**	**100.0**	**55,050**	**100.0**	**9,036**	**100.0**	**(728)**	**340,166**	**100.0**
Operating costs	(239,036)	86.4	(51,103)	(92.8)	(7,895)	(87.4)	728	(297,306)	(87.4)
Gross operating income	**37,772**	**13.6**	**3,947**	**7.2**	**1,141**	**12.6**	**-**	**42,860**	**12.6**
Amortization, depreciation and write-downs	(4,592)	(1.6)	(2,362)	(4.3)	(24)	(0.3)	-	(6,978)	(2.1)
Operating income	**33,180**	**12.0**	**1,585**	**2.9**	**1,117**	**12.3**	**-**	**35,882**	**10.5**

Economic figures (thousand Euros)	**Italy**	**%**	**Germany**	**%**	**UK**	**%**	**Intrasegment**	**Total 2008**	**%**
Revenues	**265,000**	**100.0**	**60,811**	**100.0**	**4,854**	**100.0**	**(455)**	**330,210**	**100.0**
Operating costs	(227,056)	(85.7)	(53,380)	(87.8)	(4,185)	(86.2)	455	(284,166)	(86.1)
Gross operating income	**37,944**	**14.3**	**7,431**	**12.2**	**669**	**13.8**	**-**	**46,044**	**13.9**
Amortization, depreciation and write-downs	(3,556)	(1.3)	(1,313)	(2.2)	(16)	(0.3)	-	4,885	(1.5)
Operating income	**34,388**	**13.0**	**6,118**	**10.1**	**653**	**13.5**	**-**	**41,159**	**12.5**

Net invested capital (thousand Euros)			**31/12/2009**					**31/12/2008**		
	Italy	**Germany**	**UK**	**Intraseg.**	**Total**	**Italy**	**Germany**	**UK**	**Intraseg.**	**Total**
Current operating assets	170,416	11,639	2,562	(940)	183,677	160,108	10,807	1,960	(392)	172,483
Current operating liabilities	(81,456)	(12,312)	(1,618)	1,054	(94,332)	(78,100)	(12,005)	(1,412)	392	(91,125)
Net working capital (A)	**88,960**	**(673)**	**944**	**114**	**89,345**	**82,008**	**(1,198)**	**548**	**-**	**81,358**
Non current assets	73,278	18,185	79	(114)	91,428	70,200	18,386	51	-	88,637
Non current liabilities	(33,531)	(6,457)	-	-	(39,988)	(18,248)	(8,196)	-	-	(26,444)
Net fixed assets (B)	**39,747**	**11,728**	**79**	**(114)**	**51,440**	**51,952**	**10,190**	**51**	**-**	**62,193**
Net invested capital (A+B)	**128,707**	**11,055**	**1,023**	**-**	**140,785**	**133,960**	**8,992**	**599**	**-**	**143,551**

Note 33 - Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

Reply has determined the guide lines in managing financial risks. In order to 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", the Group constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.

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

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

Credit risk

The maximum credit risk to which the Group is theoretically exposed at December 31, 2009 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

Liquidity risk

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

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

As described in the Risk management section, the Group has adopted a series of policies and procedures whose purpose is to 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 Group is present;
- maintaining an adequate level of available liquidity;
- monitoring future liquidity on the basis of business planning.

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

Currency risk

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

Interest rate risk

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

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

Sensitivity analysis

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

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

A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2009 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 63 thousand Euros (194 thousand Euros at December 31, 2008).

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

Note 34 - Transactions with Related parties

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

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

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

Main economic and financial transactions

(thousand Euros)

Financial transactions	**31/12/2009**	**31/12/2008**	**Nature of transaction**
Trade receivables and other	844	491	Receivables from professional services
Trade payables and other	2,077	1,959	Payables for professional services and office rental

Economic transactions	**2009**	**2008**	**Nature of transaction**
Services from Parent company and related parties	5,303	4,941	Services related to office rental and office of the secretary
Services from Parent company and related parties	322	402	Receivables from professional services

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

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

Note 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)	2009	2008
Directors	2,445	2,407
Statutory Auditors	98	89
Total	**2,543**	**2,496**

Emoluments to Key management amounted to approximately 3,039 thousand Euros (3,106 thousand Euros at December 31, 2008).

Note 36 - Guarantees, commitments and contingent liabilities

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

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. At December 31, 2009, contingent liabilities estimated by the Group amount to approximately 1 million Euros for which no provisions have been recognized since an outflow of resources is not considered to be probable. Furthermore, contingent assets and expected reimbursement in connection with these contingent liabilities for approximately 3 million Euros have been estimated but not recognized.

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 recognizes specific provision for this purpose.

Note 37 - Events subsequent to December 31, 2009

No events subsequent to December 31, 2009 have occurred.

Annexed tables

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

(thousand Euros)	2009	Of which related parties	%	2008	Of which related parties	%
Revenues	340,166	322	0.1%	330,210	402	0.1%
Other revenues	1,877	-	-	1,459	-	-
Purchases	(8,205)	-	-	(10,262)	-	-
Personnel expenses	(176,652)	-	-	(162,396)	-	-
Services and other costs	(117,373)	(5,303)	4.5%	(112,758)	(4,941)	4.4%
Amortization and write-offs	(6,978)	-	-	(4,885)	-	-
Other unusual operating income/(expenses)	3,047	-	-	(209)	-	-
Operating income	**35,882**			**41,159**		
Financial income/(expenses)	(1,914)	-	-	(1,024)	-	-
Result before tax of continuing operations	**33,968**	**-**	**-**	**40,135**	**-**	**-**
Income taxes	(17,098)	-	-	(18,266)	-	-
Net result of continuing operations	**16,870**			**21,869**		
Result of discontinued operations	125	-	-	(119)	-	-
Non controlling interest	(367)	-	-	(2,826)	-	-
GROUP NET RESULT	**16,628**	**-**	**-**	**18,924**	**-**	**-**
Earnings per share	*1.84*			*2.12*		
Diluted earnings per share	*1.81*			*2.08*		

Consolidated statement of financial position
pursuant to Consob Resolution No. 15519 of July 27, 2006

(thousand Euros)	31/12/2009	Of which related parties	%	31/12/2008	Of which related parties	%
Tangible fixed assets	9,823	-	-	8,237	-	-
Goodwill	66,047	-	-	66,827	-	-
Other intangible assets	6,644	-	-	6,050	-	-
Equity investments	8	-	-	-	-	-
Other financial assets	3,685	-	-	3,161	-	-
Deferred tax assets	6,024	-	-	4,924	-	-
Non current assets	**92,231**	**-**	**-**	**89,199**	**-**	**-**
Inventories	15,084	-	-	18,020	-	-
Trade receivables	153,725	844	0.5%	144,711	491	0.3%
Other receivables and current assets	14,868	-	-	9,752	-	-
Cash and cash equivalents	33,163	-	-	39,356	-	-
Current assets	**216,840**	**-**	**-**	**211,839**	**-**	**-**
TOTAL ASSETS	**309,071**	**-**	**-**	**301,038**	**-**	**-**
Share capital	4,796	-	-	4,796	-	-
Other reserves	102,399	-	-	87,926	-	-
Net result	16,628	-	-	18,924	-	-
Group Shareholders' equity	**123,823**	**-**	**-**	**111,646**	**-**	**-**
Non-controlling interest	6,462	-	-	13,278	-	-
TOTAL SHAREHOLDERS' EQUITY	**130,285**	**-**	**-**	**124,924**	**-**	**-**
Financial liabilities	22,830	-	-	34,433	-	-
Employee benefits	15,492	-	-	14,518	-	-
Deferred tax liabilities	8,584	-	-	5,615	-	-
Other provisions	15,912	-	-	6,311	-	-
Non current liabilities	**62,818**	**-**	**-**	**60,877**	**-**	**-**
Financial liabilities	21,637	-	-	24,112	-	-
Trade payables	36,185	2,077	5.7%	32,652	1,959	6.0%
Other payables and current liabilities	52,167	-	-	53,889	-	-
Other provisions	5,979	-	-	4,584	-	-
Current liabilities	**115,968**	**-**	**-**	**115,237**	**-**	**-**
Total liabilities	**178,786**	**-**	**-**	**176,114**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**309,071**	**-**	**-**	**301,038**	**-**	**-**

Companies included in consolidation at December 31, 2009

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Torino - Corso Francia, 110	€	4,795,886	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
4Cust Reply S.r.l.(*)	Torino - Corso Francia, 110	€	10,000	80.00%
@Logistics Reply S.r.l.	Torino - Corso Francia, 110	€	78,000	100.00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Bitmama S.r.l.	Torino - Corso Francia, 110	€	12,939	51.00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€	78,000	100.00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€	139,116	100.00%
Discovery Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€	34,000	100.00%
Ekip S.r.l.	Torino - Corso Francia, 110	€	10,400	100.00%
EOS Reply S.r.l.	Torino - Corso Francia, 110	€	12,000	100.00%
Glue Reply Ltd.	London - Old Baily, 16	GBP	54,175	100.00%
Hermes Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
IrisCube Reply S.p.A.	Torino - Corso Francia, 110	€	651,735	100.00%
Iriscube SA	Savosa - Switzerland	CHF	100,000	100.00%
Open Reply S.r.l.(*)	Torino - Corso Francia, 110	€	10,000	85.00%
Plus Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Power Reply S.r.l. (*)	Torino - Corso Francia, 110	€	10,000	85.00%
Reply Consulting S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Reply Services S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
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%
Santer Reply S.p.A.	Milano - Via Durando, 38	€	2,209,500	100.00%
Syskoplan AG and subsidiaries	Gutersloh - Germany	€	4,730,678	78.92%
Syskoplan Reply S.r.l.	Torino - Corso Francia, 110	€	32,942	100.00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€	115,046	100.00%
Sytel Reply GmbH	Düsseldorf - Germany	€	25,000	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%
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%
Consortium Whitehall Reply	Torino - Corso Francia, 110	€	17,000	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. As at December 31, 2009 the assessment of the achievement of such parameters did not lead to any impact on the financial statements as the underlying assumptions are highly variable and the commitments not very significant.

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodecies of the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2009 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand Euros)	Service provider	Group entity	Fees 2009
Audit	Deloitte & Touche S.p.A.	Parent Company - Reply S.p.A.	32
	Deloitte & Touche S.p.A.	Subsidiaries	165
	Deloitte & Touche Gmbh	Subsidiaries	200
	Deloitte & Touche LLP	Subsidiaries	17
Audit related services	Deloitte & Touche S.p.A.	Parent Company - Reply S.p.A. (1)	7
	Deloitte & Touche S.p.A.	Subsidiaries (2)	75
Other services	Deloitte & Touche S.p.A.	Parent Company - Reply S.p.A. (3)	17
Total			**513**

(1) Attestation of tax forms (Modello Unico, IRAP and Form 770).

(2) In accordance to Article 2501 bis, Paragraph 5 of the Civil Code and attestation of tax forms (Modello Unico, IRAP and Form 770).

(3) Consultation on accounting policies.

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

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

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

→ the effective application,

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2009.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at December 31, 2009 was based on a process defined by Reply in accordance with the Internal Control – Integrated Framework model issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, an internationally-accepted reference framework.

3. The undersigned also certify that:

3.1 the consolidated financial statements at December 31, 2009

→ have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated July 19, 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;

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

→ provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries as of December 31, 2009 and for the year then ended.

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

Turin, March 15, 2010

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

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

Statutory Auditors' report
on the Consolidated Financial Statements at December 31, 2009

To the Shareholders

The financial statements as at December 31, 2009 comply with the International Financial Reporting Standards as issued by the International Accounting Standars and includes statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and explanatory notes.

The consolidated statement of financial position as at December 31, 2009 shows Group net equity amounting to 123,823 million Euros including net income of 16,628 million Euros.

The Report on Operations fairly presents the economic, financial and earnings position, even at a consolidated level, of Reply S.p.A and its subsidiaries, of operations in 2009 and the events that have occurred since the end of the fiscalyear, as well as revenues by business line and consolidated results.

As at December 31, 2009 consolidation includes, a part from the Parent Company, thirty-two companies and on cooperation consolidated on a line-by-line basis.

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

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

Deloitte & Touche S.p.A., the independent audit firm engaged to audit Reply's Consolidated financial statements, issued its opinion on April 8, 2010 stating that the Consolidated financial statements were drawn up in accordance to the disciplining laws and that the Report on Operations is consistent with the Consolidated Financial Statements.

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

- the consolidation scope was determined correctly;
- the consolidation procedures adopted are in accordance with the disciplining laws and applied correctly;
- the Report on operations is consistent with the consolidated financial statements; all the information used for consolidation is referred to the entire accounting period of 2009;
- the accounting principles applied are the same used in the previous accounting year;
- no changes in consolidation have occurred compared to December 31, 2008.

Turin, April 13, 2010.

Statutory Auditors
(Prof. Cristiano Antonelli)
(Mrs. Ada Alessandra Garzino Demo)
(Mr. Paolo Claretta Assandri)

Deloitte.

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AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE N. 58 OF FEBRUARY 24, 1998 (NOW ART. 14 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010)

To the Shareholders of
REPLY S.p.A.

1. We have audited the consolidated financial statements of Reply S.p.A. and its subsidiaries ("Reply Group") as of and for the year ended December 31, 2009, which comprise 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. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Directors of Reply S.p.A. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   The audit of the consolidated financial statements as of December 31, 2009 has been performed in accordance with the legal requirements in force during that period.

   For the opinion on the prior year's consolidated financial statements, whose data presented for comparative purposes have been reclassified to take account of the change in presentation of financial statements introduced by IAS 1, reference should be made to our auditors' report issued on April 9, 2009.

3. In our opinion, the consolidated financial statements of Reply Group as of December 31, 2009 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give true and fair view of the financial position of Reply Group and the results of its operations and its cash flows for the year then ended.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia
Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu

4. The Directors of Reply S.p.A. are responsible for the preparation of the report on operations and the annual report on Corporate Governance in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on Corporate Governance, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on Corporate Governance are consistent with the consolidated financial statements of Reply Group as of 31 December, 2009.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
April 8, 2010

Statutory financial statements at December 31, 2009

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

(in Euros)	**Note**	**2009**	**2008**
Revenues	5	162,353,799	132,691,553
Other revenue	6	3,288,377	3,244,700
Purchases	7	(756,608)	(1,107,512)
Personnel expenses	8	(10,396,698)	(10,763,770)
Services and other costs	9	(158,400,027)	(124,688,466)
Amortization, depreciation and write-downs	10	(902,766)	(856,736)
Other unusual operating income/(expenses)	11	(143,460)	(45,477)
Operating income		**(4,957,383)**	**(1,525,708)**
Profit/(loss) on equity investment	12	15,075,146	16,240,192
Financial income/(expenses)	13	95,483	1,707,926
Result before tax		**10,213,246**	**16,422,410**
Income taxes	14	914,329	(626,958)
Net result		**11,127,575**	**15,795,452**
Earnings per share		*1.23*	*1.77*
Diluted earnings per share		*1.21*	*1.74*

Reply S.p.A. Statement of comprehensive income

(in Euros)	**Note**	**2009**	**2008**
Profit of the period (A)		**11,127,575**	**15,795,452**
Gain/(Losses) on cash flow hedges	26	(918,103)	2,085
Actuarial gains/(losses) from employees benefit plans	26	23,881	-
Total other comprehensive net of tax (B)		(894,222)	2,085
Total comprehensive income (A)+(B)		**10,233,353**	**15,797,537**

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the statement of income are reported in the Annexed tables herein and fully described in *Note 32.*

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

(in Euros)	**Note**	**31/12/2009**	**31/12/2008**
Tangible fixed assets	16	541,437	977,702
Goodwill	17	86,765	86,765
Other intangible assets	18	1,331,854	1,470,902
Equity investments	19	88,649,751	81,096,941
Other financial assets	20	1,535,573	615,677
Deferred tax assets	21	608,105	517,736
Non current assets		**92,753,485**	**84,765,723**
Trade receivables	22	116,098,489	89,381,868
Other receivables and current assets	23	14,414,491	14,843,126
Financial assets	24	37,699,565	45,348,854
Cash and cash equivalents	25	10,758,268	10,635,012
Current assets		**178,970,813**	**160,208,860**
TOTAL ASSETS		**271,724,298**	**244,974,583**
Share capital		4,795,886	4,795,886
Other reserves		77,601,610	64,428,773
Net result		11,127,575	15,795,452
TOTAL SHAREHOLDERS' EQUITY	26	**93,525,071**	**85,020,111**
Financial liabilities	27	15,962,667	22,466,911
Employee benefits	28	562,424	699,758
Deferred tax liabilities	29	286,908	254,018
Non current liabilities		**16,811,999**	**23,420,687**
Financial liabilities	27	35,233,097	26,296,156
Trade payables	30	117,864,555	96,898,105
Other payables and current liabilities	31	8,289,576	13,339,524
Current liabilities		161,387,228	136,533,785
TOTAL LIABILITIES		**178,199,227**	**159,954,472**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**271,724,298**	**244,974,583**

(*) 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 herein and fully described in *Note 32*.

