

REPLY

FINANCIAL REPORT 2001

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# CORPORATE BODIES

## **Board of Directors**

*Chairman*

Mario Rizzante

*Chief Executive Officers*

Sergio Ingegnatti  
Oscar Pepino

*Directors*

Marco Mezzalama (1)  
Paul de Sury (1)

## **Board of Statutory Auditors**

*Statutory Auditors*

Piergiorgio Re – Chairman  
Giorgio Gianeri  
Tommaso Vallenzasca

*Alternate Auditors*

Paolo Claretta-Assandri  
Domenica Gai

## **Independent Auditors**

Arthur Andersen S.p.A.

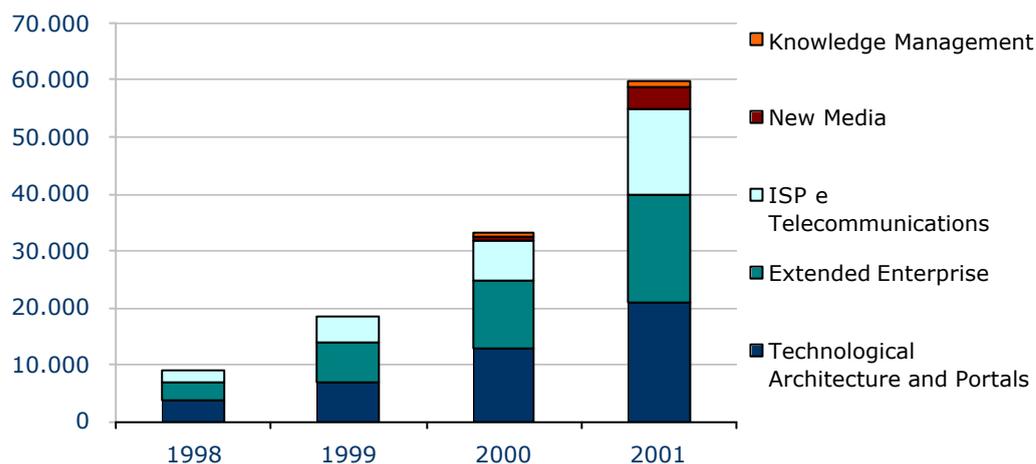
*(1) Independent directors, according to the corporate governance code for listed companies*

## REPLY – FINANCIAL HIGHLIGHTS

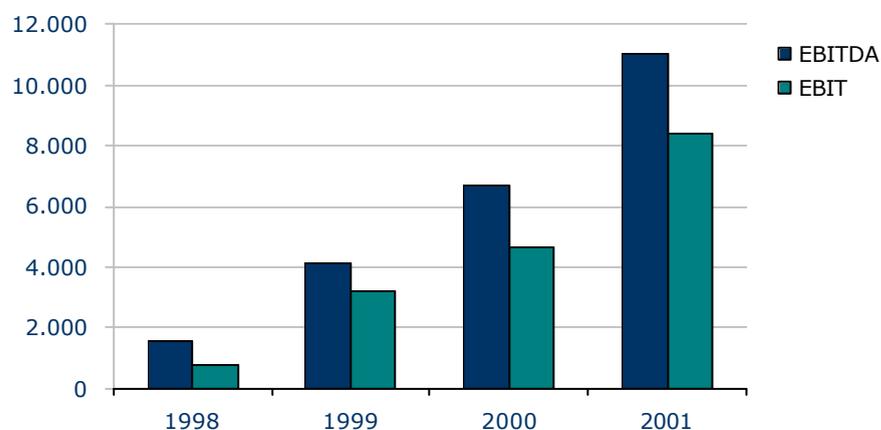
Statements of operation data (in thousand euro)	2001	%	2000	%	1999 proforma	%	1998 proforma	%
Revenues	60.303	100,0	33.337	100,0	18.596	100,0	9.665	100,0
Gross operating income	11.047	18,3	6.659	20,0	4.088	22,0	1.538	15,9
Operating income	8.404	13,9	4.649	13,9	3.204	17,2	788	8,1
Income before extraordinary items (*)	9.185	15,2	4.544	13,6	3.068	16,5	675	7,0
Net income/(loss)	3.842	6,4	1.883	5,6	1.464	7,9	144	1,5

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

### Revenues by business line



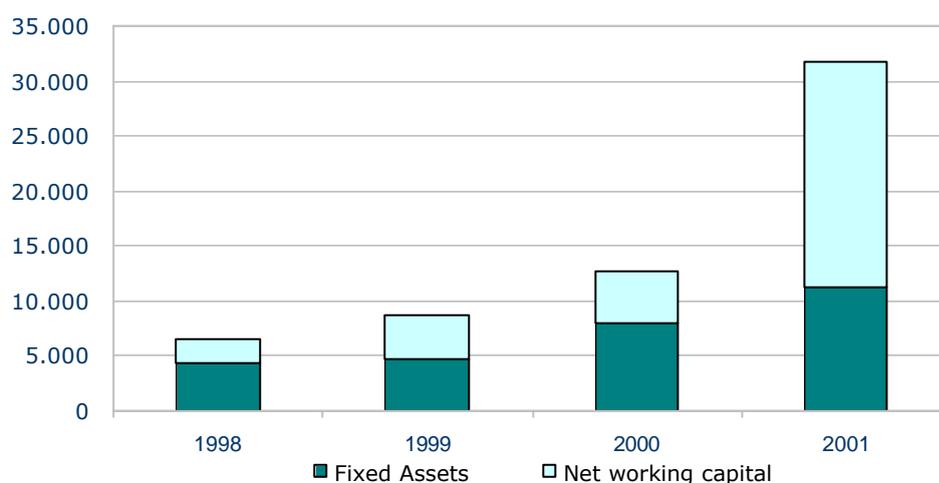
### Development of profitability



<b>Balance Sheet components (thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>1999 proforma</b>	<b>1998 proforma</b>
Shareholders' equity	45.615	41.761	6.437	4.638
Total assets	69.789	56.996	15.475	10.266
Share capital	4.244	4.244	1.669	1.447
Working capital, Net	20.582	4.681	4.043	2.208
Cash Flow *	6.485	3.648	2.348	895
Fixed assets	11.237	8.040	4.633	4.278
Net financial position	16.497	30.087	(1.619)	(1.499)

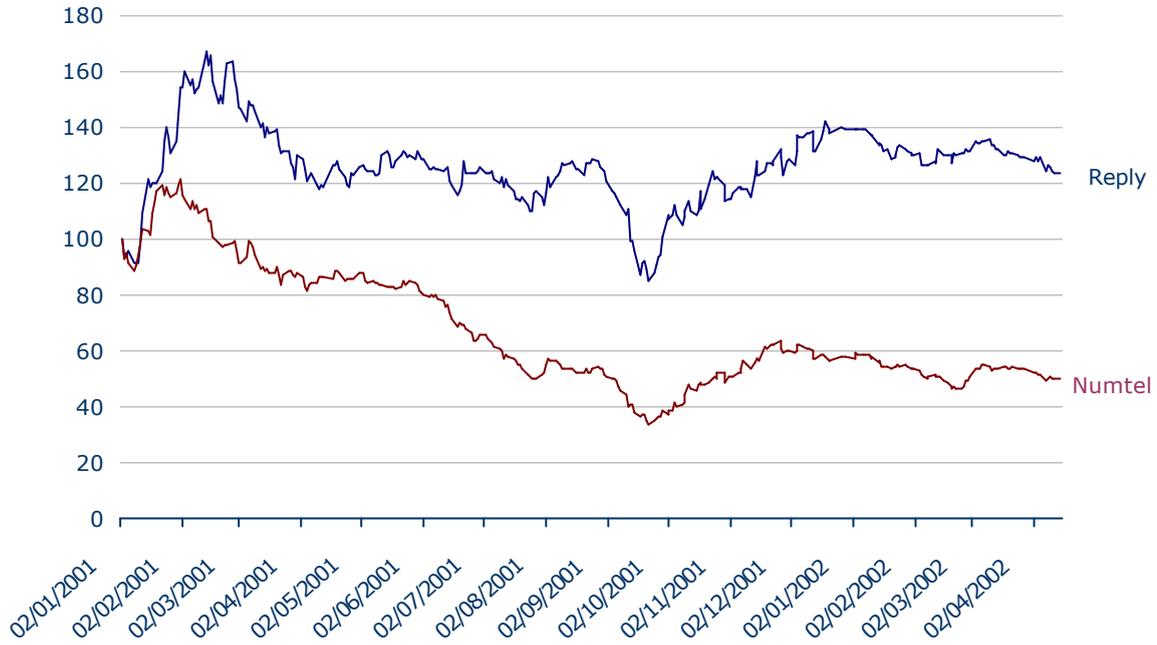
\* Calculated as sum of net income, amortizations and depreciations

#### Movements in net invested capital



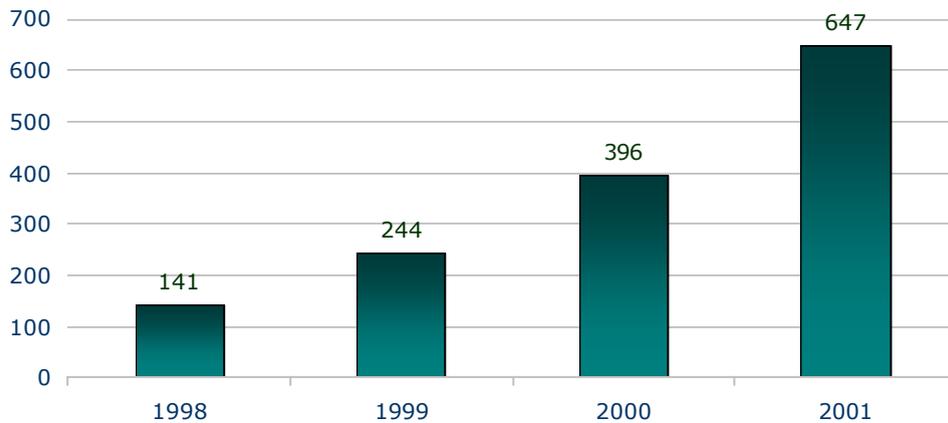
<b>Data relative to single share (in euro)</b>	<b>2001</b>	<b>2000</b>	<b>1999 proforma</b>	<b>1998 proforma</b>
Number of shares	8.162.200	8.162.200	3.232.000	2.803.000
Operating result per share	1,03	0,57	0,99	0,28
Net result per share after tax deduction	0,49	0,22	0,45	0,05
Net profit per share	0,47	0,23	0,45	0,05
Cash flow per share	0,79	0,45	0,73	0,32
Net worth per share	5,59	5,12	1,99	1,65

### Reply on the stock market



Other information	2001	2000	1999 proforma	1998 proforma
Number of employees	647	396	244	141

### Human resources



## LETTER TO THE SHAREHOLDERS

To our Shareholders,

the year 2001, our first year in the Stock Market, has been characterised by considerable events and results, both in terms of growth and development of business.

The important results achieved demonstrate the solidity of the Group, mature and able to respond to the market demand and even to accomplish it through a capability to continuously create innovations to the value produced.

The consolidated revenues to 60,3 million euro, have increased by 81%, the gross operating margin is 18,3% of sales, the operating result have increased by 81%; these elements demonstrate the validity of our organisation and development strategies.

The market in which Reply operates, Information and Communication Technology, has now become the worldwide biggest industrial sector and the powerful engine for the economic growth.

Nevertheless, even if the market trend of ICT is always positive, there have been some events, which have disturbed the growing process.

After September 11th, the fear has permeated the stock market, and this has had a further negative influence on the local and worldwide picture, bringing the investors to balance their risks between New and Old Economy.

Nonetheless I believe that ICT and Internet still maintain their important role in the economic expansion, which will be slower but deeper, less evident but more effective.

The results we have achieved, in this difficult economic environment, even with reasonable caution, make us more confident on carrying on this strategical line focused in providing services and solutions to those Companies that aim to convert in value what is coming from new technology opportunities.

**The Chairman**  
Mario Rizzante

## DIRECTORS' REPORT

## GROUP DISTINCTIVE FEATURES

Reply was founded as an answer to the middle nineties technological evolution concerning communication and entailing a new way of doing business.

The arrival of digital economy, characterized and supported by the quick technological evolution and by some newborn services, enhanced the approach to management and to the enterprise outlines of organization. Not only new companies have been created relying on the innovative communication channels, but also some traditional companies have been starting an improvement process in order to contract the distances among suppliers, enterprises, and customers, thus achieving faster and faster reaction times. Through speeding the way information move and can be shared, the new media support the knowledge as the main good to be capitalized and managed inside enterprises.

Reply is one of the most important Italian companies competently working in the area of e-business. In order to supply its customers with everything they may need to reorganize their strategies and to exploit the current technological tools, Reply developed an integrated range of services comprehensive of:

- Consulting (strategic and technological, concerning communication, organisation, and process),
- Web Integration (configuration and integration of various technological platforms. Communication and business consulting being merged with highly valued informative solutions)
- Web Application Management (management, monitoring and continues evolution of the web architecture applications).

Reply works by means of Controlled Companies with specific knowledge, expertise, and competence, according to what they can offer. This allows Reply to be flexible and dynamic like a small structure, and to own, at the same time, the undertaking and scheduling faculty proper of an entity of vast dimension.

The main markets Reply is addressed to are the industries and the great companies of telecommunication.

The Reply "Business-Model" is characterized by some distinctive factors that suitably place the Company in the field of e-business services.

These factors consist of:

### a) Skilled domain of Reply services

- Planning and design of the e-business processes with special reference to the creation of Customer Relationship Management solutions.
- Analysis and implementation of the Supply Chain Management applications.
- Projecting and realizing of new communication channel solutions (Mobile 2, 2.5, 3G e Interactive TV).
- Consulting about the Internet technology, towards the "multichannel integration".
- Knowledge Management meant as e-learning, e-care, and Enterprise Portal.

### b) Accomplished long-timed relationships with great industries and main operators in the telecommunication scenery.

- c) International strategic agreements.
- d) Significant partnership with some of the main "software vendors".
- e) A specialized and consolidated Group of management strongly profit oriented.
- f) Proactivity in organisation and framework, aimed to move up the market evolution.

In 2001, the Reply services inside the e-business area developed 5 different business lines:

### **Technological Architectures and Portals**

Experience in software integration, innovation capabilities and a deep knowledge of e-business platforms are essential requisites for large scope projects, marked by huge integration problems.

### **Knowledge Management**

The broadening Internet expansion and the increasing growth of the multichannel communication network has been easing the enterprise internal and external information. The enterprise knowledge sharing has become a needed requisite to enhance the company competitiveness both for the internal training (e-learning) and for the corporate solutions to access and provide information (enterprise portal).

### **New Media**

The digital channels complex variety is producing new tools that will follow us anywhere and at any time. The Personal Computers, the mobile devices, the television, and the electric household appliances will soon require richer and richer interfaces, planned for specific needs, personalized and involving.

### **Extended Enterprise**

Business processes that, by exploiting the Internet as a mean of communication, concern all the links of the productive chain, from the supplier to the producer and to the customer. The building of an e-business infrastructure the extended enterprise leans on requires Internet technology expertise and proficiency in joining it with the applications in the entire value chain (CRM e SCM)

### **Telecommunication and ISP**

Nowadays, the availability of broadband net infrastructures and of many applicative opportunities gives the way out to a new generation of merging services, at any time and everywhere.

Reply brings together the expertise and the experience acquired in the fields of telecommunications and media. It focuses on the new communication channel solutions.

The several offers are thought to grant:

- Workgroups Expertise in every single sector;
- Creation of synergic projects requiring different professionals;
- Dedicated Companies in the main Italian industrial districts.

Together with a proficient proposal of services, Reply presents also the owner software platform product. It has been realized by Reply in the area of the Extended Enterprise (Click Reply™) and in the field of the Internet Service Provider (People&Web™ Reply).