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 January 1, 2008	**4,721,558**	**(1,253,013)**	**47,222,110**	**20,475,195**	**370,683**	**-**	**71,536,533**
Capital increase	74,328	-		-	-	-	74,328
Dividends distributed	-	-	-	(3,118,647)	-	-	(3,118,647)
Change in treasury shares	-	(2,438,287)	-	-	-	-	(2,438,287)
Total comprehensive income for the period				15,795,452	2,085	-	15,797,537
Other changes	-	-	2,933,821	234,825	-	-	3,168,646
Balance at December 31, 2008	**4,795,886**	**(3,691,300)**	**50,155,931**	**33,386,825**	**372,768**	**-**	**85,020,111**
Balance at January 1, 2009	**4,795,886**	**(3,691,300)**	**50,155,931**	**33,386,825**	**372,768**	**-**	**85,020,111**
Capital increase	-	-	-	-	-	-	-
Dividends distributed	-	-	-	(3,221,665)	-	-	(3,221,665)
Change in treasury shares	-	2,219,642	-	-	-	-	2,219,642
Total comprehensive income for the period	-	-	-	11,127,575	(918,103)	23,881	10,233,353
Other changes	-	-	(776,436)	50,066	-	-	(726,370)
Balance at December 31, 2009	**4,795,886**	**(1,471,658)**	**49,379,495**	**41,342,801**	**(545,335)**	**23,881**	**93,525,071**

Reply S.p.A. Statement of cash flows

(in Euros)	**2009**	**2008**
Net result for the year	11,127,575	15,795,452
Income tax	(914,329)	626,958
Depreciation and amortization	902,766	856,736
Change in trade receivables	(37,176,311)	(36,062,526)
Change in trade payables	21,009,789	23,393,298
Change in other assets and liabilities	9,217,879	17,649,596
Income tax paid	(471,865)	(202,047)
Interest paid	(2,231,459)	(2,604,233)
Other non-monetary income and expenses, net	1,348,033	2,444,859
Net Cash flows from operating activities (A)	**2,812,078**	**21,898,093**
Payments for tangible and intangible assets	(327,451)	(1,209,597)
Payments for the investments in subsidiaries	(9,623,810)	(16,813,219)
Net cash flows from investment activities (B)	**(9,951,261)**	**(18,022,816)**
Dividend paid	(3,221,665)	(3,118,647)
Loans	4,911,390	8,100,000
Payment of installments	(11,276,752)	(4,000,000)
Payments for financial assets	-	(24,826)
Payments for purchase of treasury shares	2,219,642	(2,438,287)
Other changes	(933,811)	42,089
Net Cash flows from financing activities (C)	**(8,301,196)**	**(1,439,671)**
Net cash flows (D) = (A+B+C)	**(15,440,379)**	**2,435,607**
Cash and equivalents at beginning of year	40,505,144	38,069,537
Cash and cash equivalents at year end	25,064,765	40,505,144
Total change in cash and cash equivalents (D)	**15,440,379**	**2,435,607**

Detail of net cash and cash equivalents

(in Euros)	**2009**	**2008**
Cash and cash equivalents at the beginning of the year :	**40,505,144**	**38,069,537**
Cash and cash equivalents	10,635,013	15,822,677
Transaction accounts - surplus	45,234,802	27,144,478
Transaction accounts - overdraft	(7,778,186)	(4,897,618)
Bank overdrafts	(7,586,485)	-
Cash and cash equivalents at the end of the year :	**25,064,765**	**40,505,144**
Cash and cash equivalents	10,758,268	10,635,013
Transaction accounts - surplus	37,699,565	45,234,802
Transaction accounts - overdraft	(19,519,133)	(7,778,186)
Bank overdrafts	(3,873,935)	(7,586,485)

Explanatory notes

Note 1 - General information

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

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

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

Note 2 - Accounting principles

Compliance with International accounting principles

The year ended 2009 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union and with the provisions implementing Article 9 of legislative Decree 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

Following the coming into force of European Regulation No. 1606 dated 19 July 2002, starting from January 1, 2005, Reply adopted International Financial Reporting Standards (IFRS) in the preparation of the financial statements. On the basis of national law implementing that Regulation, starting from January 1, 2006, Reply S.p.A is presenting its financial statements in accordance with IFRS.
The accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening balance sheet at January 1, 2005, as well the financial statements at December 31, 2005, as restated in accordance with IFRS.

General principles

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

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

These financial statements have 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 December 31, each year.

Format of the 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 income statement format adopted by the company classifies costs according to their nature, which is deemed to properly represent the company's business.

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

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

In connection with the requirements of the Consob resolution No. 15519 of July 27, 2006 as to the format of the financial statements, specific supplementary income statement and balance sheet formats have been added for related party transactions so as not to compromise an overall reading of the statements.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses.

Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.

In compliance to IAS 36 – Impairment of assets, the carrying value is immediately remeasured to the recoverable value, if lower.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

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

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.

Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.

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, after having recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Company 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.

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 test at such date.

Other intangible assets

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

Other purchased and internally-generated intangible assets are 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; and
- 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, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.

Impairment

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

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

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been 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 associates are stated at cost and are tested for impairment annually if there is any evidence that these investments have been impaired, due to one or more events that occurred after the initial measurement and such events have had an impact on the future cash flows inhibiting the distribution of dividends. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly negative. If such the case, impairment is recognized as the difference between the carrying value and the recoverable value, normally determined as the greater of net selling price and value in use.

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

Investments in other companies, comprising non-current financial assets that are not held for trading are initially measured at fair value. Any subsequent profits and losses resulting from changes in fair value, arising from quoted prices, are recognized directly in 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 a market quotation is not available are measured at cost, adjusted for 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 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.

Trade payables and receivables and other current assets and liabilities

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

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

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

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity investments

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

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

→ Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its 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 these risks the Company's policy consists in converting fluctuating rate liabilities in constant rate liabilities and treat them as cash flow hedges. The use of such instruments is disciplined by written procedures in line with the Company risk strategies that do not contemplate derivative financial instruments for trading purposes.

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to company commitments and forecasted transactions are recognized directly in equity. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is 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 hedging against change in fair value of specific items, the item hedged is restated to the extent of the change in fair value attributable to the risk hedged and recognized at 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 do not qualify as hedge accounting are recognized in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument 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 correlated to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the income statement.

Employee benefits

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan until December 31, 2006. The legislation regarding this scheme and leading to this classification was amended by Law no. 296 of 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 December 31, 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.

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

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly 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 November 7, 2002 and that have not yet vested as at January 1, 2005. The Company stock option plans foresee only the physical delivery of the share when exercised.

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

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

Provisions and reserves for risks

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

Revenue recognition

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

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

Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are 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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset 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.

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

Change in accounting principles

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

New accounting principles

Interpretations effective from January 1, 2009 applicable to the Company

The Company has applied the following Standards, amendments and interpretations, which include those revised in conjunction with the IASB's 2008 annual improvements project, since January 1, 2009.

IAS 1 Revised – Presentation of financial statements

The revised version of IAS 1 - *Presentation of Financial Statements* does not permit the presentation of components of comprehensive income (that is "non-owner changes in equity") in the statement of changes in equity, requiring these to be presented separately from owner changes in equity. Under the revised standard, all non-owner changes in equity are required to be presented in one statement showing performance for the period (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income). These changes are also required to be shown separately in the Statement of changes in equity.
The Company has adopted the revised standard retrospectively from January 1, 2009, electing to present both the Income statement and the Statement of comprehensive income and has consequently amended the presentation of the Statement of changes in equity. In addition, as part of its 2008 annual improvements project, the IASB published an amendment to IAS 1 (Revised), which requires an entity to classify hedging derivative financial instruments between current and non-current assets and liabilities in the Statement of financial position. Adopting this amendment did not lead to any effect on the presentation of derivative financial instruments in the Statement of financial position as the Company uses the mixed current/non-current distinction format for presentation that is permitted by IAS 1.

Amendment to IFRS 2 – Vesting conditions and Cancellations

The amendment to IFRS 2 – *Vesting Conditions and Cancellations* clarifies that for the purpose of measuring share-based payments, only service conditions and performance conditions may be considered vesting conditions. Any other clauses shall be considered non-vesting conditions and included in the determination of fair value at the grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

The Company retrospectively adopted the amendment from January 1, 2009; no effects arose from first-time adoption because the share-based payments outstanding within the Company and not fully vested do not provide for vesting conditions different from performance conditions and service conditions as defined by the amendment and because no awards were cancelled during the period.

Improvement to IAS 19 – Employee benefits

The improvement to IAS 19 – *Employee Benefits* clarifies the definition of positive/negative past service costs and states that in the case of a curtailment, only the effect of the reduction for future service shall be recognized immediately in the income statement, while the effect arising from past service periods shall be considered a negative past service cost. This amendment should be adopted prospectively to changes to plans occurring on or after January 1, 2009, but there was no significant accounting effect at June 30, 2009 following the adoption.

The improvement also revises the definition of the return on plan assets, stating that this amount should be stated net of any costs for administering the plan (other than those included in the measurement of the defined benefit obligation) and clarifies the definition of short-term employee benefits and other long-term employee benefits. The Company adopted this amendment retrospectively from January 1, 2009 for the definitions of return on plan assets and short-term and long-term employee benefits, although no effects arose as the Company's accounting treatment of these items was already consistent with the requirements of the amendment.

Improvement to IAS 38 – Intangible Assets

The improvement to IAS 38 – *Intangible Assets* requires expenditure on advertising and promotional activities to be recognized as an expense. Further, in the case expenditure is incurred to provide future economic benefits to an entity but no intangible asset is recognized, an entity shall recognize the expenditure as an expense when it has the right to access the goods in the case of the supply of goods or when it receives the services in the case of the supply of services. The standard has also been amended in order to allow entities to use the unit of production method for determining the amortization charge for an intangible asset with a finite useful life.

The Company adopted the amendment to IAS retrospectively on January 1, 2009, although adoption had no effect on the Company's financial statements as the Company already recognized such expenditure as an expense. In connection with the possibility of using the unit of production method for determining the amortization charge for an intangible asset with a finite useful life, the Company amortizes these assets on the straight-line-basis.

Amendment to IFRS 7 – Improving Disclosures about Financial Instruments

The amendment, effective from January 1, 2009, was issued in order to improve the disclosure requirements for fair value measurements and reinforce existing principles for disclosures concerning the liquidity risk associated with financial instruments. In particular, the amendment requires disclosures to be made that are based on a hierarchy of the inputs used in valuation techniques to measure fair value. The adoption of the amendment only affected the disclosures in the notes and had no effect on the measurement of items in the financial statements.

Amendments and interpretations effective from January 1, 2009 but not applicable to the Company

The following amendments, improvements and interpretations have also been issued and are effective from January 1, 2009; these relate to matters that were not applicable to the Company at the date of these financial statements.

- *Amendment IAS 32 – Financial Instruments: Presentation and IAS 1 - Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation.*
- *IAS 23 Revised – Borrowing Costs*
- *Improvement to IAS 16 – Property, plant and equipment*
- *Improvement to IAS 20 – Accounting for public grants*
- *Improvement to IAS 28 – Investments in associates connected to IAS 31 – Investments in joint venture*
- *Improvement to IAS 36 – Impairment of Assets*
- *Improvement to IAS 39 – Financial instruments: Recognition and Measurement*
- *Improvement to IAS 40 – Investment Property*
- IFRIC 13 – *Customer Loyalty Programmes*
- IFRIC 15 – *Agreements for the Construction of Real Estate*
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*

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

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

With regards to *Improvement 2008* issued by IASB, modifications connected to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations: this amendment, requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liability of that subsidiary as held for sale, regardless of whether the entity will retain a non controlling interest in its former subsidiary after the sale. This amendment will be applied prospectively from January 1, 2010.

On July 31, 2008 IASB issued an amendment to IAS 39 – *Financial Instruments:* Recognition and Measurement which is to be applied retrospectively from January 1, 2010. The amendment clarifies how the existing principles underlying hedge accounting should be applied in particular situations. As of the date of these financial statements, the amendment had not yet been endorsed by the European Union.

On November 27, 2008 the IFRIC issued interpretation IFRIC 17 – *Distributions of Non-cash Assets to Owners* that will standardize practice in the accounting treatment of the distribution of non-cash assets to owners. In particular, the interpretation clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity should recognize the difference between the dividend paid and the carrying amount of the net assets used for payment in income statement. The interpretation is effective prospectively from January 1, 2010. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On January 29, 2009 the IFRIC issued the interpretation IFRIC 18 – *Transfers of Assets from Customers* that clarifies the accounting treatment to be followed for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer which will then be used to acquire or construct the item of property, plant and equipment to be used to fulfill the requirements of the contract. The interpretation is effective prospectively from January 1, 2010. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On March 5, 2009 IASB issued an amendment to IFRS 7 - *Improving Disclosures about Financial Instruments* to improve the disclosure requirements for fair value measurements concerning the liquidity risk associated with financial instruments. The amendment is applicable from January 1, 2009. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On March 12, 2009, issued amendments to IFRIC 9 – *Reassessment of Embedded Derivatives* and to IAS 39 – *Financial Instruments: Recognition and Measurement* that allow entities to reclassify certain financial instruments out of the "fair value through profit or loss" category in specific circumstances. The amendments clarify that on the reclassification of a financial asset out of the "fair value through profit or loss" category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The amendments are effective retrospectively from December 31, 2009. These improvements had not yet been endorsed by the European Union at the date of these financial statements.

On April 16, 2009 the IASB issued a series of amendments to IFRS (Improvements to IFRSs). Details are provided in the following paragraphs of those identified by the IASB as resulting in accounting changes for presentation, recognition and measurement purposes, leaving out any amendments regarding changes in terminology or editorial changes which are likely to have minimal effects on accounting and amended standards or interpretations not applicable to the Company.

→ IFRS 2 – *Share-based Payment:* this amendment, applicable from January 1, 2010 (it can be applied in anticipation), clarifies that following the change made by IFRS 3 to the definition of a business combination, the contribution of a business on the formation of a joint venture within the scope of IFRS 2.

→ IFRS 5 – *Non-current Assets held for sale and Discontinued Operations:* this amendment, which shall be applied prospectively from January 1, 2010, clarifies that IFRS 5 and other IFRSs that specifically refer to non- current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

→ IAS 1 – *Presentation of Financial Statements:* this improvement, effective from January 1, 2010, amends the definition of a current liability contained in IAS 1. The previous definition required liabilities which could be extinguished at any time by issuing equity instruments to be classified as current. That led to liabilities relating to convertible bonds which could be converted at any time into the shares of the issuer to be classified as current. Following this amendment the existence of a currently exercisable option for conversion into equity instruments becomes irrelevant for the purposes of the current/non-current classification of a liability.

→ IAS 7 – *Statement of Cash Flows:* this amendment, applicable from January 1, 2010, clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities in the statement of cash flows; cash flows originating from expenditures that do not result in a recognized asset (as could be the case for advertising and promotional activities and staff training) must be classified as cash flows from operating activities.

- IAS 17 – *Leasing:* following the changes, the general conditions required by IAS 17 for classifying a lease as a finance lease or an operating lease will also be applicable to the leasing of land, independent of whether the lease transfers ownership by the end of the lease term. Before these changes the standard required the lease to be classified as an operating lease if ownership of the leased land was not transferred at the end of the lease term because land has an indefinite useful life. The amendment is effective from January 1, 2010. At the date of adoption the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognized retrospectively.
- IAS 36 – *Impairment of Assets:* this amendment, effective prospectively from January 1, 2010, states that each unit or group of units to which goodwill is allocated for the purpose of impairment testing shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before any aggregation on the basis of similar economic characteristics and other similarities as permitted by paragraph 12 of IFRS 8.
- IAS 38 – *Intangible Assets:* IFRS 3 (as revised in 2008) states that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure its fair value reliably; amendments are made to IAS 38 to reflect that revision of IFRS 3. Moreover these amendments clarify the valuation techniques commonly used to measure intangible assets at fair value when assets are not traded in an active market; in particular, such techniques include discounting the estimated future net cash flows from an asset, and estimating the costs the entity avoids by owning an intangible asset and not having to license it from another party in an arm's length transaction or the costs to recreate or replace it (as in the cost approach). The amendment is effective prospectively from January 1, 2010.
- IAS 39 – *Financial Instruments: Recognition and Measurement:* this amendment restricts the non-applicability of IAS 39 under paragraph 2(g) of the standard to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date when the completion of the business combination is not dependant on further actions of either party and only the passage of a normal period of time is required. Option contracts, whether or not currently exercisable, which allow one party to control the occurrence or non-occurrence of future events and on exercise will result in control of an entity are therefore included in the scope of IAS 39. The amendment also clarifies that embedded prepayment options whose exercise price compensates the lender for the loss of interest income resulting from the prepayment of the loan shall be considered closely related to the host debt contract and therefore not accounted for separately. Finally, the amendment clarifies that the gains or losses on a hedged instrument must be reclassified from equity to profit or loss during the period that the hedged forecast cash flows affect profit or loss. The amendment is effective prospectively from January 1, 2010.
- IFRIC 9 – *Reassessment of Embedded Derivatives:* this amendment excludes from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture. The amendment is applicable prospectively from January 1, 2010.

The European Union had not yet endorsed the improvements described above at the date of these financial statements.

In June 2009, the IASB issued an amendment to IFRS 2 – *Share based payment: Group Cash-settled Share-based Payment transactions.* The amendment clarifies the scope of IFRS 2 and the interactions of IFRS 2 and other standards. In particular, it clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash; moreover, it clarifies that a 'group' has the same meaning as in

IAS 27 - *Consolidated and Separate Financial Statements,* that is, it includes only a parent and its subsidiaries. In addition, the amendment clarifies that an entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognized by the consolidated group. The amendments also incorporate guidance previously included in IFRIC 8 - *Scope of IFRS 2* and *IFRIC 11 - IFRS 2 - Group and Treasury Share Transaction.* As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.The amendment is effective from January 1, 2010; the European Union had not yet endorsed the amendment at the date of these financial statements.

On October 8, 2009, the IASB issued an amendment to IAS 32 – *Classification of Rights Issues* in order to address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable from January 1, 2011 and the Company is currently assessing any effects this change may have on the financial statements.

On November 4, 2009, the IASB issued a revised version of IAS 24 - *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after January 1, 2011. The revised standard had not yet been endorsed by the European Union at the date of these financial statements

On November 12, 2009, the IASB issued a new standard IFRS 9 – *Financial Instruments* on the classification and measurement of financial assets, having an effective date for mandatory adoption of January 1, 2013. The new standard represents the completion of the first part of a project to replace IAS 39. 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. IFRS 9 also requires a single impairment method to be used. The new standard had not yet been endorsed by the European Union at the date of these financial statements.

On November 26, 2009, the IASB issued a minor amendment to IFRIC 14 - *Prepayments of a Minimum Funding Requirement.* The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of January 1, 2011; the amendment had not yet been endorsed by the European Union at the date of these financial statements.

On November 26, 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The amendment has an effective date for mandatory adoption of January 1, 2011; the amendment had not yet been endorsed by the European Union at the date of these financial statements.

Note 3 - Financial risk management

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

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

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honor payments.

With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

For newly acquired clients, the Company accurately verifies their capability of facing financial commitments. Transactions of a financial nature are undersigned only with primary financial institutions.

Liquidity risk

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

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

The present difficulties both in the markets in which the Group operates and in the financial markets necessitate special attention being given to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2010, 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.

Currency risk and interest rate risk

As the company operates mainly in a "Euro area" the exposure to currency risks is limited.

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

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

Note 4 - Other information

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

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

Fiscal consolidation

The Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.

Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.

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

Note 5 - Revenues

Revenues amounted to 162,353,799 Euros and are detailed as follows:

(in Euros)	2009	2008	Change
Revenues from services	139,710,578	111,228,485	28,482,093
Royalties on "Reply" trademark	8,460,761	7,576,678	884,083
Intercompany services	10,273,394	10,560,183	(286,789)
Other intercompany revenues	3,909,066	3,326,207	582,859
Total	**162,353,799**	**132,691,553**	**29,662,246**

Reply has developed fronting activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards. Such activities were recorded in the item *Revenues from services* and in 2009 amounted to 28,482,093 Euros.

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

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

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

Note 6 - Other revenues

Other revenues at December 31, 2009 amounted to 3,288,377 Euros (3,244,700 Euros at December 31, 2008) and mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies. They include expenses for social events, telephone and training courses.

Note 7 - Purchases

Detail is as follows:

(in Euros)	2009	2008	Change
Software licenses	410,539	710,933	(300,394)
Other	346,069	396,579	(50,510)
Total	**756,608**	**1,107,512**	**(350,904)**

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

The item *Other* mainly includes office equipment material (183 thousand Euros) and fuel (104 thousand Euros).

Note 8 - Personnel

Personnel costs amounted to 10,396,698 Euros, with a decrease of 367,072 Euros and are detailed in the table below:

(in Euros)	2009	2008	Change
Payroll employees	8,846,913	8,179,325	667,588
Executive Directors	1,417,922	2,510,779	(1,092,857)
Project collaborators	131,863	73,666	58,197
Total	**10,396,698**	**10,763,770**	**(367,072)**

Personnel expenses include the fair value of the stock options vested as at December 31, 2009 for 50 thousand Euros.

Detail of personnel by category is provided below:

(number)	31/12/2009	31/12/2008	Change
Directors	29	27	2
Managers	9	10	(1)
Staff	60	81	(21)
Total	**98**	**118**	**(20)**

The average number of employees in 2009 was 105 (no. 118 in 2008).

Note 9 - Services and other costs

Service and other costs comprised the following:

(in Euros)	2009	2008	Change
Commercial and technical consulting	3,921,034	3,939,704	(18,670)
Professional services from group companies	141,571,877	110,021,722	31,550,155
Travelling and training expenses	1,247,351	1,041,235	206,116
Marketing expenses	1,012,897	999,912	12,985
Administrative and legal services	1,526,874	1,010,844	516,030
Statutory auditors and independent auditors	160,288	132,193	28,095
Lease and rentals	399,187	412,288	(13,101)
Office expenses	2,528,727	2,354,102	174,625
Services to be recharged to group companies	3,550,921	2,984,002	566,919
Other	2,480,871	1,792,464	688,407
Total	**158,400,027**	**124,688,466**	**33,711,561**

Change in *Services from Group companies* amounting to 31,550,155 Euros are co-related to revenues from services to third parties.
Reply S.p.A. carries out *fronting* activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards whereas the delivery is carried out in the operational companies.

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

Note 10 - Amortization, depreciation and write-downs

Depreciation of tangible assets, amounting to 583,979 Euros, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Amortization of intangible assets for the year ended 2009 amounted to 318,787 Euros. The details are provided at the notes to intangible assets herein.

Note 11 - Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 143,460 Euros are related to minor events falling out of the ordinary course of business.

Note 12 - Gain/(losses) on equity investments

Detail is as follows:

(in Euros)	2009	2008	Change
Dividends	17,146,146	18,653,881	(1,507,735)
Loss on equity investments	(2,071,000)	(2,413,689)	342,689
Total	**15,075,146**	**16,240,192**	**(1,165,046)**

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

Detail is as follows:

(in Euros)	31/12/2009
@Logistics Reply S.r.l.	900,000
Aktive Reply S.r.l.	700,000
Atlas Reply S.r.l.	1,400,000
Blue Reply S.r.l.	1,100,000
Business Reply S.r.l.	500,000
Cluster Reply S.r.l.	2,200,000
e*finance consulting Reply S.r.l.	1,000,000
IrisCube Reply S.p.A.	100,000
Santer Reply S.p.A.	2,200,000
Security Reply S.r.l.	400,000
syskoplan AG	946,146
Sytel Reply S.r.l.	4,000,000
Technology Reply S.r.l.	1,700,000
Total	**17,146,146**

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

For further details see Note 19 herein.

Note 13 - Financial income/(expenses)

Detail is as follows:

(in Euros)	2009	2008	Change
Interest income from subsidiaries	2,001,312	3,458,083	(1,456,771)
Interest income on bank accounts	154,454	693,361	(538,907)
Interest expenses	(2,055,073)	(2,667,747)	612,674
Other	(5,210)	224,229	(229,439)
Total	**95,483**	**1,707,926**	**(1,612,443)**

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

Interest expenses are mainly related to the interest expenses on the use of the credit facility with Intesa Sanpaolo.

Note 14 - Income taxes

(in Euros)	2009	2008	Change
IRES	(71,699)	355,394	(427,093)
IRAP	235,000	353,000	(118,000)
Current taxes	**163,301**	**708,394**	**(545,093)**
Deferred tax liabilities	32,891	20,010	12,881
Deferred tax assets	(1,110,521)	(101,446)	(1,009,075)
Deferred taxes	**(1,077,630)**	**(81,436)**	**(996,194)**
Total income taxes	**(914,329)**	**626,958**	**(1,541,287)**

IRES theoretical rate

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

(in Euros)	Amount	Tax
Result before taxes	10,213,246	
Theoretical tax rate	**27.5%**	**2,808,643**
Temporary differences, net	(13,922,893)	
Taxable IRES	**(3,709,647)**	
Payable taxes on income of the year		-
Gains on losses brought from fiscal consolidation	6,306,860	1,734,387
Fiscal losses used and other benefits related to fiscal consolidation		(1,806,086)
Total IRES		**(71,699)**

Temporary differences, net refer to:

- Deductible differences amounting to 18,164 thousand Euros owing mainly to dividends collected in the financial year under review (16,289 thousand Euros) and directors emoluments (1,200 thousand Euros);
- Non deductible differences amounting to 5,118 thousand Euros and refers to depreciation of equity investments (2,071 thousand Euros) and directors' salaries (1,292 thousand Euros);
- Tax effect of the accounting entries made directly to equity in accordance to IFRS principles (373 thousand Euros).

Calculation of taxable IRAP

(in Euros)	Amount	Tax
Difference between value and cost of production	(4,957,383)	
Temporary differences, net	10,391,810	
Taxable IRAP	**5,434,427**	**235,000**
Total IRAP		**235,000**

Temporary differences net refer to:

- Non deductible differences amounting to 13,094 thousand Euros mainly due to personnel expenses;
- Deductible differences amounting to 229 thousand Euros mainly due to service costs and amortization;
- Deductions amounting to 2,471 thousand Euros related mainly to tax rates.

Note 15 - Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2009 was calculated with reference to the profit for the period which amounted to 11,127,575 Euros (15,795,452 Euros at December 31, 2008) divided by the weighted average number of shares outstanding during the year which were 9,041,267 (8,940,366 at December 31, 2008).

(in Euros)	2009	2008
Net profit for the year	11,127,575	15,795,452
Weighted average number of shares	9,041,267	8,940,366
Basic earnings per share	1.23	1.77

Diluted earnings per share

Diluted earnings per share at December 31, 2009 was calculated with reference to the profit for the period which amounted to 11,127,575 Euros divided by the weighted average number of shares outstanding during the year taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in Euros)	2009	2008
Net profit for the year	11,127,575	15,795,452
Weighted average number of shares	9,041,267	8,940,366
Diluting effect	168,400	162,400
Weighted number of diluted shares	9,209,667	9,102,766
Diluted earnings per share	1.21	1.74

Note 16 - Tangible assets

Tangible assets as at December 31, 2009 totaled to 541,437 Euros. Detail is as follows:

(in Euros)	**31/12/2009**	**31/12/2008**	**Change**
Plant and machinery	121,229	213,409	(92,180)
Hardware	89,785	262,044	(172,259)
Other	330,423	502,249	(171,826)
Total	**541,437**	**977,702**	**(436,265)**

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

Change in tangible assets during 2009 is summarized in the table below:

(in Euros)	**Plant and machinery**	**Hardware**	**Other**	**Total**
Historical cost	1,099,227	1,185,660	1,917,165	4,202,052
Accumulated depreciation	(885,818)	(923,616)	(1,414,916)	(3,224,350)
Balance at 31/12/2008	**213,409**	**262,044**	**502,249**	**977,702**
Historical cost				
Additions	54,601	43,730	65,259	163,590
Disposals	-	(1,395)	(18,565)	(19,960)
Other	-	(22,875)	-	(22,875)
Accumulated depreciation				
Depreciation	(146,781)	(210,429)	(226,769)	(583,979)
Utilization	-	698	8,249	8,947
Other	-	18,012	-	18,012
Historical cost	1,153,828	1,205,120	1,963,859	4,322,807
Accumulated depreciation	(1,032,599)	(1,115,335)	(1,633,436)	(3,781,370)
Balance at 31/12/2009	**121,229**	**89,785**	**330,423**	**541,437**

In 2009 the Company's additions totaled 164 thousand Euros and referred mainly to:

- computers and network equipment for 44 thousand Euros;
- generic equipment for 46 thousand Euros;
- furniture and fittings and plants for new office locations totaling 54 thousand Euros.

The item *Other* also includes the lease of video conference equipment amounting to 20 thousand Euros.

Note 17 - Goodwill

Goodwill at December 31, 2009 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to *Information Technology* and management support) purchased in July 2000.

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

Note 18 - Other intangible assets

Intangible assets as at December 31, 2009 amounted to 1,331,854 Euros (1,470,902 Euros at December 31, 2008). Detail is as follows:

(in Euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2009
Software	2,466,852	(1,662,182)	804,670
Trademarks	527,184	-	527,184
Total	**2,994,036**	**(1,662,182)**	**1,331,854**

Change in intangible assets during 2009 is summarized in the table below:

(in Euros)	Net book value at 31/12/2008	Increases	Accumulated amortization	Net book value at 31/12/2009
Software	945,808	177,648	(318,787)	804,670
Trademarks	525,094	2,090	-	527,184
Total	**1,470,902**	**179,738**	**(318,787)**	**1,331,854**

The item *Software* is related mainly to software licenses purchased and used internally by the company. The increase of 124 thousand Euros refers to software in progress to be used internally.

The item *Trademarks* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 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 amortization.

Increase refers to the trademark "Click Reply".

Note 19 - Equity investments

The item *Equity investments* at December 31, 2009 amounted to 88,649,751 Euros, with an increase of 7,552,810 Euros compared to December 31, 2008.

(in Euros)	Balance at 31/12/2008	Acquisitions and subscriptions	Disposals	Write-downs	Other	Balance at 31/12/2009	Interest
@Logistics Reply S.r.l.	1,049,167	-	-	-	-	1,049,167	100.0%
4Cust Reply S.r.l. (*)	288,000	-	-	-	-	288,000	80.0%
Aktive Reply S.r.l.	140,692	-	-	-	372,004	512,696	100.0%
Atlas Reply S.r.l.	356,575	-	-	-	-	356,575	100.0%
Bitmama S.r.l.	2,567,019	450,000	561,000	(681,000)	-	2,897,019	51.0%
Axcel Reply S.r.l.	1,199,997	-	-	-	(1,199,997)	-	100.0%
Blue Reply S.r.l.	527,892	-	-	-	-	527,892	100.0%
Business Reply S.r.l.	268,602	-	-	-	-	268,602	100.0%
Cluster Reply S.r.l.	2,610,032	-	-	-	-	2,610,032	100.0%
Consortium Whitehall Reply	-	8,000	-	-	-	8,000	47.1%
Discovery Reply S.r.l.	1,311,669	-	-	-	-	1,311,669	100.0%
e*finance Consulting Reply S.r.l.	3,076,385	-	-	-	-	3,076,385	100.0%
Ekip S.r.l.	30,000	-	275,000	(275,000)	-	30,000	100.0%
EOS Reply S.r.l.	38,000	60,000	-	-	-	98,000	88.3%
glue: Reply Ltd	11,656,556	-	-	-	-	11,656,556	100.0%
Hermes Reply S.r.l.	199,500	-	-	-	-	199,500	100.0%
IrisCube S.p.A.	6,724,952	-	-	-	-	6,724,952	100.0%
Open Reply S.r.l. (*)	217,750	-	50,000	(50,000)	-	217,750	85.0%
Plus Reply S.r.l.	377,000	3,000	430,000	(795,000)	-	15,000	100.0%
Power Reply S.r.l. (*)	1,645,500	-	-	-	-	1,645,500	85.0%
Reply Consulting S.r.l.	5,178,434	-	-	-	(10,000)	5,168,434	100.0%
Reply Services S.r.l.	10,000	-	-	-	-	10,000	100.0%
Santer Reply S.p.A.	11,386,966	-	-	-	-	11,386,966	100.0%
Security Reply S.r.l.	392,866	-	-	-	-	392,866	100.0%
Square Reply S.r.l.	100,000	-	-	-	-	100,000	100.0%
Syskoplan A.G.	22,953,180	6,705,309	-	-	-	29,658,489	78.9%
Syskoplan Reply S.r.l.	949,571	-	-	-	-	949,571	100.0%
Sytel Reply S.r.l.	5,048,766	-	-	-	827,993	5,876,759	100.0%
Sytel Reply Gmbh	-	27,500	-	-	-	27,500	100.0%
Target Reply S.r.l.	8,000	786,000	-	-	-	794,000	100.0%
Technology Reply S.r.l.	216,658	-	-	-	-	216,658	100.0%
Tender Reply S.r.l.	-	8,000	-	-	-	8,000	80.0%
Twice Reply S.r.l.	407,000	-	-	-	-	407,000	94.0%
Whitehall Reply S.r.l.	160,212	-	270,000	(270,000)	-	160,212	100.0%
Total	**81,096,941**	**8,047,809**	**1,586,000**	**(2,071,000)**	**(10,000)**	**88,649,751**	

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. As at December 31, 2009 the assessment of the achievement of such parameters did not lead to any impact on the financial statements as the underlying assumptions are highly variable and the commitments not very significant.

Acquisitions and subscriptions

Bitmama S.r.l.

The increase of 450,000 Euros refers to the acquisition of the 12.5% of TestaWebEDV which allowed Reply to finalize the merger between Aware Reply and the purchased company creating the new company bitmama in which Reply holds 51%.

Eos Reply S.r.l.

In January 2009 Reply undersigned the increase of share capital of the subsidiary company Eos Reply S.r.l and transferred the business branch carrying out administrative activities.

Tender Reply S.r.l.

In the month of December 2009 Tender Reply S.r.l was established, company in which reply S.p.A holds 80% of the share capital. Tender Reply S.r.l. operates in the transportation sector.

Consortium Whitehall Reply

In the month of July 2009 Consortium Whitehall Reply was established, a non-profit organization which manages bids with the Public Administration. At December 31, 2009 the association was composed by Reply S.p.A., Santer Reply S.p.A. and Whitehall Reply S.r.l.

Target Reply S.r.l.

In execution of the agreements signed in occasion of the constitution of the subsidiary company Target Reply S.r.l in the first months of 2010 the "put" option to be exercised by the minority shareholders of the company will fall due (and correspondingly the "call" option for Reply).
In accordance with IAS 32, at December 31, 2009 a liability to minority shareholders of Target Reply S.r.l. was booked in relation to the exercising of the aforementioned option against equity investments.

syskoplan AG

In 2009 Reply S.p.A. acquired on the German stock market syskoplan AG shares, corresponding to 20.73% of the share capital of the company.

Financial loan Remission

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

Write-downs

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

Other changes

Other changes refers to the complete transfer of Axcel Reply S.r.l. in favor of Aktive Reply and Sytel Reply S.r.l. and the adjustment of liability accounted for in accordance to IAS 32 in relation to the "put" option for the acquisition of Reply Consulting S.r.l.'s minority shares (10,000 Euros).

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

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

Note 20 - Non current financial assets

Detail is as follows:

(in Euros)	31/12/2009	31/12/2008	Change
Guarantee deposits	85,573	85,677	(104)
Financial receivables from subsidiaries	1,450,000	530,000	920,000
Total	**1,535,573**	**615,677**	**919,896**

Guarantee deposits are mainly related to deposits on lease contracts.

The item *Financial receivables from subsidiaries* is referred to loans granted to Open Reply S.r.l. (300,000 Euros), Target Reply S.r.l. (300,000 Euros), 4cust Reply S.r.l. (300,000 Euros), Sytel Reply Gmbh (250,000 Euros) and Tender Reply S.r.l. (300,000 Euros).