In addition to the owner software, Reply works on other software developed by a selected number of vendors (Reply's strategic partners), with the purpose of satisfying all the clients need and of keeping a high rate of expertise on the innovative technologies.

## STRATEGIC DEVELOPMENT OUTLINE

The strategic goal of Reply is intensifying its leadership above the E-business services and solutions in the Italian market and also widening its presence over the international markets. In order to achieve its targets, the management is going to work on the following tasks:

### **New Services Campaign and Improvement of the Offer Lines**

The enhancement of the new services involves the building of an internal business unit. It is fit for positioning and upgrading all the activities dealing with the surfacing technological Mobile segment. In this field, Reply is going to get more and more competence on peculiar applications such as the Location based Services, the Mobile Office Instruments, the Mobile Payment, and to provide some highly profiled business and communication consulting services. The broadening of the traditional business lines keeps on with a centre of excellence for Customer Relationship Management, where every relative expertise already existing inside Reply goes to. Thanks to the establishment of this new internal pole, Reply can differentiate its deliveries and qualify its products for any enterprise investing in technology and services for the customer relationship management.

At last, there is a new company intended to develop specific solutions for the Banking and Financial Services area. It can supply strategic consulting services and system integration on web platforms referring to the financial market. This is the first step to promote and locate the whole range of Reply offers in a market on the rise in the next years.

With the launching of the new services and with the widening of the already existing business lines Reply will be able to take advantage from the synergic action of all its allied working companies.

### **Methodological Approach and Knowledge Management**

Nowadays, the technological evolution is very quick. It calls for expert's competence and for a methodological approach apt to facilitate immediate and effective solutions.

Such a factor, considered by the management a basic and distinctive element in our contemporary world, has to be maintained and supported. So the Group strategy will, to one side, purposefully finance the development of Reply methodology, and, to the other side, improve knowledge sharing while working on projects, through constantly upgrading the internal system of knowledge management.

### **Territorial Expansion – Acquisitions**

Reply wants to settle its expansion, both in the national and in the international markets, by replicating the current business model, structured on a network of companies skilled and flexible, and on a list of clients of middle and large dimensions.

The geographic spreading out, both domestic and foreign, will also take place as a result of the acquisition of innovative niche companies, accomplished with qualified human resources and working alongside the Group Offer lines.

### **Human Resources and Intellectual Capital**

The management's appraisal about magnetizing E-business experts is a successful issue for the implementation of Reply development strategies. Hence, the coming from the best of universities and polytechnics of Reply's experts denotes one of its competitive features. Reply is likely to preserve this trait of distinction when enlarging its staff, by increasing the sound investment reserved to training, to relationships with universities, and to the persistent innovation of competencies in e-business, communications, and technology.

The Company is going to reinforce the already existing collaborations with several University poles with the aim of arranging privileged channels to draw highly profiled personnel from.

## OFFER OUTLINE

### **Technological Architectures and Portals**

Reply relies on significant competences in designing of complex computer architecture; besides, it proficiently masters the *E-business* software infrastructures to build Mission Critical applications based on multi-tiers architectures.

Technology, being always been the inner soul of Reply, evolves faster and faster and increases its complexity and pervasiveness. Reply copes with technologies through skilled and focused teams that closely work with the Software vendors.

Such an approach structured by Reply allows:

- To be effective in architecture and complex solution design, towards the development, integration, and management of the mission critical web based systems and channels on which contents and services are delivered.
- To provide vertical competency on the main software platforms together with strong methodological and project management know-how.

Wireless Architectures	Web Services
Content Architecture	Security
Web Infrastructure	Application Integration
Multichannel Infrastructure	Web Application B2B - B2C - Publishing – Streaming - Portals

### **New Media**

The digital means of communication variety and complexity enable to supply customers with extremely personalized products and allow reaching them physically boundless.

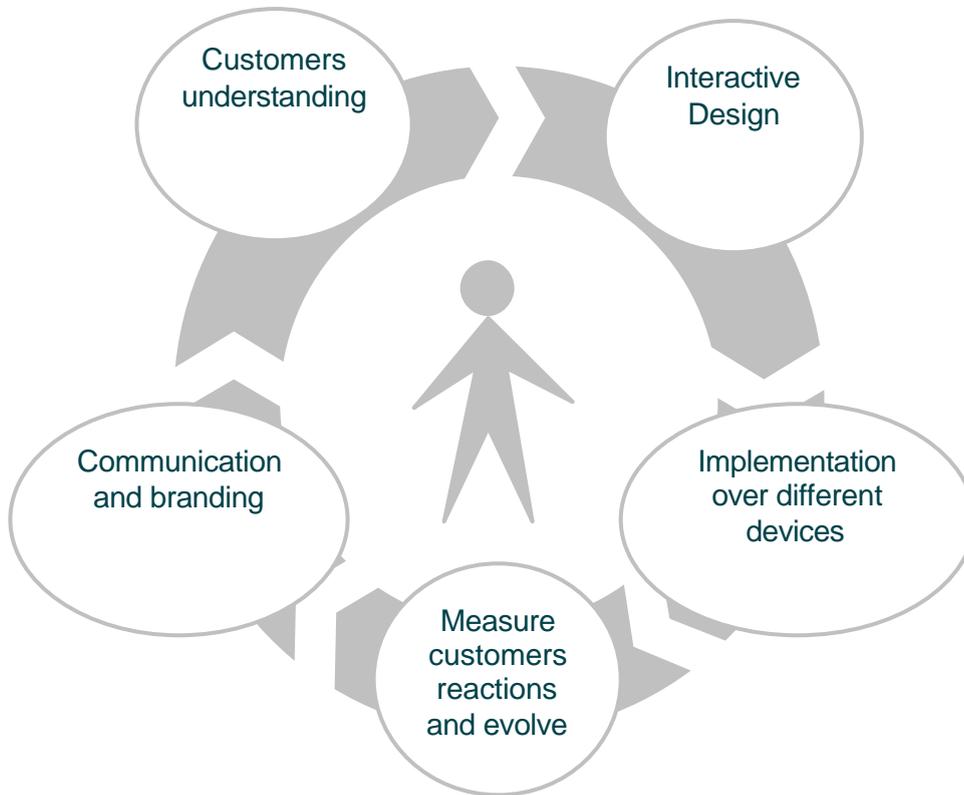
A new Device generation is being developed to grant information retrieval at any time and with no location limit.

In this field, the planning of multimedia contents – essential piece of the *E-business* solutions – represents one of the Group expertise sectors, where the new technology knowledge and the *Communication Consulting* services combine.

Reply blends Communication and Creativity to generate innovative contents and service, capable of exploiting the utter potential of the new digital channels.

- Internet
- Interactive Television
- Mobile

The competency on the new Devices integrates and enriches the high rate of Reply expertise on Technological Architectures.



The *New Media* sector, focused on planning solutions by making use of the convergence between new media (Internet, mobile phones, CDs, mobile devices) and traditional means of communication (press and video), requires the integration of different professionals.

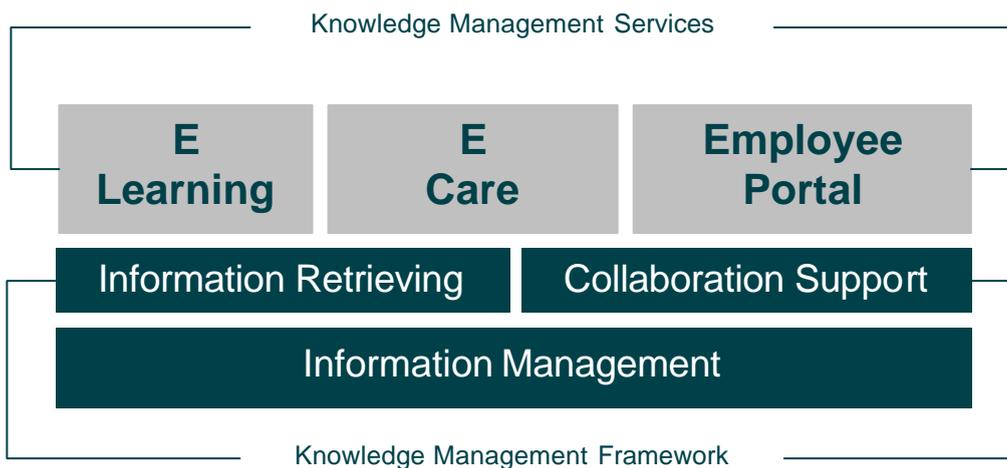
### **Knowledge Management**

The knowledge has increasingly become one of the most important asset on which the new relocation models are to be based.

The tools for an effective knowledge management, thanks also to the improved technological and communicative opportunities, have evolved. From merely retrieving enterprise information, they play now the role of value generators inside the company.

Reply answers to this new evolution by tackling the Knowledge Management matters on two different levels:

- Building of technological frameworks for the content retrieval, management and research.
- Enterprise Portals Planning, E-Learning applications and E-care solutions.



The range of Reply services in the area of *Knowledge Management* are meant to define the support procedures for the knowledge creation and management, and to plan modular and worthy applicative technological solutions, too.

### **Extended Enterprise**

Extended Enterprise means all the processes and systems able to integrate satisfactorily the enterprise activities with the suppliers and customers ones, by using any communication channel, both digital and traditional.



The Extended Enterprise moves towards a no-more-linear way of linking customers, suppliers, and partners in a new value chain.

The complex challenge consists now in making the new framework efficient, in terms of Enabling Technology, System Integration, and Expertise on the Business support processes.

Reply copes with many operative Extended Enterprise models and plans different applications and solutions of Customer Relationship Management Supply Chain Management relying on market leader applications and products and on its own Supply Chain Execution Click Reply™ platform.

## **Telecommunications and ISP**

Reply worked on the realization of the Internet tools for the major national telecommunication operators and succeeded in enhancing its knowledge about the most widely spread and used software platforms. It gained also a deep receptivity about what services have to supply the user with.

The quick evolution and the intense concentration that are taking place in the telecommunication market, and even the nature itself of the new services, induce to pay a further attention to the policy of price definition, of flexible sale, and of customer fidelization. Being competitive about these things implies advanced and integrated technological solutions. Today, working successfully in the world of Telecommunications entails technological skill and sound expertise.

Reply focuses on three main areas:

- Convergent Customer Care and Billing
- Net and Infrastructure
- New Internet Services for 3G users



**Internet Value Added Services**  
**Customer Care and Billing**  
**Performance Management**  
**Service Level Management**  
**Messaging**  
**Unified, Instant, Short, Multimedia**  
**Content Delivery Management**

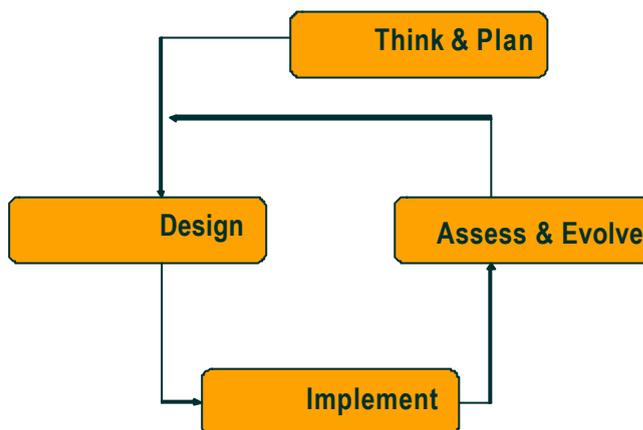


Besides exploiting its deep expertise on the main market leader platforms, in the sphere of the Telecommunication, Reply developed People & Web™ Reply. It is a platform for the web hosting and streaming (live and on demand) and the added value services management, projected to allow the multichannel access.

## METHODOLOGY

The Reply services employ a methodological approach that joins consulting steps (*E-business Consulting* ed *E-business Communication*), concerning the specific applicative areas covered by the offer, and implementation steps (*E-business Implementation*).

In order to follow and reply to the quick changes the customer's *E-business* strategies are submitted, Reply developed a four-step method: *Think & Plan, Design, Implement, Assess & Evolve*.



### **Think & Plan**

At this stage, there is the definition of the customer's business, communication, and marketing strategies and of the project plan to realize them. This step is divided in three moments:

- *E-business strategy*: analysis of the existing business and of the future strategies, up to the definition of metrics, *milestones*, and project team;
- *business process re-engineering*: analysis and redefinition of the enterprise processes according to the *E-business* strategy and to the applicative bonds due to the customer's technological platforms;
- *marketing & communication strategy*: study of the image, of the communication settlement, of the style of structure and contents;
- *project planning*: planning of the proper *E-business* solution according to the priorities come out of the business analysis, of the marketing, and of the technological architecture.

## **Design**

At this stage, there is the design of contents, of technological architectures, and of functions relative to the established *E-business* solution. This step consists of:

- *communication design*: structure of contents, of browsing, and of the service access interfaces, and definition of the editorial plan;
- *software requirements*: definition of the software functions, of the data flows, of the users and their roles, of the editing requirements and of the updating mechanisms.
- *architectural design*: definition of the hardware and software architectures, of the net setting, of the knowledge basis (structured and unstructured data), and of the integration with other systems.

## **Implement**

At this stage, there is the development of the software and of the integration components with other enterprise systems. Besides, there is the supply of multimedia contents. This step is organized as follows:

- *web & content production*: interfaces design on several *devices* and production of textual, graphic, and multimedia contents;
- *development*: configuration of software and advancement of applicative logics;
- *test*: checking the solution in terms of functionality, of correctness (graphics and contents), of performance, and of robustness;
- *deployment*: moving from the test environment to the exercising and monitoring of the first period of use.

## **Assess & Evolve**

This is the last stage of the Group methodological approach. Here the outcome is checked so that it is possible to plan the further step up:

- *measure*: system in use monitoring and analysis of statistics about the purposed solutions;
- *E-business strategy*: evolution of the strategies according to the results and the *business plan* changes;
- *marketing & communication strategy*: evolution of the marketing strategy of the digital proposal in line with the results of the previous cycle.

## REPLY TECHNOLOGY

### **Owner Software**

#### **Click Reply™**

Supply Chain Execution platform based on Web architecture and integrable with the e-Business systems or the most advanced order management modules through XML standard

#### **People&Web™ Reply**

Solution for the building and management of the Web Hosting, Provisioning and multiplatform Streaming services and applications.

### **Partnership Agreements**

With some of the best software vendor companies all over the world, Reply agreed upon direct partnership, so that it could, from one side, reinforce its entry on markets, and, to the other side, amplify its range of customer oriented technological solutions.

These agreements, named in different ways, enable Reply to link interactively with such vendors. The partnership entails the supplier's technical staff support, allows accessing the not-public dominion information about products, leads to the support in the pre-sale phase and to the united branding in the marketing approach.

### **Reference non-owner Technologies**

Reply has also developed significant competencies based on non-owner technologies from the most of the leading producers in their respective markets, among which are: Autonomy, Bea, Broadvision, Docent, IBM, Microsoft, Network365, Open Text, Openet Telecom, Oracle, Peoplesoft, Portal, Siebel, Vignette.

## THE REFERENCE MARKET

Reply offers an integrated range of e-Business services and solutions, which represents the emerging component of the ICT market.

The Italian ICT market analysis has to be linked to some general considerations concerning the world economy. The year 2001 was touched by two peculiar moments:

The period January–September, during which the establishing phase of markets around the new enterprise model has been taking place. It was characterized by a short-timed business dynamism.