Note 21 - Deferred tax assets

This item amounted to 608,105 Euros at December 31, 2009 (517,736 Euro at December 31, 2008), and included the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

(in Euros)

Temporary deductible differences	Tax
Total deferred tax assets at 31/12/2008	517,736
- accrued	492,484
- utilization	(402,115)
Total deferred tax assets at 31/12/2009	**608,105**
Of which:	
- maintenance, licenses and other deductible costs	4,311
- directors fees and employee bonuses accrued but not paid at year end	465,523
- other	138,271
Total	**608,105**

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 December 31,, 2009 amounted to 116,098,489 Euros.
Detail is as follows:

(in Euros)	31/12/2009	31/12/2008	Change
Third party trade receivables	83,130,612	68,375,916	14,754,696
Credit notes to be issued	(4,130)	(96,398)	92,268
Allowance for doubtful accounts	(140,522)	(140,522)	-
Third party trade receivables	**82,985,960**	**68,138,996**	**14,846,964**
Receivables from subsidiaries	32,628,863	20,999,897	11,628,966
Receivables from Parent Company	483,666	242,975	240,691
Trade receivables from subsidiaries and Parent Company	**33,112,529**	**21,242,872**	**11,869,657**
Total trade receivables	**116,098,489**	**89,381,868**	**26,716,621**

Reply carries out fronting activities with primary clients in capacity of sole manager of the ISO 9001 procedures. This activity is reflected in *Third Party Receivables* which had an increase of 14,754,696 Euros.

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

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

In 2009 no provisions were made for doubtful accounts.

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

Note 23 - Other receivables and current assets

Detail is as follows:

(in Euros)	31/12/2009	31/12/2008	Change
Tax receivables	2,406,834	4,558,814	(2,151,980)
Other receivables from subsidiary companies	10,460,000	8,167,000	2,293,000
Other receivables	30,552	29,893	659
Accrued income and prepaid expenses	1,517,105	2,087,419	(570,314)
Total	**14,414,491**	**14,843,126**	**(428,635)**

Tax receivables mainly refer to advance payment on IRES (167,822 Euros),advance payments on IRAP (80,802 Euros) and VAT receivables (2,032,700 Euros), and withholding tax receivables.

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

Accrued income and prepaid expenses refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.

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

Note 24 - Current financial assets

This item amounted to 37,699,565 Euros (45,348,854 Euros at December 31, 2008) and is related to the cash pooling accounts of the subsidiary companies involved in the centralized pooling system with pool leader Reply S.p.A. The interest yield on these accounts is in line with current market conditions.

Note 25 - Cash and cash equivalents

This item amounted to 123,256 Euros compared to December 31, 2008 and is referred to cash at banks and on hand at year-end.

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

Note 26 - Shareholders' equity

Share capital

As at December 31, 2009 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,795,886 Euros and is made up of no. 9,222,858 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Reserve for treasury shares on hand amounting to 1,471,658 Euros is related to shares held by Reply S.p.A., that as at December 31, 2009 were equal in number to 131,502. During 2009 Reply S.p.A. acquired no. 187,958 ordinary shares while 242,955 ordinary shares were disposed. The disposal of 236,399 ordinary shares was related to the transfer of shares for the acquisition of the minority shares in subsidiaries and 6,556 ordinary shares were assigned to personnel as a form of remuneration for services provided. The accounting effects of these operations were entirely recorded in equity.

Capital reserve

At December 31, 2009 capital reserve amounted to 49,379,495 Euros and is summarized as follows:

- *Share premium* reserve amounted to 19,846,549 Euros.
- *Reserve for treasury shares on hand* amounting to 1,471,658 Euros is related to shares held by Reply, which at December 31, 2009 amounted to no. 131,502.
- *Reserve for purchase of treasury shares,* amounting to 28,528,342 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 April 29, 2009 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 reserves

Earning reserves is as follows:

- Legal reserve amounting to 959,177 Euros (944,312 Euros at December 31, 2008).
- Retained earnings amounting to 2,894,354 Euros (2,844,288 Euro at December 31, 2008);
- Net result totaling 11,127,575 Euros (15,795,452 Euros at December 31, 2008).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(in Euros)	31/12/2009	31/12/2008
Gains/(Losses) on cash flow hedges arising during the period	(918,103)	2,085
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	**(918,103)**	**2,085**
Other comprehensive income generated during the period	23,881	-
Share of other comprehensive income	**23,881**	**-**
Income tax relating to components of Other comprehensive income	**-**	**-**
Total Other comprehensive income, net of tax	**(894,222)**	**2,085**

Share based payment plans

The company has share based payment plans for its employees.

The stock option plans have the following purposes:

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, the cost incurred for Reply S.p.A. share-based payments in 2009 amounted to 50 thousand Euros (235 thousand Euros in 2008).

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 December 31, 2009 the number of stock options were 168,400 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	11/11/2005	1	17.569	11/11/2008 – 11/11/2013	2,400
2004	11/06/2004	12/05/2006	10	21.339	12/05/2009 – 12/05/2014	150,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000
2006	15/06/2006	27/09/2007	1	24.096	27/09/2010 – 27/09/2015	6,000

During 2009 no stock options were exercised nor assigned in reference to the existing plans.

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

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

Note 27 - Financial liabilities

Detail is as follows:

	31/12/2009			31/12/2008		
(in Euros)	**current**	**non current**	**Total**	**current**	**non current**	**current**
Bank overdrafts	3,873,937	-	3,873,937	7,586,573	-	7,586,573
Bank loans	11,822,002	15,952,516	27,774,518	10,903,899	22,452,403	33,356,302
Financial borrowings	18,025	10,151	28,176	27,582	14,508	42,090
Total due to banks	**15,713,964**	**15,962,667**	**31,676,631**	**18,518,054**	**22,466,911**	**40,984,965**
Transaction accounts	19,519,133	-	19,519,133	7,778,102	-	7,778,102
Total financial liabilities	**35,233,097**	**15,962,667**	**51,195,764**	**26,296,156**	**22,466,911**	**48,763,067**

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

	31/12/2009				31/12/2008			
(in euro)	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**	**Due in 12 months**	**From 1 5 years**	**Over 5 years**	**Total**
Bank overdrafts	3,873,937	-	-	3,873,937	7,586,573	-	-	7,586,573
Bank loans	11,276,752	16,188,142	-	27,464,894	11,276,752	22,553,504	-	33,830,256
Transaction accounts	19,519,133	-	-	19,519,133	7,778,102	-	-	7,778,102
Other financial borrowings	18,025	10,151	-	28,176	27,582	14,508	-	42,090
Fair Value IRS and other	545,250	(235,626)	-	309,624	(372,853)	(101,101)	-	(473,954)
Total	**35,233,097**	**15,962,667**	**-**	**51,195,764**	**26,296,156**	**22,466,911**	**-**	**48,763,067**

Bank loans include the *Syndicated loan* referred to the partial utilization of the credit facility undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo, pool leader of a group of banks for the granting of the loan finalized for M&A operations.

The maximum total amount of 61,330 thousand Euros has been divided in two tranches:

- Tranche A was used as an overdraft for a total of 12,000,000 Euros with the purpose of entirely reimbursing the previous loan. Installments are paid on a half year basis (Euribor 6 months + 0.75%) and expired on December 31, 2008.
- Tranche B used as an overdraft for a maximum of 49,330 thousand Euros with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalized at the acquisition of companies, strategic investments or shares. The residual amount totaling 32,887 thousand Euros and installments are paid a half year basis (Euribor 6 months + 0.75%) and expires on December 31, 2011.

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

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

As contractually defined, such ratios are as follows:

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

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

Bank loans also include a stand-by financial loan, and is referred to a loan undersigned on March 31, 2009 by Reply S.p.A with Intesa SanPaolo, for an initial line of credit amounting to 30,000,000 Euros and which can be increased to 50,000,000 Euros on the basis that predetermined parameters are respected which will be defined on May 1, 2010. The loan will be reimbursed on a half-year basis (Euribor 6 months + 2.5%) commencing June 30, 2012 and expires on December 31, 2014.

On June 25, 2009 this line of credit amounting to 4,911 thousand Euros was utilized. This loan is subordinated to the parameters herein mentioned and at December 31, 2009 have been respected.

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

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

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Net financial position at December 31, 2009 was as follows:

(in Euros)	**31/12/2009**	**31/12/2008**	**Change**
Cash and cash equivalents	10,758,268	10,635,012	123,256
Transaction accounts	37,699,565	45,348,854	(7,649,289)
Current financial assets	**48,457,833**	**55,983,866**	**(7,526,033)**
Loans issued to subsidiaries	1,450,000	530,000	920,000
Total non current financial assets	**1,450,000**	**530,000**	**920,000**
Total financial assets	**49,907,833**	**56,513,866**	**(6,606,033)**
Due to banks	(15,713,964)	(18,518,054)	2,804,090
Transaction accounts	(19,519,133)	(7,778,102)	(11,741,031)
Total current financial liabilities	**(35,233,097)**	**(26,296,156)**	**(8,936,941)**
Due to banks	(15,962,667)	(22,466,911)	6,504,244
Total non current financial liabilities	**(15,962,667)**	**(22,466,911)**	**6,504,244**
Total financial liabilities	**(51,195,764)**	**(48,763,067)**	**(2,432,697)**
NET FINANCIAL LIABILITIES	**(1,287,931)**	**7,750,799**	**(9,038,730)**
Of which related parties	*19,630,432*	*38,100,752*	*(18,470,320)*

For further details with regards to the above table see Notes 20, 24 and 25 as well as Note 27.

Note 28 - Employee benefits

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

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

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

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions	
Mortality	RG 48 survival tables of the italian population
Inability	Inps tables divided by age and gender
Retirement age	Fulfillment 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 2009: 2.50% Frequency of turnover % 2009: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 3.20%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2009 was 3.8%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 0.5% to 1.50%

In accordance to IAS 19, Employment severance indemnities at December 31, 2009 is summarized in the table below:

(in Euros)	
Balance at 31/12/2008	**699,758**
Actuarial gain/loss	(23,881)
Interest cost	25,438
Indemnities paid during the year	(25,442)
Other changes	(113,449)
Balance at 31/12/2009	**562,424**

Note 29 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2009 amounted to 286,908 Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(in Euros)	
Total at 31/12/2008	**254,018**
- Accruals	32,890
Total at 31/12/2009	**286,908**
- On deductible items off the books	197,671
- Employee benefits IAS 19	9,733
- Different goodwill measurements	17,154
- Different trademark valuation	62,350
Total at 31/12/2009	**286,908**

Note 30 - Trade payables

Trade payables at year end amounted to 117,864,555 Euros with an increase of 20,966,450 Euros compared to December 31, 2008. Detail is as follows:

(in Euros)	**31/12/2009**	**31/12/2008**	**Change**
Due to suppliers	7,064,028	5,679,766	1,384,262
Due to subsidiary companies	88,056,567	77,866,276	10,190,291
Advance payments	22,743,960	13,352,063	9,391,897
Total	**117,864,555**	**96,898,105**	**20,966,450**

Due to suppliers mainly refers to services from domestic suppliers (6,275 thousand Euros).

Due to subsidiary companies in 2009 increased by 10,190,291 Euros and refer to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. also carries out fronting activities with key clients in capacity of sole manager of the ISO 9001 procedures where the delivery is carried out by the operational subsidiaries.

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 31 - Other current liabilities

Details are provided below:

(in Euros)	31/12/2009	31/12/2008	Change
Current tax payables	3,800	154,754	(150,954)
Withholding tax and other	349,815	345,159	4,656
Total due to tax authorities	**353,615**	**499,913**	**(146,298)**
INPS	400,352	514,266	(113,914)
Other	174,204	134,364	39,840
Total due to social security authorities	**574,556**	**648,630**	**(74,074)**
Employee accruals	665,189	683,571	(18,382)
Due to subsidiary companies	3,142,612	3,144,740	(2,128)
Other payables	2,657,606	6,948,980	(4,291,374)
Accrued expenses and deferred income	895,998	1,413,690	(517,692)
Total other dues	**7,361,405**	**12,190,981**	**(4,829,576)**
Total trade payables and other liabilities	**8,289,576**	**13,339,524**	**(5,049,948)**

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 2009 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

Other payables include the liability to minority shareholders in relation to the exercising of the option in the first months o 2010 held in their possession.

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

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

Types of financial risks and corresponding hedging activities

Reply S.p.A. has determined the guide lines in managing financial risks. In order to 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 December 31, 2009 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 fulfill 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, unfavorable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2009 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 18 thousand Euros (206 thousand Euros at December 31, 2008).

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

Note 33 - Transactions with Related parties

In relation to CONSOB communication no. DAC/RM 97001574 of February 20, 1997 and no. DAC/RM 98015375 of February 27, 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2009 financial statements related to such transactions are summarized below.

Transactions carried out by Reply S.p.A. with related parties, that as of the closing date is Alika S.r.l., are considered ordinary business and are carried out at normal market conditions.

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

Reply S.p.A. Main economic and financial transactions

	31/12/2009		31/12/2008		
(thousand Euros)	With subsidiary and associate companies	With related parties	With subsidiary and associate companies	With related parties	Nature of transaction
Financial transactions					
Financial receivables	1,450	-	530	-	Financial loans yielding interest
Transaction accounts	18,180	-	37,571	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	43,080	483	29,167	243	Royalties, administration services, marketing and quality management, management services and office rental
Trade payables and other	112,257	762	94,859	394	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies

	2009		2008		
Economic transactions					
Revenues from royalties	8,461	-	7,577	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	13,394	233	13,598		Administration services, marketing and quality management and office rental
Revenues from management services	3,909	-	3,196	-	Strategic management services
Costs for professional services	145,475	27	113,315	-	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Services from Parent Company and related parties	-	1,217	-	1,131	Services related to office rental and office of the secretary
Interest income on loans, net	2,001	-	3,458	-	Interest on financial loans: 3 month Euribor with a spread of 2 percentage points

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

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

Note 34 - Significant non-recurring transactions

Pursuant to the Consob communication no. 6064293 of 28 July, 2006, there were no significant non- recurring transactions carried out by Reply S.p.A. in 2009.

Note 35 - Transactions resulting from unusual and/or abnormal operations

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

Note 36 - Guarantees, commitments and contingent liabilities

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. At December 31, 2009, contingent liabilities estimated by the company amount to approximately 1 million Euros for which no provisions have been recognized since an outflow of resources is not considered to be probable. Furthermore, contingent assets and expected reimbursement in connection with these contingent liabilities for approximately 3 million Euros have been estimated but not recognized.

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

Note 37 - Events subsequent to December 31, 2009

No events subsequent to December 31, have occurred.

Note 38 - Emoluments to Directors, Statutory Auditors and Key Management

In compliance to art. 78 of *Regolamento Consob* 11971 dated May 14, 1999 the fees of the Directors and S tatutory Auditors of Reply S.p.A. for carrying out their respective function, including those in other consolidated companies, are as follows:

(in Euros)

Name	Office	Period of office	Termination of office	Emoluments	Other compensation	Non-cash benefits
Mario Rizzante	Chairman and Chief Executive Officer	01/01/09 – 31/12/09	31/12/2011	330,000	320,000	-
Sergio Ingegnatti	Chief Executive Officer	01/01/09 – 31/12/09	31/12/2011	210,000	346,000	-
Tatiana Rizzante	Chief Executive Officer	01/01/09 – 31/12/09	31/12/2011	120,000	244,700	-
Oscar Pepino	Executive director	01/01/09 – 31/12/09	31/12/2011	210,000	200,000	-
Claudio Bombonato	Executive director	01/01/09 – 31/12/09	31/12/2011	400,000	-	-
Carlo Alberto Carnevale Maffé	Independent director	01/01/09 – 31/12/09	31/12/2011	20,000	-	-
Marco Mezzalama	Independent director	01/01/09 – 31/12/09	31/12/2011	20,000	-	-
Fausto Forti	Independent director *Lead Independent Director*	01/01/09 – 31/12/09	31/12/2011	20,000	4,000	-
Tommaso Vallenzasca	Chairman of the Board of Statutory auditors	01/01/09 – 29/04/09	-	1,343	-	-
Cristiano Antonelli	Chairman of the Board of Statutory auditors	29/04/09 – 31/12/09	31/12/2011	40,387		
Ada A. Garzino Demo	Statutory auditor	01/01/09 – 31/12/09	31/12/2011	28,095	-	-
Paolo Claretta Assandri	Statutory auditor	01/01/09 – 31/12/09	31/12/2011	28,095		
Key management		01/01/09 – 31/12/09	-	-	2,935,182	104,000

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.

Detail is as follows:

		Options held at 31/12/2008			Options held at 31/12/2009
Name	**Office held**	**Number of options**	**Average exercise price (Euros)**	**Exercise period**	
Tatiana Rizzante	Chief executive officer	15,000	21.339	12-05-09 to 12-05-14	15,000
Key management		75,000	21.339	12-05-09 to 12-05-14	75,000

(*) term of office for the members of the Board and members of the Board of Statutory auditors expire with the approval of the 2011 Financial statements.