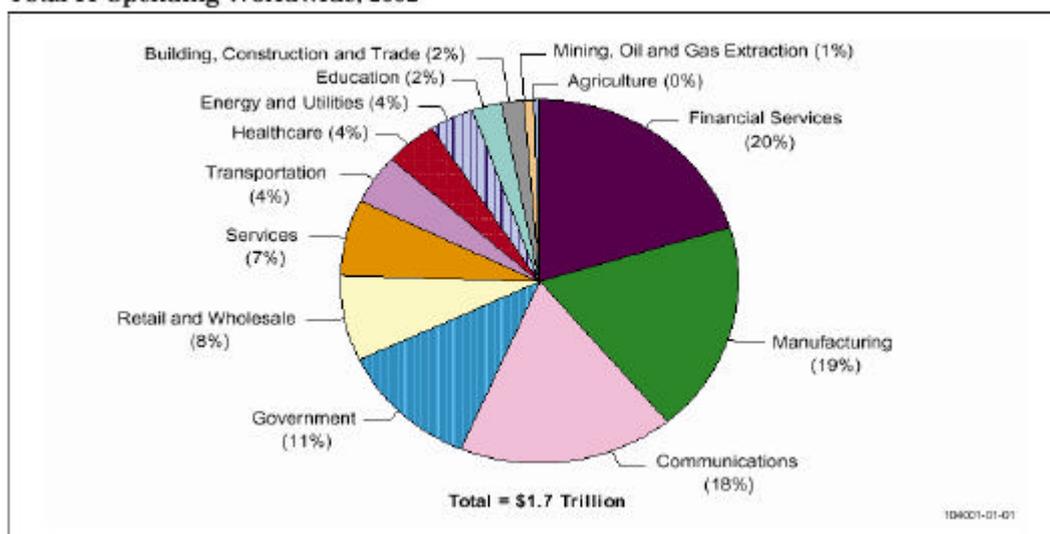
The period September-December during which some international events occurred such as:

- The slack of all the main share markets and the final retrenchment of the 'New Economy' phenomenon
- The American economy down
- The tragic events occurred 11th September

These facts introduced again unsteadiness on markets and drove to a substantial down also in the informative solutions demand, which fixed a total +11% in the whole year.<sup>1</sup>

Even bearing in mind these disturbing elements, according to Gartner Dataquest, the IT worldwide market will still increase up to reach the value of \$1.7 Trillions in 2002. Three vertical sectors will bring up the growth: Financial Services, Manufacturing and Public Administration - E-Government.

**Figure 1**  
**Total IT Spending Worldwide, 2002**



Source: Gartner Dataquest (March 2002)

<sup>1</sup> IDC International Data Corporation

Therefore, Information and Communication Technology is still one of the main running economy markets all over the world. According to Assinform data, our sector is today the greatest worldwide division, also including the induced consumption it generates, with more than the 5% of PIL.<sup>2</sup>

As far as Europe is concerned, the evaluation on the E-Business services and solutions market is positive, from 27.4\$ billion in 2001 to more than 129.0\$ billion in 2006, with a CARG of 36.3%.

These expected volumes will have a significant distribution. The main support will be given to those countries that have been more conservative about the admission of the advanced IT solutions, like Italy, Spain, and Portugal.<sup>3</sup>

In Italy the computer science, even though it did not repeated the escalation that characterized the two previous years, is still moving faster than in both the United States and the rest of Europe. The global figure shows an almost 13% [+12,8] rise, about 4/5 times more than the yearly inflation increase, with a comprehensive invoice over 5,5% of the Italian PIL [5,2 in 1999].<sup>4</sup>

The Italian demand of software services and solutions, € 9.439 millions in 2001 with a growth of 12,4% if compared to the amount in 2000, was chiefly due to the request of CRM and SCM solutions.

It has to be pointed out that, according to an Assinform research, the rising demand of these kind of services, that is the core of Reply undertaking (consulting, system integration and outsourcing), gave a remarkable boost.

According to a NetConsulting research, the companies, in particular those of middle and great dimension, get more and more pressed by the international competition and carry on investing in ICT long-term plans to facilitate the income of the new management and business models

Both the market and the enterprises, inside their business and *Information Technology* strategies, call for a new generation of integrated expertise services. Actually, we have to qualify our *business strategy* apparatus with a high level of technological knowledge for the building of infrastructures, of safe systems, and of extensible and flexible applications.

As far as Telecommunications are concerned, the Italian market generated a € 40.025 millions business volume. The increase recorded in 2001 [+8,5%] shows to be inferior if compared to the previous year [+12,9%], but, even so, more than the Europe [+6,3%] and the worldwide [+7,1%] figures.

The division maintenance is mostly due to dynamism. Apart from having lost 2 points percentage in respect of the previous year, the services have reached 9,3%, from € 26.474 millions to € 28.937 in 2001.

Above all, the Mobile services (18.6%) and the added value services (45,2%) have improved.

The arrival of the new communication channels in business actions is getting more and more important and strategic. According to a PricewaterhouseCoopers research, in the next two years we will see a radical restructuring of the offices and in general of the working locations, with some changes and a total replacement of old-fashioned software to let place to the Internet based applications and to the Mobile and Wireless Lan architectures.

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<sup>2</sup> Assinform: Associazione Nazionale Produttori Tecnologie e Servizi per l'Informazione e la Comunicazione (National Association of Producers of Technologies and Services for Information and Communication)

<sup>3</sup> Gartner Group

<sup>4</sup> Assinform

## GROUP RESULTS

Founded in June 1996 Reply operates through a network of companies, each one specialized in a particular line of offer. It has approximately 650 employees.

The Group activities are concentrated in three distinct business areas:

- *E-Business Consulting* (strategic, organisational and procedural consulting)
- *E-Business Communication* (multimedia communication and web-marketing services)
- *E-Business Implementation* (design and implementation of Internet systems, portals, web sites and mission critical solutions for web infrastructure)

Furthermore Reply has developed proprietor software systems and at the same time drawn up important working agreements with some of the leading "software vendors".

Reply S.p.A. has been listed on the New Market of Borsa Italiana since December 6 2000.

The Group recorded positives results for the fifth year running, maintaining an average annual growth rate in revenues of 78%.

The year 2001 closed with excellent results, especially if considered in light of the negative world economic situation which characterized the year just ended and the general trends in Reply's target sectors.

The consolidated turnover stood at 60,3 million euro (33,3 million euro in 2000), with an 81% increase compared to the previous year which concerned all areas of the Group's activities: Consulting services, Web Integration and Web Application Management.

Even in 2001 Reply has confirmed considerable profitability levels, which was a result of strengthening strategies thanks to the expansion of existing business lines as well as to the strengthening of partnerships with leading global groups like Autonomy, IBM, Microsoft, Network365, Oracle, PeopleSoft, Siebel. Partnership with TNT Post Group is proceeding in the SCM field in Italy, Spain and Brazil.

In particular, the EBITDA, amounting to 11 million euro, showed a 66% increase while the EBIT amounted to 8,4 million euro, up by 81%. There was also a very large increase in net profits that went from 1,9 million euro in 2000 to 3,8 million euro, showing an increase of 100%.

The 2001 results show once again that Reply is a competitive and reliable company with a flexible organization able to anticipate target market developments by making available the most innovative technological solutions and the most efficient organizational models.

As of 31 December 2001 Reply's total net equity amounts to 45,6 million euro.

The net financial position as at 31 December 2001 amounts to 16,5 million euro.

Total investments in tangible assets amount to 1,4 million euro.

### **Reclassified consolidated statement of income**

The economic trend of the Reply Group can be analysed from the reclassified statement of income shown below, compared with prior year figures:

<b>(in thousand euro)</b>	<b>2001</b>	<b>%</b>	<b>2000</b>	<b>%</b>
Revenues from sales and services (*)	59.976		33.233	
Other revenues	327		104	
<b>Value of production</b>	<b>60.303</b>	<b>100,0</b>	<b>33.337</b>	<b>100,0</b>
Raw materials, supplies and merchandises, net of change in inventories	(1.120)	(1,9)	(2.449)	(7,3)
Services	(18.204)	(30,2)	(9.834)	(29,5)
Leases and rentals	(1.005)	(1,7)	(657)	(2,0)
Other operating costs	(943)	(1,6)	(253)	(0,8)
<b>Value added</b>	<b>39.031</b>	<b>64,7</b>	<b>20.144</b>	<b>60,4</b>
Personnel costs and directors' remuneration	(27.984)	(46,4)	(13.485)	(40,5)
<b>Gross operating income (EBITDA)</b>	<b>11.047</b>	<b>18,3</b>	<b>6.659</b>	<b>20,0</b>
Depreciation and amortisation	(1.733)	(2,9)	(1.100)	(3,3)
<b>EBIT before amortisation of listing expenses</b>	<b>9.314</b>	<b>15,4</b>	<b>5.559</b>	<b>16,7</b>
Amortisation of listing expenses	(910)	(1,5)	(910)	(2,7)
<b>Operating income (EBIT)</b>	<b>8.404</b>	<b>13,9</b>	<b>4.649</b>	<b>13,9</b>
Financial income (expenses), net	781	1,3	(105)	(0,3)
<b>Income before extraordinary items</b>	<b>9.185</b>	<b>15,2</b>	<b>4.544</b>	<b>13,6</b>
Extraordinary income (expenses), net	(117)	(0,2)	59	0,2
<b>Result before taxation</b>	<b>9.068</b>	<b>15,0</b>	<b>4.603</b>	<b>13,8</b>
Income taxes	(5.162)	(8,6)	(2.720)	(8,2)
Minority interests	(64)	(0,1)	-	0,0
<b>Net income (loss)</b>	<b>3.842</b>	<b>6,4</b>	<b>1.883</b>	<b>5,6</b>

(\*) change in work in progress included

During the year 2001 Reply strengthened its position with major clients in the manufactory, large-scale distribution and telecommunication sectors, and has begun to operate within the sphere of the financial and insurance market.

The agreements and the most important events that allowed Reply to further strengthen its competitive position and its leadership in the services and solutions for e-Business Italian market are synthesized below:

- A strategic agreement was signed in January 2001 with IBM Italia S.p.A. for the combined offer of services in the Tlc and e-Business market. In particular, this agreement concerns billing systems and, as to e-Business, the CRM, Enterprise Application Integration, Web Design and Web development.  
This agreement covers the South European area and, in particular, Italy, Spain, Portugal, Greece, Turkey, Israel and Cyprus, through the involvement of IBM Corporation companies.
- The partnership with TNT Post Group continued in the Supply Chain Management (SCM) field in both Italy and Europe, with important projects for Fiat, Gillette e Nokia.  
This partnership has been further strengthened with the entrustment to Reply of the Application Management of Warehouse and Transportation systems of TNT Tecnologistica, company of the TNT Group. Reply will work alongside TNT Tecnologistica in its activities connected with computerized management of multi-user logistic hubs.  
The contract with TNT Tecnologistica for standard services is worth approximately 13 million euro over 5 years. A further 7,5 million euro could be added for projects resulting from future developments.
- In April 2001 Reply and Vignette, a leading multinational group in the sector of Internet solutions for Customer Relationship Management, have signed a strategic agreement in the E-business Internet solutions sector.  
The agreement provides the co-operation of the two partners on projects within the Italian market, and it requires the exchange of their know-how, the access to the respective technologies and a good knowledge of products since their planning stage.  
This initiative will allow the two companies to work together on projects concerning the planning and implementation of the latest E-business solutions, by combining their skills and taking advantage of Reply's strong position in the Italian net-economy market on the one hand, and Vignette advanced technologies on the other hand.
- Reply has been bestowed by Oracle with the highly appraised appointment as European Partner of the year in terms of "Customer Satisfaction".  
In 1997 Reply started a strong partnership with Oracle. Their goal has been the one of implementing in the market the products offered by the American company, both in terms of technology as well as in terms of functional applications, through sophisticated and innovative solutions for E-commerce, Customer Relationship Management and Integrated Information Systems.  
The prestigious prize is the crowning of the cooperation with Oracle, and it was assigned to Reply during the EMEA Certified Partner Summit, the yearly convention sponsored by the American multinational.
- In May 2001 the software platform "People&Web" has been chosen to manage the "Spazio Web" (Web Space) service of the Inwind portal.  
People&Web is an innovative and powerful software platform that can support web-hosting services without setting any dimensioning constraint. The InWind portal users had the opportunity to appreciate this feature when building hundreds of thousands sites that have been implemented within the portal.

- In September 2001 Vitaminic S.p.A., the European leader in promoting and distributing digital music has chosen Reply as technological partner.  
The agreement consists in Reply's involvement in renewing 10 Vitaminic's web sites and the production of a more extensive version of the backstage and technological infrastructure able to support in the best way Vitaminic's business expansion.
- In September 2001 the Parent Company Reply S.p.A. has signed an agreement to acquire 58% of e\*finance consulting.  
E\*fc is a leading firm in providing strategic and specialist consulting in the finance sector for the production of Internet, contact centre and wireless and broadband services.  
E\*fc has worked for many years together with major international strategic consulting networks in addition to directly developing e-business projects and solutions for some of the most important Italian financial institutions.  
The acquisition, completed in December 2001, will allow Reply to expand its own area of responsibility and its ability to operate in the banking and insurance sectors.

### **Lines of business**

As follows the breakdown of the revenues by line of business compared with prior year:

	<b>2001</b>	<b>%</b>	<b>2000</b>	<b>%</b>
<b>(in thousand euro)</b>				
Technological Architectures and Portals	20.864	34,6%	12.935	38,8%
Extended Enterprise	19.297	32,0%	11.868	35,6%
ISP e Telecommunication	14.955	24,8%	7.134	21,4%
New Media	3.980	6,6%	768	2,3%
Knowledge Management	1.207	2,0%	632	1,9%
<b>Total</b>	<b>60.303</b>	<b>100%</b>	<b>33.337</b>	<b>100%</b>

### **Analysis of the Balance Sheet of the Group**

The Group Balance Sheet as of 31 December 2001, compared to 31 December 2000, is provided below:

(in thousand euro)	31/12/2001		31/12/2000		Difference
	(a)	%	(b)	%	(a-b)
<b>Current assets</b>					
Financial receivables and securities	18.612	26,7	30.631	53,7	(12.019)
Operating assets	39.940	57,2	18.325	32,2	21.615
<b>Total current assets</b>	<b>58.552</b>	<b>83,9</b>	<b>48.956</b>	<b>85,9</b>	<b>9.596</b>
<b>Non current Assets</b>					
Financial receivables and securities	341	0,5	206	0,4	135
Other assets	10.896	15,6	7.834	13,7	3.062
<b>Total non current assets</b>	<b>11.237</b>	<b>16,1</b>	<b>8.040</b>	<b>14,1</b>	<b>3.197</b>
<b>Total assets</b>	<b>69.789</b>	<b>100,0</b>	<b>56.996</b>	<b>100,0</b>	<b>12.793</b>
<b>Current liabilities</b>					
Financial liabilities	2.035	2,9	260	0,5	1.775
Operating liabilities	19.358	27,7	13.644	23,9	5.714
<b>Total current liabilities</b>	<b>21.393</b>	<b>30,7</b>	<b>13.904</b>	<b>24,4</b>	<b>7.489</b>
<b>Non current liabilities</b>					
Financial liabilities	80	0,1	284	0,5	(204)
Other non current liabilities	2.235	3,2	1.047	1,8	1.188
<b>Total non-current liabilities</b>	<b>2.315</b>	<b>3,3</b>	<b>1.331</b>	<b>2,3</b>	<b>984</b>
<b>Total liabilities</b>	<b>23.708</b>	<b>34,0</b>	<b>15.235</b>	<b>26,7</b>	<b>8.473</b>
<b>Total Shareholders' equity</b>	<b>46.081</b>	<b>66,0</b>	<b>41.761</b>	<b>73,3</b>	<b>4.320</b>
<b>Total liabilities and Shareholders' equity</b>	<b>69.789</b>	<b>100,0</b>	<b>56.996</b>	<b>100,0</b>	<b>12.793</b>

Total assets, amounting to 56.996 euro as of 31 December 2000, are equal to 69.789 euro as of 31 December 2001, with an increase of 12.793 thousand euro. This increase is related to:

- an increase in current assets for 9.596 thousand euro, including a decrease of the financial assets for 12.019 thousand euro, and an increase of operating assets for 21.615 thousand euro; both changes are connected to the growing Group's turnover.
- an increase in non-current assets for 3.197 thousand euro, mainly due to the goodwill deriving from the consolidation of companies purchased during the year 2001, XYZ Reply S.r.l. and e\*finance consulting Reply S.p.A.