Annexed tables

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

(in Euros)	2009	Of which related parties	%	2008	Of which related parties	%
Revenues	162,353,799	22,643,221	13.9%	132,691,553	21,463,068	16.2%
Other revenues	3,288,377	3,120,836	94.9%	3,244,700	3,082,380	95.0%
Purchases	(756,608)	(143,556)	19.0%	(1,107,512)	(419,010)	37.8%
Personnel expenses	(10,396,698)	-	-	(10,763,770)	-	-
Services and other costs	(158,400,027)	(146,692,148)	92.6%	(124,688,466)	(114,446,263)	91.8%
Amortization and write-offs	(902,766)	-	-	(856,736)	-	-
Other unusual operating income/(expenses)	(143,460)	-	-	(45,477)	-	-
Operating margin	**(4,957,383)**	**-**	**-**	**(1,525,708)**	**-**	**-**
Income/(loss) on equity investment	15,075,146	-	-	16,240,192	-	-
Financial income/(expenses)	95,483	2,001,312	2096.0%	1,707,926	3,458,083	202.5%
Result before tax	**10,213,246**	**-**	**-**	**16,422,410**	**-**	**-**
Income/(loss) on equity investments	914,329	-	-	(626,958)	-	-
Financial income/(expenses)	**11,127,575**	**-**	**-**	**15,795,452**	**-**	**-**
Net result per share	*1.23*			*1.77*		
Net result per diluted share	*1.21*			*1.74*		

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

(in Euros)	31/12/2009	Of which related parties	%	31/12/2008	Of which related parties	%
Tangible fixed assets	541,437	-	-	977,702	-	-
Goodwill	86,765	-	-	86,765	-	-
Other intangible assets	1,331,854	-	-	1,470,902	-	-
Equity investments	88,649,751	-	-	81,096,941	-	-
Financial assets	1,535,573	1,450,000	94.4%	615,677	530,000	86.1%
Deferred tax assets	608,105	-	-	517,736	-	-
Non current assets	**92,753,485**	**-**	**-**	**84,765,723**	**-**	**-**
Trade receivables	116,098,489	33,103,303	28.5%	89,381,868	21,242,872	23.8%
Other receivables and current assets	14,414,491	10,460,000	72.6%	14,843,126	8,167,000	55.0%
Financial assets	37,699,565	37,699,565	100.0%	45,348,854	45,348,854	100.0%
Cash and cash equivalents	10,758,268	-	-	10,635,012	-	-
Current assets	**178,970,813**	**-**	**-**	**160,208,860**	**-**	**-**
TOTAL ASSETS	**271,724,298**	**-**	**-**	**244,974,583**	**-**	**-**
Share capital	4,795,886	-	-	4,795,886	-	-
Other reserves	77,601,610	-	-	64,428,773	-	-
Net result	11,127,575	-	-	15,795,452	-	-
TOTAL SHAREHOLDERS' EQUITY	**93,525,071**	**-**	**-**	**85,020,111**	**-**	**-**
Financial liabilities	15,962,667	-	-	22,466,911	-	-
Employee benefits	562,424	-	-	699,758	-	-
Deferred tax liabilities	286,908	-	-	254,018	-	-
Non current liabilities	**16,811,999**	**-**	**-**	**23,420,687**	**-**	**-**
Financial liabilities	35,233,097	19,519,133	55.4%	26,296,156	7,778,102	29.6%
Trade payables	117,864,555	111,610,777	94.7%	96,898,105	91,714,609	94.7%
Other payables and current liabilities	8,289,576	1,408,225	17.0%	13,339,524	3,144,740	23.6%
Current liabilities	**161,387,228**	**-**	**-**	**136,533,785**	**-**	**-**
TOTAL LIABILITIES	**178,199,227**	**-**	**-**	**159,954,472**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**271,724,298**	**-**	**-**	**244,974,583**	**-**	**-**

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

Company	Registered office	Currency	Share capital	Shareholders' equity at 31/12/09	Result 2009	% owned	Carrying value at 31/12/09
4Cust Reply S.r.l.	Turin	€	10,000	263,827	246,758	80.0%	288,000
@Logistics Reply S.r.l.	Turin	€	78,000	1,682,611	1,348,555	100.0%	1,049,167
Bitmama S.r.l.	Turin	€	29,407	(100,151)	(1,368,588)	51.0%	2,897,019
Aktive Reply S.r.l.	Turin	€	10,000	1,560,431	919,568	100.0%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	2,421,321	2,003,076	100.0%	356,575
Blue Reply S.r.l.	Turin	€	10,000	3,070,581	2,052,261	100.0%	527,892
Business Reply S.r.l.	Turin	€	78,000	1,553,558	1,376,343	100.0%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	3,683,776	2,877,061	100.0%	2,610,032
Consorzio Whitehall Reply	Turin	€	17,000	7,214	(9,786)	47.1%	8,000
Discovery Reply S.r.l.	Turin	€	10,000	207,384	183,798	100.0%	1,311,669
e*finance consulting Reply S.r.l.	Turin	€	34,000	757,211	95,338	100.0%	3,076,385
Ekip S.r.l.	Turin	€	10,400	19,611	(273,328)	100.0%	30,000
Eos Reply S.r.l.	Turin	€	12,000	198,426	(31,583)	88.3%	98,000
glue: Reply Ltd	London	GBP	54,175	1,694,605	763,220	100.0%	11,656,556
Hermes Reply S.r.l.	Turin	€	10,000	813,904	184,904	100.0%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	897,735	39,561	100.0%	6,724,952
Open Reply S.r.l.	Turin	€	10,000	20,923	(48,539)	85.0%	217,750
Plus Reply S.r.l.	Turin	€	10,000	16,993	(428,481)	100.0%	15,000
Power Reply S.r.l.	Turin	€	10,000	1,318,696	573,734	85.0%	1,645,500
Reply Consulting S.r.l.	Turin	€	10,000	1,255,753	(468,309)	100.0%	5,168,434
Reply Services S.r.l.	Turin	€	10,000	107,273	95,660	100.0%	10,000
Santer Reply S.p.A.	Milan	€	2,209,500	12,251,275	1,149,180	100.0%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	671,644	(782,567)	100.0%	392,866
Square Reply S.r.l.	Turin	€	10,000	273,322	177,380	100.0%	100,000
Syskoplan Reply S.r.l.	Turin	€	32,942	134,558	111,420	100.0%	949,571
syskoplan AG and subsidiaries	Gutersloh	€	4,730,678	29,333,163	152,438	78.9%	29,658,489
Sytel Reply Gmbh	Düsseldorf	€	25,000	(242,629)	(267,479)	100.0%	27,500
Sytel Reply S.r.l.	Turin	€	115,046	14,150,502	10,967,605	100.0%	5,876,759
Target Reply S.r.l.(*)	Turin	€	10,000	881,029	694,459	100.0%	794,000
Technology Reply S.r.l.	Turin	€	79,743	3,073,694	2,879,398	100.0%	216,658
Tender Reply S.r.l.	Turin	€	10,000	10,000	-	80.0%	8,000
Twice Reply S.r.l.	Turin	€	10,000	1,568,687	358,672	94.0%	407,000
Whitehall Reply S.r.l.	Turin	€	21,224	29,975	(456,387)	100.0%	160,212

(*) As at December 31, 2009 legal possession is 80%, the percentage indicated in the table reflects the accounting according to IAS 32.
For further details see Note 19.

Detail of Shareholders' net equity

stated according to origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years

(in Euros) Nature/description	Amount	Possibility of utilization	Available amount	Summary of the amounts used in the prior three fiscal years: For coverage of losses	Other
Capital	**4,795,886**				
Capital reserves					
Reserve for treasury shares	1,471,658				
Share premium reserve	19,846,549	A, B, C	19,846,549		
Reserve for purchase of treasury shares	28,528,342	A, B, C	28,528,342		
Income reserves					
Legal reserve	959,177	B			
Extraordinary reserve	26,257,695	A, B, C	26,257,695		2,530,646
Reserve for shares to be issued (art. 2349 C.C.)	104,000	A, B	104,000		
Retained earnings	570,742	A, B, C	570,742		
Total			**75,307,328**		
Non available amount			104,000		
Residual available amount			**75,203,328**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,323,614				
Reserve for cash flow hedge	(545,335)				
Treasury share	(1,471,658)				
IAS reserve	23,881				
Accounting of expenses according to IAS 32	(770,448)				
	82,397,496				

A: for share capital increase
B: for loss coverage
C: distribution to shareholders

Information requested
by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2009 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network

(thousand Euros)	Service provider	Fees 2009
Audit	Deloitte & Touche S.p.A.	32
Audit related services	Deloitte & Touche S.p.A .(1)	7
Other services	Deloitte & Touche S.p.A .(2)	17
Total		**56**

(1) Attestation of tax forms (tax return, IRAP and Form 770).
(2) Consultation on accounting policies

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

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

→ the adequacy with respect to the company structure and

→ the effective application,

of the administration and accounting procedures applied in the preparation of in Reply S.p.A's 2009 financial statements:

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory financial statements at December 31, 2009 was based on a process defined by Reply in accordance with the *Internal Control – Integrated Framework* model issued by the *Committee of Sponsoring Organizations of the Treadway Commission,* an internationally-accepted reference framework.

3. The undersigned moreover attest that:

3.1 the statutory financial statements at December 31, 2009

→ have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated July 19, 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;

→ correspond to the amounts shown in the accounts, books and records; and;

→ provide a fair and correct representation of the financial conditions, results of operations and cash flows of Reply S.p.A at December 31, 2009 and for the year then ended.

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

Turin, March 15, 2010

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

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

Statutory Auditors' report

to the shareholders pursuant to art. 153 of italian legislative decree no. 58/1998 and art. 2429, paragraph 2 of the italian civil code in relation to the statutory financial statements as at December 31, 2009

To the Shareholders,

On April 29, 2009, following the Shareholders" meeting, the Board of Statutory Auditors is composed as follows: Mr. Cristiano Antonelli, President of the Statutory Board,; Mrs. Ada Alessandra Garzino Demo, Auditor; Mr. Paolo Claretta Assandri, Auditor.

The members of the Board of Statutory Auditors have respected and timely notified the cumulative limits imposed by art. 144-terdecies of *Regolamento Emittenti Consob* no. 11971 with regards to other positions held as statutory auditors. A list of the positions currently held are annexed herein and available at the Company's seat as per Book V, Title V, Versus V, VI and VII of the Civil Code.

The Board of Statutory Auditors are aware that on April 7, 2010 Legislative Decree no. 39 dated January 27, 2010, enacting Directive 2006/43/EC, concerning the legal audit of the statutory and consolidated financial statements has come into force.

Therefore, in accordance to the aforementioned law, the legal references included in the Statutory Auditors proposal to the Shareholders of Reply S.p.A. to assign the audit engagement issued on March 12, 2010, should be considered substituted in compliance to the regulations set out in the aforesaid law that are immediately applicable since the coming into force.

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

Throughout fiscal year 2009 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree 24/02/1998 no. 58 and in compliance with current CONSOB communications in relation to Regulations of issuers, we relate the following:

1. Significant economic, financial and monetary transactions

We have received adequate and detailed information from the Board of Directors' with regards to the Company's business and on the main operating, financial and asset transactions carried out or in the process of being carried out by the Company and/or its subsidiaries. In this regard we affirm the following:

- In February 2009 the subsidiary Santer S.p.A. acquired from Motorola the Research Centre branch based in Turin, for the symbolic amount of 1 Euro.

The acquisition was concluded with an agreement stipulated with The Region of Piedmont and the Ministry of Economic development and foresees:

- The Region of Piedmont will provide a free grant of up to 10 million Euros on the condition that Motorola Research Centre carries out projects related to the development of "Machine 2 Machine";
- The *Ministero dello Sviluppo Economico* (Ministry for Economic Development), which is managed by the region of Piedmont, would also add up to a maximum of 15 million Euros of which 10 million Euros free grant for R&D projects similar to those agreed upon with the region of Piedmont.

- The acquisition of the 5% minority shares of Hermes Reply S.r.l. and the 44% minority shares of Reply Consulting S.r.l.;
- In the month of July 2009 Testaweb S.r.l. acquired 12.5% of Testawebedv S.r.l's share capital which, in the same month was incorporated in Aware Reply S.r.l. (currently Bitmama S.r.l.);
- In the month of September 2009 the merger of Communication Valley S.p.A. with Spike Reply S.r.l.(currently Security Reply S.r.l.);

We can reasonably affirm that such activities have been executed in compliance with the Law and with the Articles of Incorporation.

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

As per discussions with the Directors and the representatives of the Auditing firm, the existence of any atypical or unusual transaction was not revealed during the accounting year or following the year-end close.
In reference to intercompany operations the following is noted:

- REPLY S.p.A. has received professional services from group companies in relation to revenues from third parties;
- REPLY S.p.A. has provided guarantees in favour of some subsidiaries;
- REPLY S.p.A. has granted to its subsidiaries non-interest bearing loans for the carrying out of their activities:
  - Reply Consulting S.r.l., Target Reply S.r.l., 4Cust Reply S.r.l., Open Reply S.r.l., Tender Reply S.r.l. and Bitmama S.r.l. – non-interest bearing loans
  - German branch of Sytel Reply S.r.l., Communication Valley S.p.A. (now Security Reply S.r.l.) and Sytel Reply GmbH - interest bearing loans;
- REPLY S.p.A. provided the subsidiaries administrative, managerial, and commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services. Also in this case all transactions are regulated at normal market conditions;
- REPLY S.p.A. manages a cash pooling system and has activated transaction accounts with the single group companies;
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company.

Operations carried out with third parties are referred to general services and consulting services provided by Alika S.r.l. current Parent Company of REPLY S.p.A.
These operations are ongoing at present.
With reference to the above mentioned transactions, the Board of Statutory Auditors deems that the procedures adopted by the company are in compliance to art. 2391-bis of the Italian Civil Code, to the company's Corporate Governance Code and to the Regulations on significant operations with related parties adopted in June 2006.

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

The Board of Directors has submitted, within the terms set out by the law, their report on operations in the first half of the fiscal year, made public in accordance to CONSOB regulations.
The Directors' Report on Operations related to the year ended 2009 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.
Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year end close.

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

Deloitte & Touche S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of December 31, 2009, issued its report on April 8, 2010 in which it asserts that REPLY S.p.A.'s financial statements as of December 31, 2009 comply with laws governing the criteria for their preparation.

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

The Board of Statutory Auditors did not receive any accuses under art. 2408 of the Italian Civil Code neither during the fiscal year nor at any date following the year-end close.
It should be noted, however that the Statutory Board received a registered letter dated April 2, 2010 which was received on April 8, 2010 in the headquarters of the Company. The registered letter was made available to Reply's Statutory Board on April 9, 2010 and is based on the Accuses pursuant to art. 2408 Italian Civil code by the shareholder Mr. Carlo Fabris who protested the non compliance to art. 84 paragraph 2 of the *Regolamento Emittenti Consob* no. 11971 with regards to the announcement of the Shareholders'' meeting called for April 29, 2010.
With regards to this protest, the Statutory Board acknowledges that the company has taken the proper actions and provided the publication of an announcement in the *Gazzetta Ufficale della Repubblica Italiana* and the newspaper *MF Milano Finanza* in the section "Notices", that for a typing error was not published at the time of the announcement of the meeting.

6. **Petitions.**

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

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

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

- Assistance in filing of tax return of the Parent Company. Fee for execution of this service amounted to 7,200 Euros.
- Assistance in filing of tax return of the subsidiary companies. Fee for execution of this service amounted to 12,800 Euros.
- Attestation in accordance to Article 2501 bis, Paragraph 5 of the Civil Code.
Fee for execution of this service amounted to 62,000 Euros.

Deloitte & Touche S.p.A. have furthermore carried out consultation on accounting policies for a fee amounting to 9,000 Euros.

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

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

9. **Existence of opinions issued during the year.**

During 2009, in accordance to the Italian law, opinions were issued by the Statutory Auditors.

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

In 2009 the Board of Directors met. 6 times, and the Statutory Auditors held 8 meetings.

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

Instructions given to the subsidiary companies, in accordance to paragraph 2, art.114 of Law Decree 58/1998, seem to be adequate and the same subsidiaries provided Reply S.p.A. with timely and appropriate information concerning the companies' activities.
In this regards, we inform You that in order to guarantee the timeliness of the information requested, the Chief Executive Officer of Reply S.p.A., Mr. Sergio Ingegnatti, is covering all the duties of director in all the corporate bodies of the Italian subsidiary companies.
We also inform You that Mr. Mario Rizzante, Chairman of the Board of Directors of Reply S.p.A., holds office as Chairman of the Supervisory Board of syskoplan AG and Director in the English subsidiary company glue: Reply Ltd.

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

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

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

Since 2000 the Company complies to the Corporate Governance set out by Borsa Italiana S.p.A.
On March 15, 2010 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company, covering information on the organizational structure in accordance to art. 123-bis of Legislative Decree 58/1998.

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

Supervision activities carried out were as follows:

- We monitored compliance with the law and decrees;
- Participated in Board meetings;
- Acquired information regarding the auditing controls carried out by the external auditors and reported periodically;
- Acquired information during meetings held with members of the Statutory Board of the subsidiary companies in order to exchange information concerning the Group's activities and to coordinate the control activities;
- Gathered further information through meetings with the Director in charge of drawing up the accounting documents and the Internal control committee;
- Analysis of new Consob adoptions or communications.

The Board of Statutory Auditors has verified the existence of the organizational bases for the proper running and respect of the articles of incorporation and regulating laws.
More specifically We bring to the attention of the Shareholders that:

- The Programmatic Document on Security has been correctly updated in compliance to the ruling law decree;
- We have verified the proper criteria adopted by the Board of Directors in assessing the existence of independency conditions concerning the "independent directors";
- We have verified the compatibility requisites, as set out by the law, concerning other services, aside from the statutory audit of the consolidated financial statements and those of the subsidiaries of the Independent audit firm;

- We have verified, for the members of the Statutory Board the existence of the same independency conditions as for the "independent directors";
- We have not received any indications of violation of the Organizational, Management and Control Model in compliance to Legislative Decree 231/2001;
- We have verified that in relation to *"Internal Dealing"* obligations related to *"Market abuse"* and *"Tutela del risparmio"* were carried out.

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

1) Administration

The Board of Statutory Auditors, asserts to have verified the legitimacy of managerial decisions made by the Administrating Body and the related economic adequacy excluding our opinion concerning the convenience or opportunity of such decisions and Verified that these were not in contrast with Board resolutions or jeopardize individual or minority rights.

2) Organizational structure

Within our duties set out by Legislative Decree 58/1998 and in compliance with paragraph 2.3. of the Statutory Auditors Conduct Principles, we have periodically met with the Auditing firm.
This has allowed the Board of Statutory Auditors to fully control the organizational structure of the company allowing to express a positive opinion concerning the adequacy of the structure compared to its size.

3) Internal control system

Within the Board of Directors an Internal Control and Internal Remuneration Committee have been constituted. Their activities are carried out in accordance to a work program in line with the company's needs.
We have met with those in charge of the aforementioned committees and allowing us to control the developments and evolutions of internal controls.
From the controls carried out the internal control system is deemed reliable.

4) Administrative and accounting system

The administrative and accounting system and procedures are set-up correctly within the Company and its subsidiaries. It is considered to be suitable to represent and monitor operations and to provide data for the requested periods.
The chief Executive Officer and the Director responsible for drawing up the financial statements have issued the attestation pursuant to art. 81-ter of *Regolamento Consob* no. 11971/1999 subsequently amended and integrated by art. 154-bis paragraph 5 of T.U.F (Law Decree 58/1998).