The ratio between current operating assets, amounting to 39.940 thousand euro (18.325 thousand euro as at 31 December 2000) and current operating liabilities amounting to 19.358 thousand euro (13.644 thousand euro as at 31 December 2000), is equal to 2,1 (1,3 as at 31 December 2000).

### **Analysis of the economic and financial structure**

Detail of net invested capital as at 31 December 2001 and related coverage are detailed as follows:

(in thousand euro)	31/12/2001		31/12/2000		Difference (a-b)
	(a)	%	(b)	%	
Current operating assets	39.940		18.325		21.615
Current operating liabilities	(19.358)		(13.644)		(5.714)
Net current operating assets	20.582		4.681		15.901
Non-current assets	11.237		8.040		3.197
<b>Net invested capital (A)</b>	<b>31.819</b>	<b>100,0</b>	<b>12.721</b>	<b>100,0</b>	<b>19.098</b>
M/L term non financial liabilities	2.235	7,0	1.047	8,2	1.188
Net Shareholders' equity	46.081	144,8	41.761	328,3	4.320
<b>Total non financial sources (B)</b>	<b>48.316</b>	<b>151,8</b>	<b>42.808</b>	<b>336,5</b>	<b>5.508</b>
<b>Net financial position (A-B)</b>	<b>(16.497)</b>	<b>(51,8)</b>	<b>(30.087)</b>	<b>(236,5)</b>	<b>13.590</b>

Net invested capital as at 31 December 2001, amounts to 31.819 thousand euro compared to 12.721 thousand euro at 31 December 2000 with a difference of 19.098 thousand euro mainly attributable to the increase in net current operating assets.

Net invested capital has been financed for 2.235 thousand euro by medium/long term non-financial liabilities, comprising the reserve for employee termination indemnities and the reserve for directors' severance indemnities, and for 46.081 thousand euro by net equity, with a residual net financial liquidity of 16.497 thousand euro.

### **Net invested capital**

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a-b)</b>
Work in progress and inventories	5.481	1.795	3.686
Net trade receivables from third parties	32.889	15.722	17.167
Other assets	1.570	808	762
<b>Current operating assets</b>	<b>39.940</b>	<b>18.325</b>	<b>21.615</b>
Trade payables to third parties	6.621	7.433	(812)
Other liabilities	12.737	6.211	6.526
<b>Current operating liabilities</b>	<b>19.358</b>	<b>13.644</b>	<b>5.714</b>
Non-current assets	11.237	8.040	3.197
<b>Net invested capital</b>	<b>31.819</b>	<b>12.721</b>	<b>19.098</b>

### **Net financial position**

Here below the Group Net Financial position as at 31 December 2001, detailed by terms and compared with the same analysis as at 31 December 2000

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Bank accounts and cash on hands	16.972	4.807	12.165
Financial assets not held as fixed assets	1.640	25.824	(24.184)
Due to banks	(1.981)	(203)	(1.778)
Due to other providers of finance within 12 months	(54)	(57)	3
<b>Cash and short term borrowings, net</b>	<b>16.577</b>	<b>30.371</b>	<b>(13.794)</b>
Due to banks beyond 12 months	(71)	(241)	170
Due to other providers of finance beyond 12 months	(9)	(43)	34
<b>Long term financial position</b>	<b>(80)</b>	<b>(284)</b>	<b>204</b>
<b>Total net financial position</b>	<b>16.497</b>	<b>30.087</b>	<b>(13.590)</b>

Net Financial position as at 31 December 2001 amounts to 16.497 thousand euro, with a decrease of 13.590 thousand euro compared to prior year; detail as follows:

	<b>2001</b>
<b>(in thousand euro)</b>	
Cash flow from operating activities before working capital movements	8.402
Changing in working capital	(16.630)
<b>Cash flow from operating activities (A)</b>	<b>(8.228)</b>
<b>Cash flow used in investing activities (B)</b>	<b>(5.840)</b>
<b>Cash flow used in financing activities (C)</b>	<b>478</b>
<b>Change in net financial position (A+B+C)</b>	<b>(13.590)</b>

### ***Reply on the Stock Market***

During the year 2001, the stock market experienced a very strong pressure; despite this, Reply's shares have had a very positive trend.

Investors and analysts interest continuously improved and actually the coverage of Reply' shares is granted by significant financial institutions and by a huge number of analysts which are currently carrying out researches about the Group.

The intense investor relation activity brought the company management to meet institutional investors both in Italy and in the main European markets, such as London, Paris, Frankfurt, Stockholm and Copenhagen, and also important was the participation at the meeting with American investors, organized by Borsa Italiana, and held last April 2001 in New York

The result of this activity was reflected in the stock trend, which has resulted as one of the best in 2001 in the New Market and in the whole Stock Exchange, and in the strong presence of Italian and foreign investors among the Shareholders, in some cases with relevant interest (more than 2%)

The graph below compare the trend of Reply shares with Numtel general trend.



**Human resources**

The strong growth that has characterized the company is also reflected through the number of employees that as of 31 December 2001 totalled 647, compared to 396 employees as of 31 December 2000.

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

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

**Research and Development**

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

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

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

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

The company, Holding of the Reply Group, mainly carries out the operating co-ordination and the technical and quality direction of the Group, as well as administration, finance and marketing for the subsidiaries.

The financial structure of the company, compared to the previous year is synthetized as follows:

(in thousand euro)	31.12.2001 (a)	31.12.2000 (b)	Difference (a-b)
Tangible fixed assets	482	95	387
Intangible fixed assets	4.290	5.360	(1.070)
Financial fixed assets	7.008	2.624	4.384
<b>Total fixed assets</b>	<b>11.780</b>	<b>8.079</b>	<b>3.701</b>
<b>Net working capital</b>	<b>11.096</b>	<b>1.224</b>	<b>9.872</b>
<b>Net invested capital</b>	<b>22.876</b>	<b>9.303</b>	<b>13.573</b>
M/L term non financial liabilities	2.063	1.270	793
Shareholders' equity	43.685	40.044	3.641
Net financial position	(22.872)	(32.011)	9.140
<b>TOTAL COVERING</b>	<b>22.876</b>	<b>9.303</b>	<b>13.573</b>

Change in fixed assets is mainly due to the investments in subsidiaries, fully detailed in the Notes to the Financial Statements.

The performances of subsidiaries during the year 2001 have been very positive, and they contributed to reach very good consolidated results in terms of turnover and profitability.

Increase in net working capital is mainly due to:

- receivables from subsidiaries for dividends and relative tax credit, amounting to 5.362 thousand euro, compared to 3.239 thousand euro of the previous year;
- current operating liabilities, significantly higher in the previous year as a consequence of the listing expenses incurred approximately at the year end.

Net invested capital, amounting to 22.876 thousand euro, has been financed for 2.063 thousand euro by non-financial medium/long term liabilities, comprising the reserve for employee termination indemnities (133 thousand euro) and the deferred tax liabilities on dividends (1.930 thousand euro), and for 43.685 thousand euro by net equity, with a residual net financial liquidity of 22.876 thousand euro.

The changes that have occurred in the items of the balance sheet are fully analysed and detailed in the Notes to the Financial Statements.

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

<b>(thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Revenues form typical activity	5.584	2.130	3.454
Other income	5.613	664	4.949
Purchases, services and other costs	(8.908)	(2.012)	(6.896)
Personnel costs	(1.845)	(459)	(1.386)
<b>Gross operating income</b>	<b>444</b>	<b>323</b>	<b>121</b>
Depreciation and amortisation	(1.475)	(1.171)	(304)
<b>Operating result</b>	<b>(1.031)</b>	<b>(848)</b>	<b>(183)</b>
Financial income/(expenses), net	1.265	70	1.195
Income from equity investments	5.362	3.238	2.124
Extraordinary income/(expenses), net	(24)	-	(24)
<b>Result before taxation</b>	<b>5.572</b>	<b>2.460</b>	<b>3.112</b>
Income taxes	(1.931)	(970)	(961)
<b>Net result</b>	<b>3.641</b>	<b>1.490</b>	<b>2.151</b>

Revenues from typical activity are mainly related to:

- royalties on the Reply trademark for 1.695 thousand euro (981 thousand euro in the year 2000);
- activities centrally carried out on behalf of subsidiaries for 2.420 thousand euro (653 thousand euro in the year 2000);
- strategic and managerial consultancy for 1.221 thousand euro (401 thousand euro in the year 2000);

Other income refers to professional services related to agreements that major clients have concluded with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2001 compared to prior year and explains the difference.

The operating result of the year 2001 amounts to -1.031 thousand euro, after amortisation costs of 1.475 thousand euro, mainly related to listing expenses (910 thousand euro) and to the "Reply" trademark (341 thousand euro).

Net financial incomes are related to temporary investments of the liquidity generated from the listing to the "New Market" stock exchange.

Income from equity investments refers to dividends from subsidiaries, recorded on accrual basis (3.431,5 thousand euro) and to the relative tax credit (1.930,2 thousand euro) offset by the provision for deferred taxes for the same value.

Net result for the year 2001 amounts to 3.641 thousand euro (1.490 thousand euro in prior year).

### **Related party transactions**

Financial and business transactions between Reply S.p.A. and its subsidiaries are carried out at normal market conditions and they consist mainly in providing services, central management of administration services and co-ordination of all Group activities in connection with the role of Parent Company.

The financial and economic effects deriving from such relations can be detailed as follows:

**(in thousand euro)**

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#### **Financial relations**

Financial receivables	11.419
Receivables for dividends	3.431
Trade and other receivables	6.922
Trade liabilities	4.508

#### **Economic relations**

Revenues from royalties	1.695
Revenues from services	2.420
Revenues from other charges	1.221
Costs for licences	541
Costs for professional services	5.327

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

**Shares held by Directors and Statutory Auditors of the Parent Company and its subsidiaries**

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

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

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 22% and 22% respectively, of Alister Holding which directly holds 2,654,383 shares of the Company, equivalent to 32.52% of the Company's share capital.
- Alister Holding, in the aforementioned list, holds 100% of Iceberg's share capital, company governed by Luxembourg laws with headquarters at 400, Route d'Esch, Luxembourg.
- Iceberg holds directly 866,060 shares of the Company, equivalent to 10.61% of the Company's share capital.
- Messer Mario Rizzante, Sergio Ingegnatti and Oscar Pepino hold 51%, 22% e 22% respectively of Alika, a limited liability company with headquarters in C.so Francia 110, Turin.
- Alika S.r.l. holds directly 1,297,445 Company shares, equivalent to 15.9% of the Company's share capital.

## OTHER INFORMATION

### **Treasury shares**

In compliance with paragraph 2 of art. 2428 of the Italian Civil Code numbers 3) and 4), at the balance sheet date the Parent Company hold nr. 7.387 treasury shares, amounting to euro 90.714; net equity of the company includes a proper unavailable reserve for the same value.

In addition, the Extraordinary Shareholders' meeting held on 12 December 2001 has authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase, at a time or more, for an eighteen months period, of a maximum number of ordinary shares corresponding to 10% of the Company's share capital, up to a maximum of 21 million euro.

At the balance sheet date the Company does not hold shares of Parent Companies.

### **Judicial and arbitration Proceedings**

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

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

### **Information about stock option plans for Reply's employees**

During the year 2001 the Shareholders' meeting approved a Stock Option plan intended for executive, managers and employees at any level working for Reply S.p.A. and its subsidiaries; to this purpose the Extraordinary Shareholders' Meeting of Reply S.p.A. on June 26<sup>th</sup>, 2001 resolved the increase of the share capital with exclusion of stock option right in compliance with art 2441, paragraph 8 of the Italian Civil Code, for a total nominal value of Euro 130.000, through the issue of 250.000 new shares of euro 0,52 each.

The purposes of this stock option plan are the following:

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

The option plan will be in force until the June 30<sup>th</sup>, 2003 for the rights allotment, while December 31<sup>st</sup>, 2005 is the deadline for the subscription of the share capital increase.

The Board of Directors of Reply S.p.A., which is responsible for the conduct of the whole plan, resolved till now the allotment of 229.300 option rights.

### **Disclosure about the introduction of Euro**

During 2001 the Parent Company Reply S.p.A., which carries out the centralized management of the Group's administration services, completed the euro adjustments to its information systems. This activity was performed in two phases:

- in the first nine months the software and data banks for all procedures affected by the introduction of euro were modified and enhanced;
- during the fourth quarter (final phase) systems were verified in a test environment and subsequently transferred into the real environment.

Expenses incurred for these activities, long-term by nature, were recorded in the item "Industrial patents and intellectual property rights" of the Financial Statement of Reply S.p.A.

### **Corporate Governance**

The articles of incorporation of the Parent Company comply with the provisions of the Corporate Governance Code for listed companies.

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

In addition, article 17 of the articles of incorporation provides that the Board of Directors must meet at least every quarter.

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

The Board of Directors have designated to Messer Mario Rizzante, Marco Mezzalama and Paul de Sury:

- The members of the Compensation Committee, who have the task of formulating proposals of fees for the Chief Executive Officers and directors who have particular roles, and upon counselling of the Chief Executive Officers, the determination of compensation criteria for the Company's Top Management.
- The members of the Internal Control Committee, who have the task of evaluating the adequacy of the internal control system and to make suggestions on the issue.

## EVENTS SUBSEQUENT TO 31 DECEMBER 2001

### **Company reorganization plan**

The current structure of Reply Group reflects the original development plan, under which the first operating companies, distinguished by different business lines, have founded second level operating companies devoted to the development of the business line in the geographical area in which the others had a stronger business power.

This development plan is essentially ended, therefore it is necessary to strengthen the overall profile of those companies that run each business line, by gradually merging the companies of the Group.

To this purpose the Extraordinary shareholders' meeting of Technology Reply S.r.l., Cluster Reply S.r.l. and Sytel Reply S.r.l. approved the projects of partial split of equity investments in the second level operating companies.

The split projects will allow to make business combines of companies homogeneous by business line, without crossed equity interests in other Group companies that operate in different sectors.

With the conclusion of these transactions there will be the legal basis for a further merge of the operating companies of the same line of business.

### **Acquisitions and establishment of companies and strategic agreements**

In the first months of 2002 the Parent Company Reply has concluded important business initiatives whose effects will be evident starting from the accounting year 2002, and in particular:

#### **Logistics Reply do Brazil LTDA**

The company Logistics Reply do Brazil LTDA, in which Reply has the majority holding was founded in January 2002.

This initiative further strengthens the partnership with TNT Post Group in the Supply Chain Management field.

#### **Acquent Reply S.r.l.**

The company Backer Reply S.r.l., at first addressed to the Group financial activities management, waiting for taking the market or disposal opportunities to meet other business requirements, in the first months of 2002 has been relocated inside the Reply Group, by modifying its firm name in Acquent Reply S.r.l., after having disposed of its surplus financial resources by returning them to the Parent Company Reply S.p.A., therefore taking place within the operating activity of the Group.

Acquent Reply S.r.l. is going to represent a new Reply centre of excellence for Customer Relationship Management (CRM).

### **Partnership with Network 365**

In February 2002 Reply concluded a strategic partnership with Network 365, an Irish multinational and one of the major global providers of advanced mobile solutions.

The partnership with Network 365 fits perfectly into Reply's strategic plan for strengthening and expanding its mobile business line, significantly improving on the expertise and know-how that the Group is acquiring in this sector. These are new types of solutions for business, which are innovative both in terms of content and reliability and successful use and which can contribute to the spread of interest in and knowledge of the Mobile area in Italy.

### **Partnership with Openet Telecom**

In April 2002 Reply announced a strategic partnership with Openet Telecom, a leading provider of convergent mediation solutions to Communication Service Providers (CSP).

The partnership with Openet Telecom perfectly fits into Reply's strategic plan for strengthening and expanding inside the Telecommunication sector where the Group has already signed several deals.

Under this agreement, Reply will co-operate with Openet-Telecom in sales, marketing, support and development, in order to provide complete and cost-effective mediation solutions to joint customers, mainly based on Openet-Telecom's FusionWorks™ Mediation framework.

This alliance creates a powerful new market offering for Italian CSPs who want to deliver new services faster, or generate more revenues from their existing services, thanks to a more accurate billing system.

## OUTLOOK FOR 2002

The development strategies set up between the end of 2001 and the beginning of 2002, such as e\*finance acquisition, Acquent Reply constitution and the conclusion of several new partnership, will allow Reply to strengthen its leadership and further improve its competitive position in the E-services market in the year 2002.

The Group's attention will be focused mainly on some areas with huge technological development potential, such as banking and financials services, the Mobile sector, and new generation CRM projects.

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

Reply S.p.A.'s financial statements for the year-ended 2001, recorded a net result of euro 3.641.016 and a net equity amounting to euro 43.684.652 detailed below:

<b>(in euro)</b>	<b>31/12/2001</b>
Share capital	4.244.344
Additional paid-in capital	13.151.526
Legal reserve	78.073
Reserve for treasury shares on hand	90.714
Other reserves	21.063.205
Net Income (losses) of prior years	1.415.774
<b>Total Share Capital and Reserves</b>	<b>40.043.636</b>
Net result for the year	3.641.016
<b>Total</b>	<b>43.684.652</b>

The Board of Directors propose to Shareholders to allocate the net result for the year, amounting to euro 3.641.016, as follows:

- euro 182.051 to the legal reserve, equivalent to 5% of the net result as at 31 December 2000;
- euro 3.458.965 to retained earnings.

Turin, 22 April 2002

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

## REPLY

# CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2001

# REPLY

## CONSOLIDATED BALANCE SHEET

(in thousand euro)

	<b>31/12/2001</b>	<b>31/12/2000</b>
<b>ASSETS</b>		
<b>A) AMOUNT DUE FROM SHAREHOLDERS</b>		
<b>B) FIXED ASSETS</b>		
I Intangible fixed assets		
1 Start-up and expansion costs	2.773	3.656
3 Industrial patents and intellectual property rights	225	105
4 Concessions, licenses, trademarks and similar rights	1.176	1.516
5 Goodwill	116	131
6 Intangible assets in progress and advances	41	
7 Other	139	70
8 Consolidation differences	4.648	1.520
Total intangible fixed assets	<b>9.118</b>	<b>6.998</b>
II Tangible fixed assets		
2 Plant and machinery	90	16
3 Industrial and commercial equipment	22	18
4 Other assets	1.612	796
Total tangible fixed assets	<b>1.724</b>	<b>830</b>
III Financial fixed assets		
1 Equity investments in:		
a) subsidiary companies	53	5
c) other companies	1	1
	<b>54</b>	<b>6</b>
2 Receivables:		
d) other	341	206
	<b>341</b>	<b>206</b>
Total financial fixed assets	<b>395</b>	<b>212</b>
<b>Total fixed assets (B)</b>	<b>11.237</b>	<b>8.040</b>

(in thousand euro)

	<b>31/12/2001</b>	<b>31/12/2000</b>
<b>C) CURRENT ASSETS</b>		
I Inventories		
3 Contract work in progress	5.179	1.464
4 Finished products and goods for resale	302	218
5 Advances to suppliers	-	113
Total inventories	<b>5.481</b>	<b>1.795</b>
II Receivables due within 12 months		
1 Trade receivables	32.889	15.722
4 Parent companies	1	2
5 Other receivables	1.314	703
Total receivables	<b>34.204</b>	<b>16.427</b>
III Financial assets not held as fixed assets		
5 Treasury shares	91	-
6 Other securities	1.549	25.824
Total assets not held as fixed assets	<b>1.640</b>	<b>25.824</b>
IV Liquid funds		
1 Bank and post office deposits	16.924	4.740
3 Cash in hand	48	67
Total liquid funds	<b>16.972</b>	<b>4.807</b>
<b>Total current assets</b>	<b>58.297</b>	<b>48.853</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	255	103
<b>TOTAL ASSETS</b>	<b>69.789</b>	<b>56.996</b>

(in thousand euro)

	31/12/2001	31/12/2000	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>A) SHAREHOLDERS' EQUITY</b>			
I	Share Capital	4.244	4.244
II	Additional paid-in capital	13.152	34.242
IV	Legal reserve	78	4
V	Reserve for treasury shares on hand	91	-
VII	Other reserves	21.063	63
VIII	Retained earnings (accumulated losses)	3.145	1.325
IX	Net result for the year	3.842	1.883
	<b>Group Shareholders' equity</b>	<b>45.615</b>	<b>41.761</b>
X	Minority interests	466	
	<b>Total Shareholders' equity</b>	<b>46.081</b>	<b>41.761</b>
<b>B) RESERVE FOR RISKS AND CHARGES</b>			
1	Employee pensions and similar obligations	279	214
3	Other	300	-
	<b>Total reserve for risks and charges(B)</b>	<b>579</b>	<b>214</b>
<b>C) RESERVE FOR EMPLOYEES TERMINATION INDEMNITIES</b>			
		<b>1.656</b>	<b>833</b>
<b>D) PAYABLES</b>			
3	Due to banks		
	- within 12 months	1.981	203
	- beyond 12 months	71	241
4	Due to other providers of finance		
	- within 12 months	54	57
	- beyond 12 months	9	43
5	Advances	4.058	1.720
6	Trade payables	6.621	7.433
10	Due to parent companies	195	530
11	Due to tax authorities	4.190	2.081
12	Due to social security authorities	1.855	905
13	Other payables	2.407	963
	<b>Total Payables (D)</b>	<b>21.441</b>	<b>14.176</b>
<b>E) ACCRUED EXPENSES AND DEFERRAL INCOME</b>			
		32	12
<b>TOTAL LIABILITIES</b>		<b>69.789</b>	<b>56.996</b>

(in thousand euro)

	<b>31/12/2001</b>	<b>31/12/2000</b>
<b>MEMORANDUM ACCOUNTS</b>		
Guarantees issued on behalf of group companies	602	1.996
Guarantees received from third parties	484	402
Obligations for leasing commitments	1.556	613
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>2.642</b>	<b>3.011</b>

# REPLY

## CONSOLIDATED STATEMENT OF INCOME

(in thousand euro)

	<b>2001</b>	<b>2000</b>
<b>A) VALUE OF PRODUCTION</b>		
1 Revenue from sales and services	56.446	32.493
3 Change in contract work in progress	3.530	740
4 Capitalized production	93	62
5 Other income	234	42
<b>Total value of production (A)</b>	<b>60.303</b>	<b>33.337</b>
<b>B) COSTS OF PRODUCTION</b>		
6 Raw and other materials, consumables and good for resale	1.127	2.552
7 Services	20.497	11.180
8 Leases and rentals	1.005	902
9 Personnel		
a) wages and salaries	18.960	8.922
b) social security charges	5.517	2.590
c) employee termination indemnities	1.149	568
d) employee pensions and similar obligations	65	59
	25.691	12.139
10 Depreciation, amortisation and writedowns		
a) amortisation of intangible fixed assets	1.962	1.370
b) depreciation of tangible fixed assets	681	395
d) writedowns of receivables among current assets and liquid funds	403	80
	3.046	1.845
11 Changes in inventories of raw and other materials, consumables and goods for resale	(7)	(103)
12 Provisions for risks	300	-
14 Other operating costs	240	173
<b>Total costs of production (B)</b>	<b>51.899</b>	<b>28.688</b>
<b>Difference between value and cost of production (A-B)</b>	<b>8.404</b>	<b>4.649</b>

(in thousand euro)

	<b>2001</b>	<b>2000</b>
	<hr/>	<hr/>
<b>C) FINANCIAL INCOME AND EXPENSES</b>		
16 Other financial income		
b) from securities held as fixed assets	818	41
d) Other		
- other	112	38
	<hr/>	<hr/>
Total financial income	930	79
	<hr/>	<hr/>
17 Interest and other financial expenses		
- other	(149)	(184)
	<hr/>	<hr/>
Total financial expenses	(149)	(184)
	<hr/>	<hr/>
<b>Total financial income and expenses (C)</b>	<b>781</b>	<b>(105)</b>
	<hr/>	<hr/>
<b>D) ADJUSTMENTS TO FINANCIAL ASSETS</b>	-	-
	<hr/>	<hr/>
<b>E) EXTRAORDINARY INCOME AND EXPENSES</b>		
20 Income	209	61
21 Expenses	(326)	(2)
	<hr/>	<hr/>
<b>Total extraordinary income and expenses (E)</b>	<b>(117)</b>	<b>59</b>
	<hr/>	<hr/>
<b>RESULT BEFORE TAXATION</b>	<b>9.068</b>	<b>4.603</b>
	<hr/>	<hr/>
22 Income taxes for the year	5.162	2.720
	<hr/>	<hr/>
<b>NET RESULT FOR THE YEAR BEFORE MINORITY INTERESTS</b>	<b>3.906</b>	<b>1.883</b>
	<hr/>	<hr/>
23 Result attributable to minority interests	(64)	-
	<hr/>	<hr/>
<b>NET RESULT FOR THE YEAR</b>	<b>3.842</b>	<b>1.883</b>
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 31 December 2001 Consolidated Financial Statements have been prepared in accordance with Italian Legislative Decree No. 127 of April 9<sup>th</sup>, 1991, and they consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Notes to the Consolidated Financial Statements.

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

The amounts indicated in the consolidated financial statements are expressed in thousand of euro.

## ACTIVITY OF THE GROUP

Reply is one of the leading Italian companies operating in the e-business sector where it provides a complete range of services including consultancy, communication and technology.

## CONSOLIDATION AREA

The Consolidated Financial Statements include the financial statements as of 31 December 2001 of Reply S.p.A. and of all the subsidiaries, in which it directly or indirectly holds the majority of the voting rights.

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

The financial statements utilised for the consolidation are those approved by the Shareholder's meeting of the single companies or prepared by the respective Board of Directors.

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

The most significant changes that have occurred in the consolidation area of Reply Group compared to the year 2000 are the following:

- Inclusion in the consolidation area with economic and financial effects of Blue Reply S.r.l. and Bewit Reply S.r.l. founded in December 2000
- Inclusion in the area of consolidation of XYZ Reply S.r.l., acquired in January 2001;
- Inclusion in the area of consolidation of Atlas Reply S.r.l. (old Link Reply S.r.l.) and planeT Reply S.r.l., founded respectively in January and June 2001;
- Inclusion in the area of consolidation of Backer Reply S.r.l. and e\*finance consulting Reply S.p.A., acquired in December 2001 and therefore consolidated only with financial effects;

In addition, as effect of the split of Technology Reply S.r.l. since July 1<sup>st</sup> 2001 into two different companies, @Logistics Reply S.r.l. (the former Technology Reply S.r.l.) and Technology Reply S.r.l. (the beneficiary newly-established company) are shown among the Group companies.

## **PRINCIPLES OF CONSOLIDATION**

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

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

## **ACCOUNTING PRINCIPLES**

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

### **Intangible Fixed Assets**

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

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

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

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

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

### **Tangible fixed assets**

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets.

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets. In the year of acquisition such assets are depreciated at 50% of the normal rate, in consideration of their shorter period of use. Acquisitions with a unit value of less than 516,46 euro are recorded in the statement of income in the year in which they are incurred.

The annual depreciation rates applied are as follows:

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

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

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

Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent year if the reasons for such write-down no longer apply. Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives

### **Equity investments**

Investments in subsidiaries not consolidated together with those of less than 20% in other companies are recorded as financial fixed assets and are carried at cost. Such investments are

written down to reflect a permanent impairment in value. Their book value is reinstated in subsequent year if the reasons for such write-down no longer apply.

### **Inventories**

Contract work in progress, for "turn key" of a long-term nature are valued based on the agreed project revenues and the stage of completion.

Work in progress for contracts with a duration of less than twelve months has been recorded based on costs;

Finished products and goods for resale are valued at the lower of purchase or specific production cost of each component in stock, including all directly chargeable costs, and the their net realisable value.

### **Accounts receivable and accounts payables**

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

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

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

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

### **Liquidity funds**

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

### **Accruals and Deferrals**

Accrued income and expenses are recorded to match costs and revenues in the accounting periods to which they relate. Prepaid expenses and deferred income relate to costs and revenues originating in the current period but relating to future periods.

### **Reserves for risks and charges**

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

### **Reserve for employee termination indemnities**

This reserve reflects the liability for severance indemnities accrued for each employee and determined in accordance with current legislation and labour contracts at the balance sheet date.

Such liability is subject to an index-based revaluation in accordance with the current legislation.

## **Revenue recognition**

Revenues from services are recognised at the time of execution.

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

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

## **Income taxes**

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

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

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

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

## **Translation of foreign currency items**

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

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

## **OTHER INFORMATION**

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

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

### **Balance Sheet and Statement of Income items expressed in Euro as at 31 December 2001**

The Group has adopted Euro as accounting standard currency since January 1<sup>st</sup> 2002.

In compliance with art. 2423 Italian Civil Code, as replaced by art. 16, paragraph 8, letter a) of D.Lgs. n. 213 of 24 June 1998 with effect since January 1<sup>st</sup> 2002, the Financial Statements are drawn up in euro unit, without decimals, as the present Notes. Values in Lire have been translated to Euro using the fixed exchange rate, by rounding to euro unit.

## COMMENTS ON ASSETS INCLUDED IN THE CONSOLIDATED BALANCE SHEET

### B) FIXED ASSETS

#### I. Intangible fixed assets

Net intangible assets, as at 31 December 2001 amount to 9.118 thousand euro (6.998 thousand euro as at 31 December 2000).

(in thousand euro)	Historical cost	Accumulated depreciation	Net book value at 31/12/2001
Start-up and expansion costs	4.646	(1.873)	2.773
Industrial patents and intellectual property rights	437	(212)	225
Concessions, licenses, trademarks and similar rights	1.704	(528)	1.176
Goodwill	145	(29)	116
Other intangible assets	262	(123)	139
Intangible assets in progress and advances	41	-	41
Consolidation differences	5.355	(707)	4.648
<b>Total</b>	<b>12.590</b>	<b>(3.472)</b>	<b>9.118</b>

Movements in intangible fixed assets during the year 2001 can be summarized as follows:

(in thousand euro)	Net book value 31/12/2000	Increases	Change in consolidation area	Amortisation	Net book value 31/12/2001
Start-up and expansion costs	3.656	12	21	(916)	2.773
Industrial patents and intellectual property rights	105	178	54	(112)	225
Concessions, licenses, trademarks and similar rights	1.517	-	-	(341)	1.176
Goodwill	130	-	-	(14)	116
Other intangible assets	70	54	57	(42)	139
Intangible assets in progress and advances	-	41	-	-	41
Consolidation differences	1.520	3.665	-	(537)	4.648
<b>Total</b>	<b>6.998</b>	<b>3.950</b>	<b>132</b>	<b>(1.962)</b>	<b>9.118</b>

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

*Industrial patents and intellectual property rights* refer mainly to software patents. The increase in the year includes charges incurred by the Parent Company for the euro adjustments to the information system.