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

The Board of Statutory Auditors asserts to have controlled that the drawing up of the financial statements complies to the laws and regulations governing the matter in accordance to article 153 of Legislative Decree 58/98, to article 149 letter a) of the surveillance code and to the agenda of the Shareholders' Meeting.
The Financial statements at December 31, 2009 were prepared according to the European regulation no. 1606/2002 of July 19, 2002, in compliance to (IAS/IFRS).

According to the controls carried out directly and information exchanged with the Audit firm, more specifically according to their report in compliance to ex art. 14 del Legislative Decree. no. 39 dated January 27, 2010, the Board of Statutory Auditors does not have further observations nor proposals concerning the Financial Statements, the Directors' Report on Operations and the allocation of the net result, subject to Your approval.
The Board of Statutory Auditors, in specific reference to requirements set out by Law Decree 58/1998, paragraph 2, does not have any further proposals to make.

With reference to the point on the agenda concerning the purchase and disposal of treasury shares, even for the purpose of stock option plans, considering disclosures made by the directors, the Board states that the resolution proposed is in accordance to articles 2357, 2357-ter of the Italian Civil Code, in accordance to article 132 of Legislative Decree 58/98 and to art. 144 –bis of Consob Regulation no. 11971 dated May 14, 1999.

Turin, April 13, 2010.

Statutory Auditors
(Prof. Cristiano Antonelli)
(Mrs. Ada Alessandra Garzino Demo)
(Mr. Paolo Claretta Assandri)

Following is a list of positions as director or statutory auditor held by members of the Board of Statutory Auditors at other companies at 13 April (pursuant to Article 144-quinquiesdecies of the Issuer Regulations) – term of office expires upon approval of financial statements for the year indicated in brackets.

Cristiano Antonelli – Chairman of the Statutory Board at Reply (31/12/2010) and Transalpina di Energia S.r.l. (31.12.2010). He is the member of the Board of Pirelli & C. S.p.A. (31.12.2010) and Pegaso Investimenti - Campioni d'Impresa S.p.A. (31.12.2011).
He holds number four (4) charges in which two (2) are issuing companies.

Ada Alessandra Garzino Demo –Chairman of the Statutory Board at: Avenance Italia S.p.A. (30.09.2012), Stabilus S.r.l. (30.09.2011), Leoni Wiring Systems Italy S.r.l (31.12.2011), Valeo S.p.A. 31.12.2011, Valeo Service Italia S.p.A. (31.12.2011), Valeo Commutazione S.r.l. 31.12.2011 and Auditor at Concerta S.p.A. (30.09.2012), Elichef Holding S.p.A. (30.09.2010), Micron Technology Italia S.r.l. (02.09.2010), Mychef Ristorazione Commerciale S.p.A. (30.09.2010), Reply S.p.A. (31.12.2011), Ristochef S.p.A. (30.09.2012), Smurfit Kappa Italia S.p.A. (31.12.2011), Valeo Sistemi di Climatizzazione S.p.A. (31.12.2011).
She has a totalof fourteen (14) charges of which one (1) is in an issuing company.

Paolo Claretta Assandri – Chairman of the Statutory Board at: Fenera Holding Spa (30.06.2011), Fenera Real Estate Spa (30.06.2011), F.lli Gancia & C. Spa (31.03.2010), Fiat Services Spa (31.12.2011), Fma- Fabbrica Motori Automobilistici S.r.l. a S.U. (31.12.2011), Gruppo Sanfilippo Comunicazione Spa (31.12.2010), Immobiliare C.So Vittorio Em.92 Spa (31.12.2011), Immobiliare Via Vela no. 29 Spa (31.12.2009), Immobiliare Cantamerla Spa (31.12.2010), M.Marsiaj & c. Srl (31.12.2009), Mugello Circuit Spa (31.12.2010), Plastic Components And Modules Automotive Spa (31.12.2012), Plastic Components and Modules Holding Spa (31.12.2012), Rothschild Spa (31.03.2010), Sidauto Spa (31.12.2011), Sistemi Ambientali Spa in liquidazione (31.12.2012) and Auditor at Aci Informatica Spa a S.U. (31.12.2010), CNH Italia Spa (31.12.2012), Comau Spa (31.12.2010), Crab Holding Spa (31.12.2011), F.lli Sacla' Spa (31.12.2009), Reply Spa (31.12.2011). He is the President of Board of Auditors at Banca del Sangue e del Plasma (until the end of term) and Fondazione Carlo Denegri – Onlus (31.12.2010) and Auditor of accounts at Fondazione La Stampa-Specchio dei Tempi (17.04.2010) and Fondazione Centro del Cavallo (31.01.2013). He also is the Chairman of the Board of Directors of SIRECO Fiduciaria Srl (31.12.2010), and Advisor of Pro-Infantia Derelicta. He is also Partner of Ampa s.s. (31.12.2040) and P.M.V. s.s. (31.12.2050).
He has a total of thirty (30) charges and one (1) in an issuing company.

Deloitte.

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AUDITORS' REPORT ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE N. 58 OF FEBRUARY 24, 1998 (NOW ART. 14 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010)

To the Shareholders of
REPLY S.p.A.

1. We have audited the financial statements of Reply S.p.A. as of and for the year ended December 31, 2009, which comprise 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. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Directors of Reply S.p.A. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   The audit of the financial statements as of December 31, 2009 has been performed in accordance with the legal requirements in force during that period.

   For the opinion on the prior year's financial statements, whose data presented for comparative purposes have been reclassified to take account of the change in presentation of financial statements introduced by IAS 1, reference should be made to our auditors' report issued on April 9, 2009.

3. In our opinion, the financial statements of Reply S.p.A. as of December 31, 2009 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give true and fair view of the financial position of Reply S.p.A. and the results of its operations and its cash flows for the year then ended.

4. The Directors of Reply S.p.A. are responsible for the preparation of the report on operations and the annual report on Corporate Governance in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on Corporate Governance, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on Corporate Governance are consistent with the financial statements of Reply S.p.A. as of 31 December, 2009.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
April 8, 2010

Report on Corporate Governance

Pursuant to articles.124 bis D.Lgs no. 58/1998, 89 bis *Regolamento Emittenti Consob* and IA.2.6 of *Istruzioni al Regolamento di Borsa*

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1. Corporate governance system

The *Corporate governance system* of the company, which is a set of laws and bylaws adopted in order to ensure the efficient and transparent functionality of the corporate bodies and the control system inspired on the principles and criteria recommended by the Code.
The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment.
The *governance* structure of Reply S.p.A. – based on the traditional model, is made up of three bodies: The General Shareholders' Meeting, Board of Directors (that carries out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), Board of Statutory Auditors and Independent Auditors.
The General Shareholders' Meeting is the corporate body which expresses the wishes of the shareholders through its resolutions. Resolutions passed in compliance with the law and the bylaws are binding on all shareholders independently whether they agree or disagree with them unless the latter draw out, in the cases allowed. The Shareholder's are convened according to the rules set out for listed companies.
The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board invests the broadest possible powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company objects, except those reserved for the Shareholders' meeting.
The Statutory Auditors supervises compliance with the law and bylaws and exercises management control and has to verify the following: The Board of Statutory Auditors must ensure that the laws and bylaws are properly applied and carries out controls the following:

- Respect of good management principles;
- The adequate structure of the company;
- The ways in which the Code is actually executed;
- The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.

The Statutory auditors are not responsible for controlling the accounting records which is a function preformed by an external company registered in the special Consob register as requested by law and chosen by the Shareholders' meeting. The Audit Firm checks during the year that the company's accounts are properly kept and the management events are correctly reflected in the accounting records. The auditors also verify that the corporate and consolidated financial statements correspond with the outcomes of the accounting records and the verifications performed and that the accounting documents themselves are in compliance with the applicable regulations. The Independent Auditors can also perform other services resolved by the Board of Directors, when non incompatible with the audit engagement.
The *governance* also includes the Internal Control System and the Organizational Model pursuant to Article 6 of the Law decree 231/2001 and the structure of the powers and proxies, as presented herein.
In the following Report the corporate governance code examined by the Board of Directors on 15 March 2010 is included and it should be noted that some recommendations have not been adopted by the Board of Directors and shall be further explained herein.
The Report on Corporate Governance, which completes the explanatory notes and the code can be consulted on the company's website (www.reply.eu – Investors – Corporate Governance).

2. Shareholding information (art. 123-bis of Legislative Decree 58/1998) as at March 15, 2010

A. Share capital structure

The share capital structure of Reply S.p.A. is summarized below.

The share capital fully paid and subscribed at 15 March 2010, amounts to 4,795,885.64 Euros, divided in 9,222,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.

The share capital can further be increased by a maximum of 87,568.00 Euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at 31 December 2009, and not yet exercised, as specified in the Report on Operations at paragraph "Stock options" and summarized at the following table:

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

B. Restrictions on the transfer of securities

The bylaws do not foresee restrictions on the transfer of securities.

C. Significant shareholdings

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other information available as at March 15, 2010, 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.	53.5214	53.5214
	Rizzante Mario	0.1095	0.1095
	Total	**55.6309**	**55.6309**
Kairos Partners Sgr S.p.A.	Kairos Partners Sgr S.p.A.	5.770	5.770
Anima Sgr S.p.A.	Anima Sgr S.p.A.	3.1289	3.1289
Highclere International Investors Limited	Highclere International Small Companies Fund	2.2359	2.2359
Lodigiani Riccardo	Lodigiani Riccardo	2.0991	2.0991

D. **Securities which grant special rights**

No securities have been issued which grant special rights of control.

E. **Employee shareholdings: mechanism for exercising voting rights**

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F. **Restrictions on voting rights**

The company bylaws have not established restrictions on voting rights.

G. **Agreements between shareholders**

At present the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree no. 58/1998 in which shareholders have more than 2% of the share capital:

1. Agreement dated November 9, 2004, tacitly renewed for a further three year period and until 9 November 2010, by which Alika S.r.l., with headquarters in Torino Corso Francia no. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, holder of 46,206.00 Euros equivalent to 51% of the share capital and more specifically:

→ Mr. Mario Rizzante holder of 5,705.00 Euros, equivalent to approximately 6.3% (six point three percent) of the share capital;

→ Mrs. Maria Graziella Paglia holder of 17,100.00 Euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;

→ Mrs. Tatiana Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

→ Mr. Filippo Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

have signed a lock up agreement according to article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice.

2. Agreement dated May 21, 2009, between Mr. Luigi Luoni, Mr. Fabrizio Alberton, Mr. Nicola Angelina, Mr. Nicola Canepa, Mr. Marco Cossutta and Mr. Carlo Gotta and the Company, are holders of 244,517 (two hundred forty four thousand five hundred and seventeen) shares equivalent to approximately 2.65% Reply shares capital cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions under art. 123 TUF as outlined below:

Mr. Luigi Luoni:

→ after 12 months following May 21, 2009, the lock-up period shall expire in relation to 35,196 (thirty-five thousand one hundred and ninety-six) equivalent to approximately 0.38% (zero point three eight percent);

→ after 24 months following May 21, 2009, the lock-up period shall expire in relation to 35,196 (thirty-five thousand one hundred and ninety-six) equivalent to approximately 0.38% (zero point three eight percent);

- after 36 months following May 21, 2009, the lock-up period shall expire in relation to 35,196 (thirty-five thousand one hundred and ninety-six) equivalent to approximately 0.38% (zero point three eight percent);

Messers: Fabrizio Alberton, Nicola Angelina, Nicola Canepa, Marco Cossutta, Carlo Gotta:

- after 12 months following May 21, 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two)) equivalent to approximately 0.10% (zero point one zero percent);
- after 24 months following May 21, 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two)) equivalent to approximately 0.10% (zero point one zero percent);
- after 36 months following May 21, 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two)) equivalent to approximately 0.10% (zero point one zero percent).

H. **Change of control clause**

Should Reply S.p.A. undergo a change of control, with relation to contractual agreements the following is noted:

Financing contracts

Reply S.p.A., on December 30, 2005 undersigned a Loan Agreement with a pool of banks, San Paolo Imi (now Intesa San Paolo S.p.A.) as pool leader for a total of 66,000,000 Euros, with the major scope of financing the Group for acquisitions on the Italian or European market.
Reply S.p.A., on March 31, 2009 undersigned a Loan Agreement with Intesa San Paolo S.p.A. for a total of 50,000,000 Euros.
This contract allows the financing banks the faculty to call off the contract if there is a change of control directly or indirectly of Reply S.p.A., in accordance to 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control, the Company has also undersigned contracts in which the clause “Change of control” implies immediate cancellation of the contract.
Such agreements, which are not very significant, compared to the entire Group activities, are subject to confidentiality clauses.

I. Mandates to increase the share capital and authority to buy new shares

The General Shareholders' meeting authorized the Board of Directors' to increase share capital pursuant to article 2443 of the civil code.

The information regarding the share capital increase is detailed in the table below:

			Amount authorized		Proxy executed	
Shareholders' Resolution	**Proxy**	**Expiry date**	**Euros**	**Shares**	**Euros**	**Proxy**
14/06/2005	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, to be executed separately against payment released through payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	14/06/2010	442,000,00	850,000	347,280.44	667,847
15/06/2006	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, to be executed separately against payment released through payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	15/06/2011	312,000.00	600,000	-	-
14/06/2007	The Board of Directors has the proxy to increase the share capital in accordance to art. 2429 of the Italian Civil Code and to assign shares to employees, directors of the Parent Company and subsidiaries having a key role in achieving the Group's objectives.	14/06/2012	104,000.00	200,000	-	-

On June 14, 2007 the Company approved a share based incentive plan in favor of directors, employees and managers of the Company and its subsidiaries that cover a strategic role in achieving the overall objectives of the group; the plan is to be executed through Stock Granting represented by treasury shares of the company or newly issued shares pursuant to article 2349 of the Italian Civil Code. The Shareholders' have attributed proxy to the Board of Directors to resolve, even more than once and for a five year period, a free capital increase, pursuant to article 2349 of the Italian Civil Code for a maximum amount of 104,000 Euros corresponding to 200,000 ordinary shares. At present, the share based incentive plan of Stock Granting has not been activated.

The Shareholder's, following resolution passed on April 29, 2009, have authorized the acquisition of treasury shares in accordance to art. 2357 of the Italian Civil Code as follows:

number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 720,486 ordinary shares at 0.52 Euros, corresponding to 7.812% % of the existing share capital 30,000,000 Euros;

duration: for a period of 18 months, that is from April 29, 2009 to October 29, 2010, in substitution of the previous authorization resolved by the shareholders' meeting of 12 June 2008;

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; authorization to sell: on the market or in blocks, through a public bid, sale, transfer, or trade of shares as the acquisition and or negotiation with strategic partners against payment in kind pursuant to the regulations of the Stock Granting plans.

At the end of the financial year, the company held no. 131,502 Treasury shares.

3. Management and coordination activities

Reply S.p.A. does not perform management and coordination activities pursuant to article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. inasmuch as it qualifies as a holding, lacking an autonomous 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 published the control and coordination to which they are subject by Reply S.p.A. in accordance to art. 2497 – bis of the Italian Civil Code.

It is to be noted that:

- the information requested by art. 123-bis, first paragraph letter i) is disclosed in the Directors' report at the paragraph dedicated to directors remuneration;
- the information requested by art. 123-bis, first paragraph letter l) is disclosed in the Directors' report at the paragraph dedicated to the Board of directors.

4. Compliance (ex art. 123-Bis, paragraph 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 complied.

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 and amendments to the bylaws**

The nomination and substitution of directors is disciplined by art. 16 (Nomination of Directors) of the bylaws, and is available on the Company's website (www.reply.eu under Investors – Corporate Governance).
Article 16 of the Company's Articles of Incorporation has been revised under the General Meeting's resolution of June 14, 2007, in order to comply to the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate.

Art. 16 of the Corporate Governance , regulates that:

- The list of candidates shall be deposited at the company's registered office fifteen days prior to the date of the first call for the Annual general Shareholders' meeting;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance to binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the directors to be elected;
- The voting mechanism appoints the directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one 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 case 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 state that Independent directors not only must meet the requirements established for Statutory Auditors in accordance to art. 148, paragraph 3, of Legislative decree dated 24 February 1998, no. 58 but must also meet requirements established by the Corporate governance code adopted by the Company.

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 eight (8) Directors of which five (5) executive:

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

and three (3) non Executive and Independent Directors:

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

The non Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.

The above mentioned directors have been appointed under shareholders' resolution of April 29, 2009 based on the the list presented by the major shareholder, Alika S.r.l.

The above mentioned directors will hold office until approval of the year end December 31, 2011 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.

The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing their knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.

The table below discloses the main information related to the Board of Directors in compliance to Article 144- decies according to *Regolamento Emittenti Consob*.

		Board of Directors								Internal Control Committee		Remuneration Committee	
Name	**Office**	**In office since**	**L(**)**	**E**	**N.E**	**I.code**	**I. TUF**	**%**	**Other offices**	**Attendance**	**%**	**Attendance**	**%**
Mario Rizzante	Chairman and Chief executive officer	from 29/04/09 To 31/12/11(*)	M	X	-	-	-	100.00%	1	-	-	-	-
Sergio Ingegnatti	Chief executive officer	From 29/04/09 To 31/12/11(*)	M	X	-	-	-	100.00%	N/A	-	-	-	-
Oscar Pepino	Executive Director	From 29/04/09 To 31/12/11(*)	M	X	-	-	-	83.33%	N/A	-	-	-	-
Tatiana Rizzante	Chief executive officer	From 29/04/09 To 31/12/11(*)	M	X	-	-	-	100.00%	1	-	-	-	-
Claudio Bombonato	Executive Director	From 29/04/09 To 31/12/11(*)	M	X	-	-	-	100.00%	1	-	-	-	-
Fausto Forti	Lead Independent Director	From 29/04/09 To 31/12/11(*)	M		X	X	X	100.00%	1	X	100%	X	100%
Marco Mezzalama	Non-Executive independent Director	From 29/04/09 To 31/12/11(*)	M		X	X	X	66.67%	N/A	X	100%	X	100%
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 29/04/09 To 31/12/11(*)	M		X	X	X	83.33%	1	X	100%	X	100%
Number of meetings held in 2009		Board of Directors meetings: 6								Internal Control Committee meetings: 2		Remuneration Committee meetings: 2	

(*) in office until the Shareholders' meeting for the approval of December 31, 2011 financial statements.
(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.178% of the share capital.