The figure *Concessions, licenses, trademarks and similar* express the value of the "Reply" trademark contributed to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on June 9th, 2000, with regard to the Company's share capital increase that was resolved and subscribed by the Parent Company Alister.

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

The *Goodwill* refers to the value of the business branch related to the Information Technology consultancy and management support activities, purchased from the parent company Alike S.r.l. in July 2000.

*Other intangible assets* mainly include leasehold improvements.

*Consolidation differences* reflect the goodwill arising from consolidation and are due to:

- acquisition of minority interests of the company Alister Holding SA, transaction which was executed on June 9<sup>th</sup>, 2000 through the parent company Reply's share capital increase (1.327 thousand euro);
- acquisition of 100% of YH Reply S.r.l. share capital during the year 2000 (21 thousand euro);
- acquisition, during 2001, of 70% of XYZ Reply S.r.l.'s share capital (1.999 thousand euro);
- acquisition, during 2001, of 58% of e\*finance consulting Reply S.p.A.'s share capital (1.301 thousand euro).

## II. Tangible fixed assets

Tangible fixed assets, amounting to 1.724 thousand euro are detailed as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Generic plants	90	16	74
Electronic equipment	1.077	599	478
Ordinary office equipment	49	2	47
Furniture and fittings	450	188	262
Cars	28	5	23
Generic equipment	22	18	4
Mobile phones	8	2	6
<b>Total</b>	<b>1.724</b>	<b>830</b>	<b>894</b>

Tangible assets in the year 2001 have had the following movements:

(in thousand euro)	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost	69	23	1.518	1.610
Accumulated Depreciation	(53)	(5)	(722)	(780)
<b>Balance as at 31 December 2000</b>	<b>16</b>	<b>18</b>	<b>796</b>	<b>830</b>
<u>Historical cost</u>				
Additions	102	10	1.264	1.376
Disposals	-	-	(18)	(18)
Change in consolidation area	11	9	286	306
<u>Accumulated Depreciation</u>				
Depreciation	(35)	(6)	(640)	(681)
Disposals	-	-	5	5
Change in consolidation area	(4)	(9)	(81)	(94)
Historical cost	182	42	3.050	3.274
Accumulated Depreciation	(92)	(20)	(1.438)	(1.550)
<b>Balance as at 31 December 2001</b>	<b>90</b>	<b>22</b>	<b>1.612</b>	<b>1.724</b>

During the year 2001 the Group has carried out investments amounting to thousand euro 1.376, mainly related to computers and network equipments, plants and office furniture.

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

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

Tangible assets as of 31 December 2001 are depreciated for 47.3% of their gross value, compared to 48.5% year-ended 2000.

### III. Financial fixed assets

Financial fixed assets as at 31 December 2001 amount to 395 thousand euro compared to 212 thousand euro as at 31 December 2000; details as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Investments in subsidiaries	53	5	48
Investments in other companies	1	1	-
Receivables from other companies	341	206	135
<b>Total</b>	<b>395</b>	<b>212</b>	<b>183</b>

The change in the value of *investments in subsidiaries* is detailed as follows:

- the subsidiaries BeWit Reply S.r.l. and Blue Reply S.r.l., which became fully operating during 2001, have been consolidated on a line-by-line basis, while they were recorded at cost for 5 thousand euro as at 31 December 2000;
- the company Logistic Reply SL, focused on the *Supply Chain Management* sector in Spain (53 thousand euro), was established in October 2001 and became fully operating in the year 2002.

*Investments in other companies* refer to the subscription of shares in the Unionfidi consortium.

*Receivables from other companies* include:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Insurance receivables	215	160	55
Guarantee deposits	127	46	81
<b>Total</b>	<b>342</b>	<b>206</b>	<b>136</b>

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

## C) CURRENT ASSETS

### I. Inventories

Inventories, amounting to 5.481 thousand euro, are detailed as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Contract work in progress			
- within 12 months	1.621	964	657
- beyond 12 months	3.558	500	3.058
	5.179	1.464	3.715
Finished products and goods for resale	302	218	84
Advances to suppliers	-	113	(113)
<b>Total</b>	<b>5.481</b>	<b>1.795</b>	<b>3.686</b>

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

- Realisation of a spare parts warehouse management system at a European level
- System integration for the start-up of a new European wireless/GSM operator;
- Realisation of a new Internet server farm.

*Finished products and goods for resale* reflects the value of software licences, still not implemented at year end

### II. Receivables

The difference in short-term receivables, amounting to 17.777 thousand euro, is mainly due to the significant increase of revenues compared to the previous year

#### **Trade Receivables**

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

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Domestic customers	32.858	15.617	17.241
Foreign customers	1.002	383	619
Credit notes to be issued	(396)	(109)	(287)
<b>Total</b>	<b>33.464</b>	<b>15.891</b>	<b>17.573</b>
Allowance for doubtful accounts	(575)	(169)	(406)
<b>Total trade receivables, net</b>	<b>32.889</b>	<b>15.722</b>	<b>17.167</b>

Receivable turnover, without the effect deriving from the monthly increase of revenues, doesn't show substantial differences compared to previous years.

After having carried out a collectibility analysis of each receivable account as at 31 December 2001, the provision made for doubtful accounts totally amounts to 403 thousand euro.

### **Other receivables**

The detail is as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Advances to suppliers	445	54	391
Receivables from fiscal authorities	519	23	496
Deferred tax assets	191	261	(70)
VAT receivables	54	275	(221)
Other receivables	105	90	15
<b>Total</b>	<b>1.314</b>	<b>703</b>	<b>611</b>

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

This item, amounting to 1.640 thousand euro, with a reduction of 24.184 thousand euro, is detailed as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
<b>Treasury shares</b>	<b>91</b>	<b>-</b>	<b>91</b>
Receivables from sale of securities	-	11.352	(11.352)
Government Bond (BTP) – Treasury Certificates (CCT)	-	9.172	(9.172)
Investments funds	1.549	5.164	(3.615)
Other	-	136	(136)
<b>Other securities</b>	<b>1.549</b>	<b>25.824</b>	<b>(24.275)</b>
<b>Total</b>	<b>1.640</b>	<b>25.824</b>	<b>(24.184)</b>

### **Treasury shares**

This item refers to the value of treasury shares, which corresponds to the purchase cost. Movements in treasury shares during 2001 were as follows:

	Quantity	Average cost (euro)	Final value (euro)
<b>Balance at 31/12/00</b>	-	-	-
Purchases of the year	25.000	12,28	307.073
Sales of the year	(17.613)	12,28	(216.359)
<b>Balance at 31/12/01</b>	<b>7.387</b>	<b>12,28</b>	<b>90.714</b>

The Shareholders' equity includes a proper unavailable reserve of the same amount.

### **Other securities**

The item *receivables for sales of securities* included in the year 2000 the purchase cost of securities held under agreements to resell at established date and price.

Investments funds represent the purchase cost of the shares of a SAN PAOLO IMI ASSET MANAGEMENT SGR liquidity fund.

## **IV. Liquidity funds**

This item amounting to 16.972 thousand euro, shows a difference of 12.165 thousand euro compared to 31 December 2000, reflects the amount of cash at banks and in hand at year end.

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

## **D. ACCRUED INCOME AND PREPAID EXPENSES**

The ending balance of 255 thousand euro, with a difference of 152 thousand euro compared to 31 December 2000, mainly refers to prepaid expenses from leasing contracts and other utility expenses, which are accounted for in accordance with the accruals accounting method.

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

### A) SHAREHOLDERS' EQUITY

The table below shows changes in Group shareholders' equity in the last two years:

(in thousand euro)	Share Capital	Additional paid-in Capital	Legal Reserve	Reserve for treasury shares on hand	Extraordinary Reserve	Reserve for treasury shares to purchase	Consolidation Reserve	Retained earnings	Net result for the year	Total
<b>Balance as at 31/12/99</b>	<b>712</b>	<b>111</b>	<b>2</b>	-	-	-	<b>11</b>	<b>270</b>	<b>1.123</b>	<b>2.229</b>
Allocation of 1999 result	-	-	2	-	63	-	-	1.058	(1.123)	-
Increase in share capital - Extraordinary Shareholders' Meeting -09/06/00	958	2.874	-	-	-	-	-	-	-	<b>3.832</b>
Free capital increase	1.377	(1.377)	-	-	-	-	-	-	-	-
Translation adjustment of share capital in Euro	21	(21)	-	-	-	-	-	-	-	-
Increase in share capital set aside for the company managers of 102,000 shares (price 0,81 euro)	53	30	-	-	-	-	-	-	-	<b>83</b>
Increase in share capital set aside for strategic partners of 300,000 shares (price: 0,949 euro)	156	128	-	-	-	-	-	-	-	<b>284</b>
Global Offer of 1,832,200 shares (price: 18 euro)	952	32.027	-	-	-	-	-	-	-	<b>32.979</b>
Global Offer of 30,000 shares set aside for employees (price: 16,2 euro)	15	470	-	-	-	-	-	-	-	<b>485</b>
Other	-	-	-	-	-	-	(11)	(3)	-	<b>(14)</b>
Net result of the year 2000	-	-	-	-	-	-	-	-	1.883	<b>1.883</b>
<b>Balance as at 31/12/2000</b>	<b>4.244</b>	<b>34.242</b>	<b>4</b>	-	<b>63</b>	-	-	<b>1.325</b>	<b>1.883</b>	<b>41.761</b>
Allocation of 2000 result	-	-	74	-	-	-	-	1.809	(1.883)	-
Treasury shares purchase	-	(307)	-	307	-	-	-	-	-	-
Treasury shares sales	-	216	-	(216)	-	-	-	-	-	-
Set up of reserve for treasury share to purchase	-	(21.000)	-	-	-	21.000	-	-	-	-
Other	-	1	-	-	-	-	-	11	-	<b>12</b>
Net result 2001	-	-	-	-	-	-	-	-	3.842	<b>3.842</b>
<b>Balance as at 31/12/2001</b>	<b>4.244</b>	<b>13.152</b>	<b>78</b>	<b>91</b>	<b>63</b>	<b>21.000</b>	-	<b>3.145</b>	<b>3.842</b>	<b>45.615</b>

As of 31 December 2001 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.244 thousand euro.  
This is represented by 8.162.200 ordinary shares, par value 0,52 Euro each.

Movements in shareholders' equity during the year have been determined by the following transactions:

- *Reserve for treasury shares on hand* amounts to 91 thousand euro as at 31 December 2001, corresponding to the value of n. 7.387 shares of the Parent Company held by the same, which are included in the balance sheet item *Financial assets not held as fixed assets*, in compliance with art. 2357 ter of Italian Civil Code. This reserve, formed through a partial utilization of the additional paid-in capital reserve, is not available until treasury share are on hand;
- Set up of the *Reserve for treasury shares to purchase* for 21 million euro, following the Reply S.p.A. Shareholders' meeting resolution held on 12 December 2001, which authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase, at a time or more, for an eighteen months period, of a maximum number of 816.220 ordinary shares corresponding to 10% of the Company's share capital, up to a maximum of 21 million euro. This reserve has been formed through a withdrawal from the additional paid-in capital reserve.

### Future potential changes in share capital

The Extraordinary Shareholders' meeting of Reply S.p.A. held on 26 June 2001 resolved the share capital increase of nominal 130.000 euro, without stock option right, in compliance with art. 2441, paragraph 8 of Italian Civil Code, by issuing nr. 250.000 new ordinary shares of Reply S.p.A., par value 0,52 euro each, set aside for employees at any level of the Company and its subsidiaries.

The option plan will be in force until June 30<sup>th</sup> 2003 for the rights allotment, while December 31<sup>st</sup> 2005 is the deadline for the subscription of the share capital increase.

The Board of Directors of Reply S.p.A., which is responsible for the conduct of the whole plan, resolved till now the following allotments:

<b>B.o.D. meeting date of assignment</b>	<b>Option nr (*)</b>	<b>Exercise price (euro)</b>	<b>Exercise period</b>
July 6 <sup>th</sup> , 2001	201.200	15,969	06/07/2003 – 06/01/2004
September 28 <sup>th</sup> , 2001	2.400	13,379	28/09/2003 – 28/03/2004
November 13 <sup>th</sup> , 2001	5.700	15,035	13/11/2003 – 13/05/2004
February 13 <sup>th</sup> , 2002	14.300	16,776	13/02/2004 – 13/08/2004
March 21 <sup>st</sup> , 2002	5.700	17,066	21/03/2004 – 21/09/2004
	<b>229.300</b>		

(\*): net of options recovered from leaving employees

Group consolidated net equity as at 31 December 2001 amounts to 45.615 thousand euro (41.761 thousand euro as at 31 December 2000).

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

(in thousand euro)	31 December 2001		31 December 2000	
	Net Equity	Net result for the year	Net equity	Net result for the year
<b>Reply S.p.A. Financial Statements</b>	<b>43.685</b>	<b>3.641</b>	<b>40.044</b>	<b>1.490</b>
Amounts shown in the financial statements of the consolidated companies	17.800	4.501	4.959	2.653
Carrying value of investments in consolidated companies	(16.283)	-	(2.649)	-
Consolidation goodwill	4.648	(537)	1.520	(169)
Elimination of dividends from subsidiaries	(3.432)	(3.432)	(2.040)	(2.040)
Adjustments on accounting principles and elimination of inter-company gains and losses, net of the related tax effect	(337)	(267)	(73)	(51)
Minority interests	(466)	(64)	-	-
<b>Consolidated Financial Statements of Reply Group</b>	<b>45.615</b>	<b>3.842</b>	<b>41.761</b>	<b>1.883</b>

## B) RESERVES FOR RISKS AND CHARGES

### *Employee pensions and similar obligations*

This item is related to the Company's liability for Directors' severance indemnity. The difference of 65 thousand euro, compared to the previous year, is related to the additional leaving indemnity to several members of the Board of Directors for the year 2001 resolved by the consolidated company's Shareholders' Meeting.

### *Others*

The provision, fully accrued in the year, refers to charges connected to the reorganization plan addressed to create, within Reply, groups of companies operating in the same line of business.

## C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

Movements in the reserve during the year were as follows:

<b>(in thousand euro)</b>	
<b>Balance as at 31 December 2000</b>	<b>833</b>
Reserve transferred following the acquisition of business branch	45
Provision for the year	1.149
Utilizations	(371)
<b>Balance as at 31 December 2001</b>	<b>1.656</b>

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

The number of employees as at 31 December 2001 is 647, compared to 396 employees as at 31 December 2000.

## D) PAYABLES

Payables as at 31 December 2001 amount to Lire 21.441 thousand euro, of which 2.115 thousand euro are related to financial liabilities (544 thousand euro as at 31 December 2000) and 19.326 thousand euro are related to trade payables and other payables (13.632 thousand euro as at 31 December 2000).

### Financial Payables

<b>(in thousand euro)</b>	<b>31/12/2001</b>			<b>31/12/2000</b>		
	<b>Short term</b>	<b>Long term</b>	<b>Total</b>	<b>Short term</b>	<b>Long term</b>	<b>Total</b>
Advances on invoices and bank overdrafts	1.808	-	1.808	31	-	31
Medium/Long term borrowings	173	71	244	172	241	413
<b>Total due to banks</b>	<b>1.981</b>	<b>71</b>	<b>2.052</b>	<b>203</b>	<b>241</b>	<b>444</b>
Due to other providers of finance	54	9	63	57	43	100
<b>Total Financial Payables</b>	<b>2.035</b>	<b>80</b>	<b>2.115</b>	<b>260</b>	<b>284</b>	<b>544</b>

Due to other providers of finance refer to financial lease contracts recorded in compliance with the financial methodology provided by IAS nr 17.

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

<b>Financial Institution</b>	<b>Balance as at 31/12/01 (euro/000)</b>	<b>Interest rate</b>	<b>Maturity date</b>	<b>Type of payment</b>
San Paolo Imi	65	Euribor 6 months + 1,25%	3 April 2003	Monthly post-dated
San Paolo Imi	61	Euribor 6 months + 1,25%	31 March 2003	Monthly post-dated
San Paolo Imi	34	Euribor 6 months + 1,25%	8 February 2005	Monthly post-dated
San Paolo Imi	61	Euribor 6 months + 1,25%	30 March 2003	Monthly post-dated
San Paolo Imi	23	Euribor 6 months + 1,25%	31 March 2003	Monthly post-dated
<b>Total medium/long-term finances</b>	<b>244</b>			

In order to obtain the above borrowings, the Group obtained a guarantee from "Consorzio Unionfidi" for an amount of 390 thousand euro, equivalent to 80% of the amount collected by the financial institute SANPAOLO IMI. As a consequence, the Group has undersigned certain shares of "Consorzio Unionfidi", classified as financial fixed assets.

Net financial position as at 31 December 2001 amounts to 16.497 thousand euro and is detailed as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
<b>Financial assets</b>			
Treasury shares	91	-	91
Receivables from sale of securities	-	11.352	(11.352)
Securities	-	9.172	(9.172)
Investment Funds	1.549	5.164	(3.615)
Other	-	136	(136)
Liquid funds	16.972	4.807	12.165
<b>Total financial assets</b>	<b>18.612</b>	<b>30.631</b>	<b>(12.019)</b>
<b>Financial Payables</b>			
Due within 12 months	(2.035)	(260)	(1.775)
Due beyond 12 months	(80)	(284)	204
<b>Total financial payables</b>	<b>(2.115)</b>	<b>(544)</b>	<b>(1.571)</b>
<b>Net financial position</b>	<b>16.497</b>	<b>30.087</b>	<b>(13.590)</b>

Changes in net financial position are detailed in cash flow attached.

## Trade payables and other payables

The differences in trade payables and other payables, amounting to 5.694 thousand euro, is mainly due to the increasing business activities of the Group, compared to the year 2000  
P\_015-T

(in thousand euro)	31/12/2001	31/12/2000	Difference
Advances	4.058	1.720	2.338
Trade payables	6.621	7.433	(812)
Due to parent companies	195	530	(335)
Due to tax authorities			
Income taxes (Irpeg- Irap)	2.550	1.426	1.124
VAT payable	769	220	549
Withholding taxes	871	435	436
	4.190	2.081	2.109
Due to social security authorities			
Inps	1.622	789	833
Inpdai	129	70	59
Inail	40	23	17
Other authorities	64	23	41
	1.855	905	950
Other payables			
Employees accruals	2.025	816	1.209
Other payables to employees	98	52	46
Other payables	284	95	189
	2.407	963	1.444
<b>Total Trade Payables and Other Payables</b>	<b>19.326</b>	<b>13.632</b>	<b>5.694</b>

Non-financial payables comprise the following items:

### **Advances**

This item includes the advances received from clients for job orders that at year-end have not yet been completed

### **Trade payables**

The item, amounting to 6.621 thousand euro, refers to normal trade transactions of which 73 thousand euro are due to foreign suppliers

### ***Due to Parent Companies***

Payables due to parent companies are related to trade transactions at normal market conditions, for Reply Group service contracts related to the use of premises, the domiciliation and the secretarial services.

### ***Due to tax authorities***

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

### ***Due to social security authorities***

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

### ***Other payables***

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

## **MEMORANDUM ACCOUNT**

Detail as follows:

<b>(in thousand euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Guarantees issued on behalf of group companies	602	1.996	(1.394)
Guarantees received from third parties	484	402	82
Obligations for leasing commitments	1.556	613	943
<b>Total</b>	<b>2.642</b>	<b>3.011</b>	<b>(369)</b>

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

Guarantees received from third parties mainly refer to surety ships issued by "Consorzio Unionfidi" to SANPAOLO IMI. As a consequence, the Group subscribed certain shares of "Consorzio Unionfidi", accounted as financial fixed assets

## NOTES TO THE CONSOLIDATED PROFIT AND LOSS

### A) VALUE OF PRODUCTION

#### Revenues from sales and services

Revenues from sales and services, including changes in contract work in progress, amount to Lire 59.976 thousand euro and are detailed as follows:

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Revenues from services	58.599	30.426	28.173
Sale of hardware and software licenses	1.377	2.807	(1.430)
<b>Total</b>	<b>59.976</b>	<b>33.233</b>	<b>26.743</b>

The Group mainly operates in the Italian market; in the year 2001 revenues from foreign countries make up approximately 3,1% of total revenues (4,25% in the year 2000)

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

#### Capitalized production

The item is related to the implementation activities of the company's information system and intranet.

### B) COST OF PRODUCTION

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

Detail as follows:

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Hardware for resale	25	299	(274)
Software licenses for resale	688	2.013	(1.325)
Other	414	240	174
<b>Total</b>	<b>1.127</b>	<b>2.552</b>	<b>(1.425)</b>

The difference is due to a decreased resale activity

## Services

The cost of services is detailed as follows:

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Commercial and technical consultancy	9.027	4.549	4.478
Services from Parent Company	1.208	1.875	(667)
Directors' fees	2.153	1.346	807
Travelling and professional training expenses	3.037	1.628	1.409
Marketing expenses	466	395	71
Administrative and legal services	833	351	482
Utilities	466	225	241
Statutory Auditors' and Independent Auditors' fees	109	129	(20)
Canteen expenses	679	374	305
Services to be rebilled	1.425	-	1.425
Other	1.094	308	786
<b>Total</b>	<b>20.497</b>	<b>11.180</b>	<b>9.317</b>

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

Media services to be rebilled refer to the ordinary business of XYZ Reply S.r.l., web agency acquired during year 2001.

## Leases and rentals

Charges for leases and rentals are detailed below

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Rental expenses	471	345	126
Leasing of automobiles	499	236	263
Royalties for use of trademarks	-	245	(245)
Other	35	76	(41)
<b>Total</b>	<b>1.005</b>	<b>902</b>	<b>103</b>

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

## Personnel costs

Costs for personnel amount to 25.691 thousand euro, with a difference of 13.552 thousand euro compared to the previous year. The breakdown of these costs is provided at the statement of income. The following table indicates the number of employees by category:

<b>(number)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Executives	27	14	13
Manager	47	26	21
Staff	573	356	217
<b>Total</b>	<b>647</b>	<b>396</b>	<b>251</b>

## Depreciation, amortisation and writedowns

Amortisation of Intangible assets amounts to 1.962 thousand euro. The details are provided at the notes to Intangible Assets herein.

Depreciation of tangible assets, amounting to 681 thousand euro, has been determined on a straight-line basis at economic-technical rates that reflect the useful life of the asset. Details of depreciation are provided at the notes to Tangible fixed assets herein.

Write-downs of receivables and liquid funds amounting to 403 thousand euro refer to the provision for doubtful accounts.

## Provision for risks

The provision refers to charges for the reorganization plan addressed to create, within Reply, groups of companies operating in the same line of business.

## Other operating costs

This expenses amount to 240 thousand euro and include:

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Hospitality expenses	60	25	35
Gifts to clients	13	49	(36)
Other costs	134	84	50
Magazines	20	10	10
Taxes on automobiles	13	5	8
<b>Total</b>	<b>240</b>	<b>173</b>	<b>67</b>

## C) FINANCIAL INCOME AND EXPENSES

This item is detailed as follows:

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Gain on securities	818	41	777
Interest income on banks accounts	110	35	75
Interest due to banks	(14)	(122)	108
Interest expense on loans	(28)	(21)	(7)
Losses on securities	(75)	-	(75)
Interest on income tax from previous years	(32)	(20)	(12)
Other	2	(18)	20
<b>Total</b>	<b>781</b>	<b>(105)</b>	<b>886</b>

## E) EXTRAORDINARY INCOME AND CHARGES

Extraordinary incomes amounts to 209 thousand euro and are incomes not related to ordinary activities of the Group.

Extraordinary expenses amount to 326 thousand euro and are mainly related to unexpected losses.

## INCOME TAXES

Income taxes due for the year 2001 amount to 5.162 thousand euro, compared to 2.720 thousand euro in 2000.

<b>(in thousand euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Current taxes	5.304	3.015	2.289
Deferred taxes, net	(142)	(295)	153
<b>Total</b>	<b>5.162</b>	<b>2.720</b>	<b>2.442</b>

The increase of income taxes is mainly due to a higher taxable income of the Group companies

The impact of tax burden before taxation is equivalent to 56,9% (59% in 2000). The difference, compared to the theoretical tax incidence of 41.25%, is mainly due to non-deductible costs as per IRAP (a regional tax on added value) and to permanent tax differences of certain costs.

## **OTHER INFORMATION**

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

Emoluments due by the Parent Company to Directors and Statutory Auditors for the year 2001 amount to Lire 393 thousand euro and 55 thousand euro respectively, including the remuneration of services provided by them to other Group companies.

## REPLY

### CONSOLIDATED STATEMENT OF CASH FLOW

(in thousand euro)	2001	2000
Net result for the year	3.842	1.883
Depreciation and amortisation	2.643	1.765
Accrual for employee severance indemnities	1.149	568
Accrual for reserve for risk and charges	365	59
Accrual for allowances for doubtful accounts	403	80
<b>Cash flows from operating activities before working capital movements</b>	<b>8.402</b>	<b>4.355</b>
Change in inventories	(3.686)	(1.019)
Change in trade receivables	(17.569)	(7.460)
Change in other current assets	(763)	327
Change in trade payables	(1.147)	5.203
Change in other current liabilities	6.861	1.975
Change in employee severance indemnities	(326)	(180)
<b>Change in working capital</b>	<b>(16.630)</b>	<b>(1.154)</b>
<b>Cash flows from operating activities (A)</b>	<b>(8.228)</b>	<b>3.201</b>
Capitalisation of intangibles assets	(4.082)	(8.289)
Purchase of plant, property and equipment	(1.575)	(685)
Change in other long term assets	(183)	(85)
<b>Cash flows used in investing activities (B)</b>	<b>(5.840)</b>	<b>(9.059)</b>
Increase in share capital and share premium	-	37.664
Decrease of minority interests in net equity	466	(438)
Other movements in shareholders' equity	12	(16)
<b>Cash flows used in financing activities (C)</b>	<b>478</b>	<b>37.210</b>
<b>Change in net financial position (A + B + C)</b>	<b>(13.590)</b>	<b>31.352</b>
Net financial position at the beginning of the year	30.087	(1.265)
Change in net financial position	(13.590)	31.352
<b>Net financial position at the end of the year</b>	<b>16.497</b>	<b>30.087</b>

## REPLY

### RECLASSIFIED CONSOLIDATED BALANCE SHEET

(in thousand euro)	31/12/01	31/12/00
Intangible fixed assets	9.118	6.998
Tangible fixed assets	1.724	830
Financial fixed assets	395	212
<b>Total fixed assets (A)</b>	<b>11.237</b>	<b>8.040</b>
Inventories	5.481	1.795
Trade receivables	32.890	15.724
Other current assets	1.569	806
<b>Total current assets (B)</b>	<b>39.940</b>	<b>18.325</b>
Trade payables	(6.816)	(7.963)
Other current liabilities	(12.542)	(5.681)
<b>Total current liabilities (C)</b>	<b>(19.358)</b>	<b>(13.644)</b>
<b>Net current assets (D) (B + C)</b>	<b>20.582</b>	<b>4.681</b>
<b>Employee severance indemnities (E)</b>	<b>(1.656)</b>	<b>(833)</b>
<b>Reserve for risks and charges (F)</b>	<b>(579)</b>	<b>(214)</b>
<b>Net invested capital (A + D + E + F)</b>	<b>29.584</b>	<b>11.674</b>
Shareholders' equity	46.081	41.761
Long-term net financial position	80	284
Short-term net financial position	(16.577)	(30.371)
<b>Shareholders' equity and net financial position</b>	<b>29.584</b>	<b>11.674</b>

## REPLY

### COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2001, AND EQUITY INVESTMENTS

Company name	Registered office	Share Capital	Group interest
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#### PARENT COMPANY

REPLY S.p.A.	Torino - Corso Francia, 110	€ 4.244.344	-
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#### SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

@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%
Acquent Reply S.r.l.	Torino - Corso Francia, 110	€ 99.000	100,00%
BeWit Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	70,00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	85,00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€ 78.000	100,00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€ 52.000	100,00%
Cluster Reply Milano S.r.l.	Torino - Corso Francia, 110	€ 10.400	100,00%
Cluster Reply Roma S.r.l.	Torino - Corso Francia, 110	€ 10.400	100,00%
Creative Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
e*finance consulting Reply S.p.A.	Roma - Via Monte Zebbio, 32	€ 104.000	58,00%
planeT Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	80,00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€ 62.400	100,00%
Sytel Reply Milano S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€ 78.000	100,00%
Technology Reply Torino S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
XYZ Reply S.r.l.	Torino - Corso Francia, 110	€ 10.400	70,00%
YH Reply S.r.l.	Torino - Corso Francia, 110	€ 21.224	100,00%

#### INVESTMENTS IN SUBSIDIARIES CARRIED AT COST

Logistics Reply SL	Barcelona - Spain	€ 15.510	100,00%
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# STATUTORY AUDITORS' REPORT TO THE SHAREHOLDER'S MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2001

To the Shareholders,

The Board of Directors is submitting to You the consolidated financial statements as of 31 December 2001, including the Balance Sheet, the Statement of Income and the Notes to the consolidated financial statements, delivered to the Statutory Auditors jointly with the financial statements and the Directors' Report on Operations, which includes information on data, and analysis of the activities carried out, even at a consolidated level, by REPLY S.P.A. and its subsidiary companies.

Within this framework, the consolidation area is defined clearly through the list of the companies included, which were 20 as at 31 December 2001, all consolidated with the full consolidation method.

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

The consolidated financial statements as at 31 December 2001 indicates a consolidated net equity amounting to 41.773 thousand euro, net of the consolidated net result amounting to 3.842 thousand Euro.

Arthur Andersen S.p.A., the Auditing firm engaged in certifying the REPLY consolidated financial statements, issued its report on April 24<sup>th</sup> 2002, in which it asserts that the REPLY Group Consolidated Financial Statements as of 31 December 2001 comply with laws governing the criteria for their preparation.

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

- the consolidation area has been determined correctly;
- the adopted consolidation procedures are pursuant to the law and have been applied correctly;
- the figures expressed in the financial statements correspond to the accounting results of the Parent Company and to the information sent by its subsidiaries;
- all the information used for consolidation purposes is referred to the entire administrative period of the year 2001;
- the accounting principles and the evaluation criteria, whose supervision is carried out by the Statutory Auditors, seem to have been applied correctly.

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

The STATUTORY AUDITORS

Turin, May 23<sup>rd</sup>, 2002

*(Prof. Piergio Re)*

*(Mr. Tommaso Vallenzasca)*

*(Prof. Giorgio Gianeri)*



**Report of the Independent Auditors  
on the consolidated financial statements pursuant to  
art. 156 of Legislative Decree no. 58 of February 24, 1998  
(Translation from the Original Issued in Italian)**

Arthur Andersen SpA  
Galleria San Federico 54  
10121 Torino  
[www.andersen.com](http://www.andersen.com)

To the Shareholders of  
Reply S.p.A.:

1. We have audited the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2001. These consolidated financial statements are the responsibility of Reply's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion. For the opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to the predecessor auditors' report dated May 25, 2001.
3. In our opinion, the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2001 comply with the Italian statutory provisions related to consolidated financial statements; therefore, they give a true and fair view of the financial position and results of operations of the Company and its subsidiaries.