Legend:
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: non executive
I: independent

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan.

In 2006 he became member of the syskoplan AG (Germany) Supervisory Board and holds the position of Chairman.

Sergio Ingegnatti (Chief Executive Officer and founder of Reply S.p.A.)

Graduate in Science Administration at the Business Administration School of Turin. In the 70's Mr. Ingegnatti within the Fiat Group worked in the informatics area, In 1981, Mr. Ingegnatti left the Fiat Group and founded Mesarteam S.p.A., a System Integration company covering the role of Chief Executive Officer and Chief Finance Officer. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Ingegnatti continued his role as Chief Finance Officer for Italy. After a brief period in 1995 as finance consultant, in June 1996 he participates in the foundation of Reply in capacity of Chief Executive Officer, and which he currently holds.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselt. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence center related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante is appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out activities of Sales & Marketing in Italy for the entire Group. In 2006 Mrs. Rizzante is appointed Chief Executive Officer of Reply and in the same year becomes member of the Supervisory Board of Syskoplan Ag (Germany).

Oscar Pepino (Executive Director and founder of Reply S.p.A.)

Mr. Pepino received a graduate degree in Science of Informatics at the University of Turin in 1977, in 1981 he founded Mesarteam S.p.A., a System Integration company covering the role of in charge of the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and covers the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino within the Reply Group is currently is in charge of the Operations Office which heads: the informatics system, quality, the operational quarters, PM Academy and Cmmi.

Claudio Bombonato (Executive Director of Reply S.p.A.)

Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also Masters degree in Business Administration from *Università Commerciale Luigi Bocconi.*

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 Responsible of Commercial Banking practices for a number of years.

In 2006 he left Mckinsey and was appointed European Senior Advisor 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 and at present he is the Member of the Board at Fonspa.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica *(Associazione Italiana delle Aziende di Logistica)* and Vice- Chairman of Confetra *(Confederazione italiana delle Associazioni di Trasporto e Logistica).*

Marco Mezzalama (Independent Director of Reply S.p.A.)

Mr. Mezzalama received a graduate degree in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for informatics systems and member of the Turin Science Academy. As a representative of the Polytechnics he also covers other roles in research and/or ICT institutions.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)

Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University and was the founder and coordinator of Master in Business Strategy (MISA). He is head of the Business Strategy course for Bachlor in International Economics and Management. At present he teaches the course Media MBA 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 is a member of the Steering Committee "E-business Policies" of the European Commission. He is columnist for MF- Milano Finanza and he collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and IL Sole 24 Ore. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of "Economia & Management". He is independent director of listed companies in the Technology, Media and Telecommunications segments and strategic advisor for important international companies. He has published many articles, books and business cases and often has released interviews and comments on the most important international economic- financial newspapers.

The criteria in evaluating the requisites of the Board of Directors has not been integrated or modified.

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

- Mr. Mario Rizzante, is Chairman of the Supervisory Board of Syskoplan AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Mrs. Tatiana Rizzante is a member of the Supervisory Board of Syskoplan AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Mr. Claudio Bombonato is Chairman of the Board of Directors' of Fonspa S.p.A.;
- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in Ict and Consorzio Topix,
- Prof. Carlo Alberto Carnevale Maffè is a member of the Board of Directors' of Poligrafica San Faustino S.p.A.;
- Mr. Fausto Forti is Chairman and is member of the Board of Directors of DHL Express Italy S.r.l..

Compared to the recommendations set out by the Code, the Board of Directors preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the directors' role, as it believes that such assessment firstly should be made by the shareholders when designating the directors and subsequently by the individual director when accepting the office.

C. Role of the board of directors

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

More specifically the Board of Directors:

a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;

b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;

c) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;

d) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determine the total amount to which the members of the board and of the executive committee are entitled;

e) evaluate the general performance of the company, paying particular attention to the information received from the executive committee (when established) and the managing directors, and periodically comparing the results achieved with those planned;

f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;

g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterizing new professional figures whose presence on the board would be considered appropriate;

h) provide information, in the report on corporate governance on the number of meetings of the board and of the executive committee, if any, held during the fiscal year plus the related percentage of attendance of each director.

In accordance to the *Corporate Governance Code* (art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report at the section dedicated to the topic.
The Board of directors meet on a regular basis, at least every three months or whenever deemed necessary.
The Directors report to the Statutory auditors on a quarterly basis with regards to the activities carried out during the year, to significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.
During 2009 the Board of Directors met 11 (eleven) times and the average duration was approximately one hour.

The Board of Directors are scheduled to meet at least (4) times in 2010.
The Board of Directors have not held any 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 draft of the annual meetings is scheduled.
Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

It is foreseen that during the next Shareholders' meeting in relation to the approval of the Half year financial statements, a representative of the Independent auditors be present.

D. Chairman of the board of directors, chief executive officers and executive directors

The Board of Directors currently holding office is comprises two Chief Executive Officers, two Executive Directors and has empowered the Chairman with all operational delegations, in light of the resolutions made on April 29, 2009.
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, major shareholder, is responsible for the management of the Company as illustrated here within.
Mr. Sergio Ingegnatti and Mrs. Tatiana Rizzante, Chief Executive Officers, have the following disjoint main powers:

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

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

- sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 Euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation from an asset side and 500,000.00 Euros for operations from a liability side;
  - to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
  - hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, Ing. Claudio Bombonato, with the scope of supporting the Company in the development of activities, are the following:

- individual powers:

a) represent the Company Reply S.p.A. with external contacts and business negotiations and 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
- allow third parties the execution of the contracts awarded;

d) to carry out in the interest of the Company whatever is necessary or convenient within his powers;

- joint powers, with another director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Mr. Claudio Bombonato in the Board Meeting held on March 13, 2009, in capacity of Executive, was assigned new powers related to activities under Network Finance & Security within the Reply Group.

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Director meetings, and at least on a quarterly basis, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.
The Chairman, under the company's Articles of Incorporation, has the power to convene the Board of Directors' meetings.

In preparing the Board of Directors' meetings, the Chairman informs the Directors and Statutory Auditors about the agenda and provides the necessary documentation and information for an effective participation in the Board's work.
The Chairman coordinates the activities of the Board of Directors and coordinates the meetings.
In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. has the possibility to attribute specific delegation powers to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.

E. Independent directors

As previously stated, the three Directors in the running Board of Directors that qualify as being independent as specified by law are:

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

The independent directors are integral part of the remuneration Committee and internal control Committee.

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

a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;

b) if he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;

c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
– with the issuer, one of its subsidiaries, or any of its significant representatives;
– with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or
– in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;

d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;

e) if he/she was a director of the issuer for more than nine years in the last twelve years;

f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;

g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;

h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held March 13, 2009, also being the first meeting following its renewal on April 29, 2009, and obtained positive results with respect to the independency of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code, delegating to not apply the criteria stated in point e) in view of their authority, reputation and moral statute of the non executive directors nominated. This was limitedly verified with regards to Prof. Marco Mezzalama from the month of 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 2009 it was not necessary for the independent Directors to solely convene in specific meetings as they periodically meet when the Internal Control Committee and Remuneration Committee meetings are convened as they are an integral part.

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; for this scope, should these circumstances occur, in accordance to article 2.C.3 of the Code, the role of *Lead Independent Director* is head by the non Executive and Independent Director, Mr. Fuasto Forti.

6. Processing of confidential information

The Chief Executive Officer (Mr. Sergio Ingegnatti) and the Investor Relator (Mr. Riccardo Lodigiani) handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

Following the so called regulation "market abuse" enacted by Community Law 2004 (Law 18, April 2005 no. 62), which restated article 114 of legislative decree 58/1998 (TUF) and endorsed by the corresponding Consob regulation a law was passed concerning the obligation to notify the public about any transactions carried out by "important persons" and people strictly associated to them in relation to financial instruments of the company.

Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was eliminated as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented. Consequently, the previously in force Internal Dealing included in the Market Regulation organized and managed by Borsa Italiana and related Instructions, applied by Reply since January 1, 2003 through the adoption of a specific Internal Dealing Code, has been abolished since the new regulations set out by Consob came into force, that is since April 1, 2006.
In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Important persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.

The new Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors' resolution of March 31, 2006.

More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.

The new code defines the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons".

The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu – Investors – Corporate Governance).

7. Committees within the board

The Board of Directors set up consulting committees within the Board, The Internal Control Committee and the Remuneration Committee.

The Board of Directors, as allowed by the Code, have not deemed necessary to constitute within its members a director nomination Committee. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates is carried out through sharing of the shareholders knowledge of the moral requisites and professional competencies of the persons involved.

8. Remuneration committee

The Board of Directors has internally constituted a Remuneration Committee composed by Prof. Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, non Executive and Independent Directors and by Mr. Fausto Forti, *Lead Independent Director*.
The Remuneration Committee has the duty to submit to the Board of Directors proposals on the remuneration of the Chairman and Chief Executive Officers, whereas the latter propose the adoption of general remuneration criteria of the company's directors.
The Committee meets upon request of one of the members, before the Board meetings that resolve the Chief Executive Officers' remuneration, the assignment of stock options or with reference to other forms of remuneration connected to results, or when deemed necessary.
Minutes of the meeting are drawn up and include the proposals made by the Committee.
The Remunerations Committee met two (2) times during 2009 with the presence of all members and met once (1) in 2010.

At present, the Committee does not include external consultants.
In 2010 two (2) meetings have been planned, and one has already been held.

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

9. Remuneration of directors

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' Meeting of April 29, 2009, upon nomination, and equal to 20,000.00 Euros gross of any withholding amounts foreseen by law.

Remuneration of directors invested with special roles, was established by the Board of Directors upon proposal of the remuneration Committee, authorized by the Board of Statutory Auditors.

In compliance to article 7.C.1 of the Code in the March 2006 release, article 22 of the Articles of Incorporation allows the possibility that a variable fee be attributed to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, and is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.
Such a possibility, that has already been adopted upon since allocation of the 2004 net results, considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to December 31, 2009.

The following table summarizes remuneration of controlling bodies:

(in Euros)

Name and Surname	Office held	Period of office	Termination of office	Emoluments in Reply S.p.A.	Other compensation	Non monetary benefits
Mario Rizzante	Chairman	01/01/09 – 31/12/09	31/12/11	330,000	320,000	-
Sergio Ingegnatti	Chief executive officer	01/01/09 – 31/12/09	31/12/11	210,000	346,000	-
Tatiana Rizzante	Chief executive officer	01/01/09 – 31/12/09	31/12/11	120,000	244,700	-
Oscar Pepino	Executive Director	01/01/09 – 31/12/09	31/12/11	210,000	200,000	-
Claudio Bombonato	Executive Director	01/01/09 – 31/12/09	31/12/11	400,000	-	-
Carlo Alberto Carnevale Maffé	Non executive director and Independent director	01/01/09 – 31/12/09	31/12/11	20,000	-	-
Marco Mezzalama	Non executive director and Independent	01/01/09 – 31/12/09	31/12/11	20,000	-	-
Fausto Forti	Non executive director and Independent *Lead Independent Director*	01/01/09 – 31/12/09	31/12/11	20,000	4,000	-
Directors with Key responsibilities		01/01/09 – 31/12/09	-	-	2,935,182	104,000

(*) the Board of Directors will hold office until the Shareholders' meeting that will approve the December 31, 2011 financial statements.

The table below summarizes participations held in Reply S.p.A. by Directors, and managers with strategic commitments in Reply S.p.A. as at December 31, 2009 pursuant to art. 79 of Consob Regulations resolution no. 11971 of May 14, 1999:

First name and surname	Office held in Reply S.p.A.	Number of shares held at at 31/12/2008	Number of shares bought in 2009	Number of shares held in 2009	Number of possedute at 31/12/2009	% of share capitale
Mario Rizzante	Chairman	11,381	-	-	11,381	0.1234%
Tatiana Rizzante	Chief executive officer	15,734	-	-	15,734	0.1706%
Sergio Ingegnatti	Chief executive officer	9,800	300	-	10,100	0.1095%
Oscar Pepino	Executive Director	13,710	-	-	13,710	0.1487%
Claudio Bombonato	Executive Director	-	27,500	-	27,500	0.2982%
Marco Mezzalama	Independent director	250	-	-	250	0.0027%
Directors with Key responsibilities		720,256	4,607	(2,080)	722,783	7.8369%

At present, there are Stock option rights assigned to Directors of the Company in compliance to the Stock Option plans adopted by the Company; the assignment of Stock Option rights to the Directors is summarized in the table below:

Director	Resolution by the Shareholders' meeting	Number of options assigned	Vesting period	Strike price
Rizzante Tatiana	10/06/2004 (plan 2004)	15,000	12/5/09-12/5/2014	Euro 21.339

The Options assigned to the above Director can be exercised, within the vesting period in the above table, in a lump sum solution, within the "exercise window" following fifteen days after the Board of Directors' meeting approving the quarterly reports, the half year report or the annual report.
Stock options cannot be exercised in the "Blocked period", foreseen by the Conduct Code in relation to Internal Dealing, which are 15 days prior to the Board of Directors' meetings approving the annual report, the half year report and the quarterly reports, including the day the meeting is held.

In 2009 no stock options were neither assigned nor exercised by the Directors.

An agreement between the Company and the Board of directors does not exist in relation to resignation or firing/revocation without valid reasons or if the employment ceases following a public bid to purchase the company.

10. Internal control committee

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

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

The Committee meets when deemed necessary, and in any case, at least twice a year, when the half year report and the annual report is approved.
The president of the Board of Auditors or another auditor designated by the president participates in the works for the internal control and at the end of each meeting the minutes are drawn up with the Committee's proposals.

In order to carry out its duties, the Committee can request information and data from head of internal controls, the Board of Statutory Auditors and the independent auditors.
During the year 2009 the Internal control committee met two (2) times and once (1) in 2010 and examined the following:

- The separate financial statements and the consolidated financial statements of 2008 - 2009 and the half-year report of 2009;
- The projects concerning the revision of procedures according to Law 262/2005 *(Legge sul Risparmio)* and to regulations set out under Legislative Decree 231/2001 and other internal improvement projects;
- Compliance to the anti re-cycling law decree 231/2001 and other projects related to internal procedure improvements;

and have also carried out the assessment in relation to the proposal of conferring the engagement to the independent audit firm and the audit plan that will substitute Deloitte & Touche S.p.A.

The Committee reported two times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the internal control System.

11. Internal control system

The internal control system is a set of procedures that contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information and the compliance with laws and regulations.
The Board of Directors is responsible for the internal control and defines the guide-lines of the internal control system and the company's risk management.

In relation to the company's objectives, operational and of compliance and reporting the Company uses the following instruments:

Instruments able to monitor operational objectives

- Budgeting and management control - Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the company objectives/strategies and defining a budget;
- Operational procedure system - In order to properly apply the company directives and to limit the risks connected to the achievement of the company's objectives, Reply S.p.A. has implemented a group of procedures that regulate internal processes, regulating the activities executed within a function and those with other areas; in 2007 a specific procedure of "Offer Authorization" was adopted by the Group and is applicable to the offers issued by all the Group companies for Public Bids, that in brief regulates that the issuing of an "Offer" by a Group Company is subject to approval at an adequate organizational level corresponding to the value of the offer and, if the offer exceeds 5,000,000.00 Euros it must be approved by the Reply Approval Board (RAB) comprising the Chairman of the Board and by the Chief Executive Officers, Sergio Ingegnatti and Tatiana Rizzante; this procedure has been approved by the Internal Control Committee.

Instruments able to monitor compliance objectives

- Law 262/2005 in relation to accounting and financial disclosures - Following the coming into force of law 262/2005 concerning the safeguarding of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures and has adopted other initiatives to monitor and improve them. The objective of the initial project was to revise the administrative and accounting procedures with reference to the reliance of the economic-financial information disclosed to the market and more specifically:
  - mapping of the main sub-processes within the administration and relevant accounting procedures;
  - assessment of the adequacy of the existing controls and proposal of further areas of control in view of compliance and greater reliance of the processes considered;
  - drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
  - creation of future control and monitoring instruments.
- Legislative Decree 231/2001 - see related paragraph.
- Security, environment and quality - Reply has established a procedure system and an organizational structure dedicated to the management of data security (also with regards to the laws on Privacy), protection of the environment, security of equipment and personnel and the quality of services carried out (Iso certification 9001:2000).
- Other laws and regulations - Monitoring the evolution and compliance to new laws and regulations is carried out internally.

Instruments able to monitor reporting objectives

- Accounting disclosures - The Group accounting Manual sets the guidelines to the information to be disclosed with relation to consolidated and separate financial statements, to the administrative-accounting procedures recently upgraded/integrated within the Project related to Law no. 262/2005, illustrated previously.
- Processing of confidential information: see relevant paragraph.
- Internal information - Reply S.p.A. has an internal communication system, orientated to facilitate and promote the internal communication within the company and the Group, also through a structured system as the Management and coordination Committee.

The Internal Control Committee has evaluated the adequacy of the internal controls adopted by the Reply Group and has expressed a positive opinion.

Risk management and internal control over financial reporting

Reply has put in place a system of risk management and internal control over financial reporting based on the COSO Report model, according to which the internal control system is defined as a set of rules, procedures and tools designed to provide, through an adequate identification process of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.

In relation to the financial disclosure process, the objectives are the reliability, accuracy, completeness and timeliness of the information.

The objective of the internal accounting control system is to assure that the financial information disclosed provides a correct representation of management.

The approach adopted by Reply for the evaluation, monitoring and continuous updating of the System of Internal Control over financial reporting, is based on a ‘top-down, risk-based’ process consistent with the COSO Framework.

This enables focus on areas of higher risk and/or materiality, that is, where there is risk of significant errors, including those attributable to fraud, 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 key controls in enabling ex ante or ex post identification of potential misstatements in elements of financial reporting;
4. verification of the operating effectiveness of controls.

Identification and evaluation of the risk of misstatements which could have material effects on financial reporting is carried out through a 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 accounts, in addition to specific activities which could potentially generate significant errors. Under 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 assessment process require definition and evaluation of key controls that address those risks, thereby mitigating the possibility that financial reporting will contain any material misstatements.

According to international best practice, the controls which the Group has in place are of two principal types:

1. 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;
2. controls that operate at process level, such as authorizations, reconciliations, verification of consistencies, etc. This category includes controls for operating processes and controls for closing processes. Such controls can be preventive (i.e., designed to prevent errors or fraud which could result in misstatements in financial reporting) or detective (i.e., designed to reveal errors or fraud which have 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 assessment of the design and operating effectiveness of key controls has led to the elaboration of control matrixes (RCM - Risk Control Matrix) that identify, for each significant process, the potential impact of financial reporting:

- risks subsequent to not having reached the "financial statement assertion" control objectives, (existence, occurrence, completeness, rights and obligation, 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 Reply Group’s Manual of administration and accounting procedures, recently updated/integrated within the Project of the updating of Law no. 262/2005, previously commented.

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 and all other corporate documents, the Director has is responsible for setting up adequate administrative and accounting procedures enabling to disclose financial information to the market, and to monitor upon the proper application of the 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 roles and responsibilities of the single Organizational Units involved in the general activities of drafting, communication and control of the financial information 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 attestation of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally assess, through the internal communication processes, the correct functioning of the Accounting Control System law 262/2005 related to the accounting processes/flows disciplined by such law, the completeness and reliability of the information and the adequateness and effective application of 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 co-shared with the related process owners who ascertain the framework and carry out the control, with the process owners, Management, with the support of the Compliance department agree upon the implementation of any necessary corrective measures.

The Compliance department carries out periodic assessments with regards to the adequacy and effective application of key controls on the annual financial statements and half year financial statements through audit procedures performed on specific areas defined by the Director in charge.

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. The Chief executive officers and administration directors of the foreign company 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.

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 lacking are summarized by the Compliance Officer in a report and addressed to the Director in charge and to the Chief Executive Officer. The report is discussed and two flows are activated:

- the attestation process addressed externally based on the declarations made by the Director in charge in compliance to 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, the compensation controls, corrective measures or improvement plan proposals.

The Compliance Officer, in capacity of person responsible of internal controls, periodically refers to the Internal Control Committee, the Board of Statutory Auditors and to the Surveillance Committee with reference to the activities carried out within the assessment process of the internal control system.

A. **Executive officer in charge to supervise the functionality of the internal control system**

On April 29, 2009 the Board of Directors have confirmed Mr. Sergio Ingegnatti to the position of Executive Officer in charge to supervise the functionality of the internal control system and has nominated Mrs. Celestina Massenzio as head of internal controls.

Head of internal controls reports his activities to the members of the Board of Directors, key management and to the Board of Statutory Auditors.

B. **Organisation, management and control model pursuant to legislative decree 231/2001**

The Board of Directors approved in November 2004, the "Ethic Code" whose introduction represents an important step towards the constitution of a sound internal control system and transparency principles that guide the company's internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply's relations.

In 2007 the project to adopt a new organization, management and control model pursuant to Legislative Decree 231/2001 (the Model) was put in place, with relation to the responsibilities of enterprises, in order to prevent the execution of illicit. The model was approved by the Board of Directors on March 28, 2008 and updated with the resolution of March 13, 2009.

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 offences contemplated by Legislative Decree 231/2001 and that have been considered at risk for the Group, as outlined in the attached Model, are the following:
(i) relations with the Public Administration;
(ii) enterprise obligations;
(iii) privileged information;
(iv) security, prevention, health and hygiene on the work site.
(v) IT crimes and illegal use of personal data;
(vi) Laundering crimes.

The Model was adopted during 2008 by all the Italian Group companies.
The Organizational Model of Reply S.p.A is published on the company website (www.reply.eu – Investors – Corporate Governance).
The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has nominated a Compliance Committee which has the duty to verify the correct function of the Model and to update it accordingly. The Compliance Committee has to refer to the Board and in the worst cases must refer to the Internal Control Committee. The Compliance Committee comprises external members (Eng. Franco Gianolio) as Chairman, Lead Independent Director (Mr. Fausto Forti) and a member employed in the company (Mrs. Celestina Massenzio) that will hold office until the approval of December 31, 2011 financial statements.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Compliance Committee of the Parent Company, on the basis of specific agreements.

In 2009 the Compliance Committee 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.

C. Independent audit firm

The General Shareholders' meeting of June 10, 2004 resolved to confer auditing of the Financial Statements of the-Company and the Consolidated Financial Statements as well as the limited auditing of the Half-year financial statements for the fiscal year 2004, 2005 and 2006 to the independent auditors Deloitte & Touche S.p.A.
With the modifications introduced by Law no. 262 of December 2005 and the Legislative decree no.303 of December 2006 with regards to accounting principles, the Shareholders' Meeting of 14 June 2007 have evaluated positively the extension of the term of the auditing firm Deloitte & Touche S.p.A from 2007-2009, in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations. The auditing period will terminate with the auditing of the Financial statements of 2009.

D. Director in charge of drawing up the accounting and legal documents

The Board of Directors, pursuant to 262/2005, has confirmed in capacity of *Director in charge of drawing up the accounting and legal documents,* with approval of the Board of Statutory Auditors, Mr. Giuseppe Veneziano as he has matured experience in the management of the company business in the last three year period. On 3 July 2009 a specific proxy was conferred in order to enable him to execute his powers.

Pursuant to article 24 of the Articles of Incorporation, the Director must set up adequate administration and accounting procedures for the drawing up of the statutory financial statements, the consolidated statements and any other financial communication.

The Director, together with the other executive organs, must assert in a specific report, annexed to every financial statement and to any other financial communications that the procedures set up have been abided to.
With reference to his tasks, the *Director in charge of drawing up the accounting and legal documents* has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.

12. Director’s interests and transactions with related parties

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

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

The Board of Directors can however, under certain circumstances, allow the directors to participate and/or vote.

The Company has adopted a Regulation on Significant Operations with related parties and can be consulted on the company’s website (www.reply.eu – Investors – Corporate Governance) and regulated what follows.

Significant operations

Pursuant to the Corporate Governance Code, the Board of Directors has the task of reviewing and approving operations of significant economic, financial and earning value, including the most significant operations with related parties, which are subject to specific substantial procedural correctness criteria.

Decisions concerning Significant Operations cannot be taken by delegated directors.

Significant operations are those that put the Company in the position to make the necessary communication to the market and accompany it with ad-hoc accounting situations according to the requirements of the market controlling body[1].

When the Company has to put in action significant operations, the delegated directors provide the Board of Directors, reasonably in advance, a summary of the analysis conducted in terms of strategic coherence, economic feasibility, and the expected benefits for the company.

Operations with related parties

Identification of related parties

Related parties are:

a) subjects which control, are controlled by (even 100%) or are under the same control as Reply S.p.A.;
b) subjects which hold an interest sufficient to exercise considerable influence over Reply S.p.A.;
c) the under signers of non competition agreements, pursuant to article 122, paragraph 1 of Legislative decree 58/1998, related to the right of vote;
d) subjects associated with Reply S.p.A;
e) subjects which have power and responsibility in the planning, management and control of Reply S.p.A. or in holdings i.e. The Board of Directors and Board of Statutory Auditors;
f) subjects’ close relatives in a), b), c), d), and e). a subject close relative means those potentially capable of influencing or being influenced by the natural person in their relationship with Reply S.p.A and may include cohabitant, and relatives up to second degree;
g) subjects controlled, jointly controlled or subject to considerable influence by any of the subjects in a), b), c), d), and e), or subjects in a), b), c), d), and e) who exercise considerable influence;
h) subjects who have the same majority directors as Reply S.p.A.

According to the Accounting Principle “IAS 24” control means the power to determine financial and management policies of an organization in order to enjoy the benefits of its business.

1 Currently Consob communication no. DIS/98081334 of 19 October 1998.

Therefore, pursuant to art. 2359 of the Italian Civil Code and to art. 93 of Legislative decree 24 no. 58 of February 1998, subsidiary (controlled) companies are:

1) the company in which the other company has the majority voting rights in the general Shareholders' meeting;
2) the company in which the other company has sufficient votes in order to have dominating influence in the general Shareholders' meeting;
3) the company, Italian or foreign, in which a subject has the right, in view of a contract or a statutory clause, to exercise a dominating influence, where the law allows such contracts or clauses;
4) the company, Italian or foreign, in which a shareholder, on the basis of agreements with other shareholders, has alone sufficient voting rights in order to have dominating influence in the general Shareholders' meeting.

Pursuant to the International accounting standard IAS 28, a company is considered an associate when the holder of the investment has a significant influence but is neither a subsidiary nor a joint venture. Significant influence means the power to participate in administration and operational decisions of the company without having control of it.

Therefore, pursuant to art. 2359 of the Italian Civil Code, associate companies are also those over which another company has significant influence; significant influence is presumed when the company, in the general Shareholders' meeting, can exercise at least one fifth of the voting rights or a tenth if the company's shares are listed.

Three different types of categories of operations with related parties have been defined and are the following:

A) significant operations

These significant operations are with related parties. If the nature, prices or mode/timing of implementation of significant operations with related parties may affect shareholders' equity or the correctness of information (including accounting data) relating to Reply S.p.A., such operations must be made public pursuant to CONSOB regulations.

These operations must be previously authorized by the Board of Directors and specific notice must be provided to CONSOB.

B) Intercompany transactions

These are defined as the transactions realized with companies whose financial statements are consolidated in reply S.p.A.'s consolidated financial statements on a line by line basis.

These transactions must previously be authorized by the Board of Directors when each have a value greater than 5,000,000 Euros and are related to atypical, unusual or transactions regulated under non standard market conditions. Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 5,000,000 Euros must, in any case, be specifically referred to the Board of directors in the following board meeting.

The operations qualifying as ordinary business activities of Reply S.p.A., and are carried out at normal market conditions, do not require the Board of Directors authorization.

C) Transactions with related parties

These are defined as transaction with related parties other than "group companies".
These transactions must previously be authorized by the Board of Directors when each have a value greater than 2,000,000 Euros or greater than 1,000,000 Euros if related to atypical, unusual or transactions regulated under non standard market conditions.

Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 1,000,000 Euros must, in any case, be specifically referred to the Board of directors in the following board meeting.

13. Appointment of statutory auditors

The appointment and the substitution of statutory auditors is disciplined by Article 23 (Statutory Auditors) of the Company bylaws, and can be consulted on the company's internet website (www.reply.eu – Investors – Corporate Governance).
Article. 23 of the Company bylaws has been modified with the resolution of the Extraordinary Shareholders' meeting of 14 June 2007 in compliance to modifications in the legislations and regulations recently introduced with regards to the "voting lists", Principle 10.P.1 which states that the appointment of auditors shall occur according to a transparent procedure. It shall ensure, inter alia, timely adequate information on the personal and professional characteristics of the candidates.

Article 23 of the bylaws regulates, among other, the following:

- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least fifteen days prior to the date set for the Shareholders' Meeting on first call;
- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least fifteen days prior to the date set for the Shareholders' Meeting on first call; only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or any other minimum number requested by other laws and regulations;
- The voting mechanism foresees that the votes obtained from each list, Statutory Auditors are separated from Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed. The candidates with the highest percentage will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- If candidates obtain the same percentage of votes, the candidate, will be selected from a 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 analogous the Shareholders vote once more and the candidate with the highest percentage will be appointed;
- President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list which obtained the highest number of votes;
- In the event of a statutory auditor being replaced, the first alternate auditor belonging to the same list as the auditor being substituted and after having confirmed the existence of the prescribed requirements, will join the Board for the remainder of the auditors' term of office. In the event of a replacement of the Chairman, the office will be taken over by the statutory auditor that replaces him.

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:

- Prof. Cristiano Antonelli	President
- Mrs. 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 were appointed during the Shareholders' meeting on April 29, 2009 based on the list which was presented by the majority shareholders of Alika S.r.l. the office expires on December 31, 2011 with the approval of the financial statements.

The table below summarizes the Board of Statutory Auditor3s and explains the main information requested in accordance to Article 144-decies of the Consob Regulation of Issuers.

Name	Office held	Periode of office	List(*)	Independent from Code	% of attendance in meetings	Other offices held(1)
Cristiano Antonelli	President	From 29.04.09 to 31.12.11	M	X	100%	4
Ada Alessandra Garzino Demo	Statutory auditor	From 29.04.09 to 31.12.11	M	X	100%	17
Paolo Claretta Assandri	Statutory auditor	From 29.04.09 to 31.12.11	M	X	100%	29
Alessandro Mikla	Alternate auditor	From 29.04.09 to 31.12.11	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 29.04.09 to 31.12.11	M	X	NA	NA

Legend:
M/m: M/list majority list, m/list minority list
(1) A list of all positions held has been annexed, according to art 144-quinquies decies of RE, to the Statutory Auditors' report in compliance to art. 153 paragraph 1 of the TUF.
(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.178% of the share capital.

Following is a brief description of personal and professional characteristics of the members of the of the Statutory Auditors of the Company:

Cristiano Antonelli President of Statutory Auditors

Mr. Cristiano Antonelli is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis, and Director of the Bachelor degree in Institution and Business Communication at the University of Turin, director of BRICK (Bureau of research in Innovation Complexity and Knowledge) at Carlo Alberto College. At present Mr. Cristiano Antonelli collaborates with the Historical Research Office of Banca of Italy, a member of the Board of International Schumpeter Society and chairman of ICER (International Center for Economic Research). 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, Pegaso Investimenti, Pirelli&C and President of the Statutory Board of Transalpina di Energia.
Mr. Cristiano Antonelli graduated from the University of Turin and has a Bachelor in Political Sciences. Furthermore he obtained 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, Lione, 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 1998-1999 he was a member of the Board at Telecom Italy; in 1999 and 2000 he was scientific council for Confindustria; Technical scientific council for ENEA from 2000-2004; and Vice –President of International Schumpeter Society from 1999-2004.

Ada Alessandra Garzino Demo Statutory Auditor

Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She is registered in the Registry of Qualified Accountants and Bookkeepers since 1991 and Registry of Auditors 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, is registered in the Registry of Qualified Accountants and Bookkeepers since 1981 and Registry of Auditors since 1983. He works as a Charted accountant for Studio Zunino Associazione Professionale and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2009 the Statutory Auditors met eight (8) times.

The Board of Statutory auditors, in 2009, received the following compensations:

(in Euros)

Name and Surname	Office held	Period of office	Termination of office (*)	Emoluments in Reply S.p.A.	Other compensation	Non monetary benefits
Members in office						
Cristiano Antonelli	Chairman	29/04/09 – 31/12/09	31/12/11	40,387	-	-
Ada A. Garzino Demo	Auditor	01/01/09 – 31/12/09	31/12/11	28,095	-	-
Paolo Claretta Assandri	Auditor	01/01/09 – 31/12/09	31/12/11	28,095	-	-
Members not holding office						
Tommaso Vallenzasca	Chairman	01/01/09 – 29/04/09	-	1,343	-	-

(*) the Board of Statutory Auditors will hold office until the Shareholders’ meeting that will approve the December 31, 2011 financial statements

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.

Mr. Riccardo Lodigiani has been appointed, under resolution made April 29, 2009 the person in charge of relations with Institutional Investors and with Shareholders (Investor relator) in order to create continuous dialogue with the said persons.
The abovementioned person must exclusively and periodically inform the Chairman and the Chief Executive Officer, Mr. Sergio Ingegnatti of his activities.

On the Company's website (www.reply.eu, Investors – Corporate Governance), the following documents are available:
- Company bylaws;
- Annual calendar of company events;
- Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the ethic Code;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Regulations on significant operations and related party transactions.

Pursuant to Regolamento di Borsa, the company's calendar for 2010 and the events have been made available to the public within the established terms, and the following dates have been established:
- the Board of Directors meeting to approve the Annual Financial Statements;
- the Board of Directors meeting to approve the first quarter Interim Management Report of 2010 the Half-year report and the third quarter Interim Management Report 2010.

The shareholders meeting will be held on April 29, 2010 for the approval of the Annual Report 2009.

16. General shareholders' meetings

The company encourages and facilitates the participation at the Annual General Meeting providing any necessary information or explanation in order to guarantee a smooth and conscientious participation of the Shareholders.

Article 12 of the Company bylaws establishes that shareholders have the right to intervene during the General Shareholders' Meeting if they have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code, two work days prior to the day of the meeting.

The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at controlling the running of the meetings), as the Articles of Incorporation provide adequate provisions concerning the matter.

The Board of Directors is aware of the recent publication on the *Gazzetta Ufficiale* on March 5, 2010 of the Legislative Decree no. 27 dated January 27, 2010 that has enacted the Community Directive no. 2997/36//CE concerning the rights of Shareholders of listed companies ("Record date") and that disciplines the application of the new regulations starting from the Shareholders' meetings called from November 2010, in light of the contents of the new regulations the company will evaluate whether to amend the by-laws.

17. Other corporate governance practices

System of company's operational procedures – in order to properly apply the company's regulations and to reduce risks connected to the fulfillment of company objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, ruling the activities carried out by the single functions and relations with other departments; please refer to what has been described at the paragraph Internal Control System.

18. Changes subsequent to the year end close

Following the year end close no significant changes have been made to the structure of the Corporate Governance.

Turin, March 15, 2010

/s/ Mario Rizzante

For the Board of Directors
The Chairman

Dott. Mario Rizzante

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www.reply.eu