Turin, Italy  
April 24, 2002

**Arthur Andersen SpA**  
s/Giuseppe Pedone - Partner

*This report and the consolidated financial statements have been translated into English from the original versions in Italian. They have been prepared in accordance with the Italian law related to financial statements. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Italy, may not conform with generally accepted accounting principles in other countries.*

Sette Legate  
Via della Moscova 3 20121 Milano

Rug. 1/10 0249870581 in Milano  
R.E.A. 960045  
Cod. Fisc. 02488235011  
PARTS I/A 03869140155  
Capitale Sociale Euro 1.500.000 i.r.

San Bobone Breeda Firenze  
Genova Milano Napoli Padova  
Roma Torino Trieste Verona

REPLY S.p.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2001

REPLY S.p.A.  
BALANCE SHEET

(in euro)

	<b>31/12/2001</b>	<b>31/12/2000</b>
<b>ASSETS</b>		
<b>A) AMOUNT DUE FROM SHAREHOLDERS</b>		
<b>B) FIXED ASSETS</b>		
I Intangible Fixed Assets		
1 Start-up and expansion costs	2.733.781	3.646.709
3 Industrial patents and intellectual property rights	141.871	66.155
4 Concessions, licenses, trademarks and similar rights	1.175.972	1.516.834
5 Goodwill	115.686	130.147
6 Intangible assets in progress and advances	103.291	-
7 Other	19.991	-
Total intangible assets	<b>4.290.592</b>	<b>5.359.845</b>
II Tangible fixed assets		
2 Plant and machinery	59.726	2.275
3 Industrial and commercial equipment	7.494	5.342
4 Other assets	414.483	87.721
Total tangible assets	<b>481.703</b>	<b>95.338</b>
III Financial fixed assets		
1 Equity investments:		
a) subsidiary companies	7.007.764	2.624.344
	7.007.764	2.624.344
2 Receivables:		
a) subsidiary companies	11.418.862	3.615.198
d) other	63.065	4.531
	11.481.927	3.619.729
Total financial fixed assets	<b>18.489.691</b>	<b>6.244.073</b>
<b>Total Fixed assets (B)</b>	<b>23.261.986</b>	<b>11.699.256</b>

(in euro)

	<b>31/12/2001</b>	<b>31/12/2000</b>
<b>C) CURRENT ASSETS</b>		
I Inventories	-	-
II Receivables due within 12 months		
1 trade receivables	4.878.470	727.213
2 subsidiary companies	10.353.254	3.504.003
4 Parent companies	1.089	2.209
5 Other receivables	2.612.489	1.797.070
Total receivables	<b>17.845.302</b>	<b>6.030.495</b>
III Financial assets not held as fixed assets		
1 Equity investments in subsidiary companies	9.297.500	-
5 Treasury shares	90.714	-
6 Other securities	1.549.382	25.824.266
Total financial assets not held as fixed assets	<b>10.937.596</b>	<b>25.824.266</b>
IV Liquid funds		
1 Banks and post office deposits	1.998.587	2.561.133
3 Cash in hand	3.648	5.919
Total liquid funds	<b>2.002.235</b>	<b>2.567.052</b>
<b>Total current assets</b>	<b>30.785.133</b>	<b>34.421.813</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	159.005	56.141
<b>TOTAL ASSETS</b>	<b>54.206.124</b>	<b>46.177.210</b>

(in euro)

	31/12/2001	31/12/2000	
<b>LIABILITIES</b>			
<b>A) SHAREHOLDERS' EQUITY</b>			
I	Share Capital	4.244.344	4.244.344
II	Additional paid-in capital	13.151.526	34.242.240
IV	Legal reserve	78.073	3.559
V	Reserve for treasury shares on hand	90.714	-
VII	Other reserves	21.063.205	63.204
VIII	Net Results prior years	1.415.774	-
IX	Net result for the year	3.641.016	1.490.289
	<b>Total Shareholders' equity (A)</b>	<b>43.684.652</b>	<b>40.043.636</b>
<b>B) RESERVES FOR RISKS AND CHARGES</b>			
2	Taxation	1.930.219	1.198.095
	<b>Total reserves for risk and charges (B)</b>	<b>1.930.219</b>	<b>1.198.095</b>
<b>C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES</b>			
		<b>133.306</b>	<b>71.551</b>
<b>D) PAYABLES</b>			
3	Due to banks		
	- within 12 months	1.549.845	-
5	Advances	718.908	-
6	Trade payables	1.189.510	3.369.826
8	Due to subsidiary companies	4.507.601	748.668
10	Due to parent companies	8.494	473.200
11	Due to tax authorities	103.106	62.260
12	Due to social security authorities	170.653	105.514
13	Other payables	202.678	104.460
	<b>Total payables (D)</b>	<b>8.450.795</b>	<b>4.863.928</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>			
		7.152	-
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>54.206.124</b>	<b>46.177.210</b>
<b>MEMORANDUM ACCOUNTS</b>		<b>977.905</b>	<b>2.172.091</b>

REPLY S.p.A.  
STATEMENT OF INCOME

(in euro)

	<b>2001</b>	<b>2000</b>
<b>A) VALUE OF PRODUCTION</b>		
1 Revenue from sales and services	10.949.097	2.699.130
5 Other income	248.157	94.779
<b>Total value of production (A)</b>	<b>11.197.254</b>	<b>2.793.909</b>
<b>B) COSTS OF PRODUCTION</b>		
6 Raw and other materials, consumables and good for resale	637.046	30.596
7 Services	7.839.462	1.621.582
8 Leases and rentals	305.810	330.622
9 Personnel		
a) wages and salaries	1.346.174	333.072
b) social security charges	414.804	103.256
c) employee termination indemnities	84.188	23.065
	1.845.166	459.393
10 Amortisation and depreciation		
a) amortisation of intangible fixed assets	1.360.722	1.147.941
b) depreciation of tangible fixed assets	113.555	23.468
d) writedowns of receivables among current assets and liquid funds	45.796	7.601
	1.520.073	1.179.010
14 Other operating costs	80.228	20.576
<b>Total costs of production (B)</b>	<b>12.227.785</b>	<b>3.641.779</b>
<b>Difference between value and costs of production (A-B)</b>	<b>(1.030.531)</b>	<b>(847.870)</b>

(in euro)

	<b>2001</b>	<b>2000</b>
<b>C) FINANCIAL INCOME AND EXPENSES</b>		
15 Income from equity investments		
- subsidiary companies	5.361.719	3.238.100
16 Other financial income		
b) Income from receivables held as financial fixed assets	818.095	40.823
d) other		
- subsidiaries companies	440.323	11.165
- other	84.310	22.014
Total financial income	<u>6.704.447</u>	<u>3.312.102</u>
17 Interest and other financial expenses		
- other	(77.653)	(3.705)
Total financial expenses	<u>(77.653)</u>	<u>(3.705)</u>
<b>Total financial income and expenses (C)</b>	<b><u>6.626.794</u></b>	<b><u>3.308.397</u></b>
<b>D) ADJUSTMENTS TO FINANCIAL ASSETS</b>	-	-
<b>E) EXTRAORDINARY INCOME AND EXPENSES</b>		
20 Income	5.230	283
21 Expenses	(29.410)	(787)
<b>Total extraordinary income and expenses (E)</b>	<b><u>(24.180)</u></b>	<b><u>(504)</u></b>
<b>RESULT BEFORE TAXATION</b>	<b><u>5.572.083</u></b>	<b><u>2.460.023</u></b>
22 Income taxes for the year	1.931.067	969.734
<b>NET RESULT FOR THE YEAR</b>	<b><u>3.641.016</u></b>	<b><u>1.490.289</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2001 have been prepared in accordance with the provisions of the Italian Civil Code, interpreted by the Italian accounting principles issued by the National Board of "Dottori Commercialisti and of Ragionieri", and, in absence thereof, by those issued by the International Accounting Standards Committee (IASC). They consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Notes to the financial statements.

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

## ACTIVITY OF THE COMPANY

Reply S.p.A., listed since December 6<sup>th</sup>, 2000 to the new market of Borsa Italiana, is the Holding of a group of companies that are very focused and specialized in the E-business market.

The company carries out mainly the operating co-ordination and the technical direction of the Group, as well as accounting, finance, purchases and marketing management.

## ACCOUNTING PRINCIPLES

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

### Intangible fixed assets

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

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

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

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

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

### **Tangible fixed assets**

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets.

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets. In the first year such assets enter into service these rates are halved, in consideration of their shorter period of use. Acquisitions with a unit value of less than 516,46 euro are recorded in the statement of income in the year in which they are incurred.

The annual depreciation rates applied are as follows:

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

Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent year if the reasons for such write-down no longer apply. Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives

### **Assets leased**

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

### **Equity investments**

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

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

### **Accounts receivable and accounts payables**

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

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

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

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

### **Liquidity funds**

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

### **Accruals and Deferrals**

Accrued income and expenses are recorded on accrual basis and are referred to income and expenses pertaining to this accounting period, but realised in the subsequent accounting period. Prepaid expenses and deferred income relate to costs and revenues originating in the current period but relating to future periods.

### **Reserves for risks and charges**

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

### **Reserve for employee termination indemnities**

This reserve reflects the liability for severance indemnities accrued for each employee and determined in accordance with current legislation and labour contracts at the balance sheet date.

Such liability is subject to an index-based revaluation in accordance with the current legislation.

### **Revenue recognition**

Revenues from services are recognised at the time of execution.

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

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

### **Dividends**

Dividends from subsidiaries are recorded on accrual basis in the financial period in which the relative credit right arises, corresponding to the subsidiaries resolution of distribution. Deferred taxes are provided for against such dividends.

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

## **Income taxes**

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

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

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

Deferred tax liabilities refer to transactions where taxation is deferred to future years, such as dividends recorded on accrual basis.

## **Translation of foreign currency items**

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

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

## **OTHER INFORMATION**

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

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

### **Balance Sheet and Statement of Income items expressed in Euro as at 31 December 2001**

The Company has adopted Euro as accounting standard currency since 1<sup>st</sup> January 2002.

In compliance with art. 2423 Italian Civil Code, as replaced by art. 16, paragraph 8, letter a) of D.Lgs. n. 213 of June 24<sup>th</sup> 1998 with effect since January 1<sup>st</sup> 2002, the Financial Statements are drawn up in euro unit, without decimals, as the present Notes. Values in Lire have been translated to Euro using the fixed exchange rate, by rounding to euro unit.

## COMMENTS ON ASSETS INCLUDED IN THE BALANCE SHEET

### B) FIXED ASSETS

#### I. Intangible fixed assets

Net intangible assets, as at 31 December 2001 amount to euro 4.290.592 (euro 5.359.845 as at 31 December 2000).

(in euro)	Historical cost	Accumulated amortisation	Net book value at 31/12/2001
Start-up and expansion costs	4.564.640	(1.830.859)	2.733.781
Industrial patents and intellectual property rights	262.423	(120.552)	141.871
Concessions, licenses, trademarks and similar rights	1.704.307	(528.335)	1.175.972
Goodwill	144.608	(28.922)	115.686
Intangible assets in progress and advances	103.291	-	103.291
Other	24.989	(4.998)	19.991
<b>Total</b>	<b>6.804.258</b>	<b>(2.513.666)</b>	<b>4.290.592</b>

Movements in intangible fixed assets during the year 2001 can be summarized as follows:

(in euro)	Net book value at 31/12/2000	Increases	Amortisation	Net book value at 31/12/2001
Start-up and expansion costs	3.646.709	-	(912.928)	2.733.781
Industrial patents and intellectual property rights	66.155	163.190	(87.474)	141.871
Concessions, licenses, trademarks and similar rights	1.516.834	-	(340.862)	1.175.972
Goodwill	130.147	-	(14.461)	115.686
Intangible assets in progress and advances	-	103.291	-	103.291
Other	-	24.988	(4.997)	19.991
<b>Total</b>	<b>5.359.845</b>	<b>291.469</b>	<b>(1.360.722)</b>	<b>4.290.592</b>

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

*Industrial patents and intellectual property rights* refer mainly to software patents. The increase of euro 163.190 is mainly due to the upgrade to euro as standard currency of the accounting system for the whole group.

The figure *Concessions, licenses, trademarks and similar* express the value of the "Reply" trademark contributed to the Company (before Reply Europe Sàrl) on June 9th, 2000, with regard to the share capital increase that was resolved and subscribed by the parent company Alister Holding SA.

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

*Goodwill* amounting to euro 144.608 refers to the value of the business branch related to the Information Technology consultancy and management support activities, purchased from the parent company Alike S.r.l. in July 2000. Goodwill is amortised over a 10-year period.

## II. Tangible fixed assets

Tangible fixed assets amounting to euro 481.703 are detailed as follows:

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Generic plants	59.726	2.275	57.451
Generic equipment	7.494	5.342	2.152
Electronic equipment	164.034	87.122	76.912
Ordinary office equipment	2.054	-	2.054
Furniture and fittings	236.083	-	236.083
Cars	12.103	320	11.783
Mobile phones	209	279	(70)
<b>Total</b>	<b>481.703</b>	<b>95.338</b>	<b>386.365</b>

Tangible fixed assets in 2001 have had the following movements:

(in euro)	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical costs	2.845	6.284	109.678	118.807
Accumulated depreciation	(570)	(942)	(21.957)	(23.469)
<b>Balance as at 31 December 2000</b>	<b>2.275</b>	<b>5.342</b>	<b>87.721</b>	<b>95.338</b>
<u>Historical cost</u>				
Additions	82.737	3.641	431.193	517.571
Disposals	(9.502)	-	(8.149)	(17.651)
<u>Accumulated Depreciation</u>				
Depreciation	(15.784)	(1.489)	(96.282)	(113.555)
Disposals	-	-	-	-
Historical cost	76.080	9.925	532.722	618.727
Accumulated Depreciation	(16.354)	(2.431)	(118.239)	(137.024)
<b>Balance as at 31 December 2001</b>	<b>59.726</b>	<b>7.494</b>	<b>414.483</b>	<b>481.703</b>

During the year 2001 the Company has carried out investments amounting to 517,6 thousand euro related mainly to

- computers and network equipment for 139 thousand euro
- Office equipment and plants related to the new location in Rome for a total amount of 352 thousand euro

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

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

Tangible assets as of 31 December 2001 are depreciated for 22% of their gross value.

### III. Financial fixed assets

#### Equity investments

Equity investments as of 31 December 2001 amount to euro 7.007.764, with an increase of euro 4.383.420 compared to 31 December 2000 (euro 2.624.344).

(in euro)	Balance as at 31/12/2000	Acquisitions and subscriptions	Other movements	Balance as at 31/12/2001	Interest
@Logistics Reply S.r.l.	998.904	-	(239.737)	759.167	100,0%
Aktive Reply S.r.l.	10.015	46.481	-	56.496	100,0%
Atlas Reply S.r.l.	-	10.000	-	10.000	100,0%
BeWit Reply S.r.l.	2.100	4.900	-	7.000	70,0%
Blue Reply S.r.l.	2.550	5.950	-	8.500	85,0%
Business Reply S.r.l.	374.461	-	-	374.461	100,0%
Cluster Reply S.r.l.	531.191	-	-	531.191	100,0%
Cluster Reply Milano S.r.l.	3.426	-	-	3.426	25,0%
Cluster Reply Roma S.r.l.	4.412	-	-	4.412	35,0%
Creative Reply S.r.l.	10.049	-	-	10.049	100,0%
e*finance consulting Reply S.p.A.	-	1.905.200	-	1.905.200	58,0%
Logistics Reply SL	-	53.010	-	53.010	100,0%
planeT Reply S.r.l.	-	8.000	-	8.000	80,0%
Sytel Reply S.r.l.	592.579	-	-	592.579	100,0%
Sytel Reply Milano S.r.l.	2.500	-	-	2.500	25,0%
Technology Reply S.r.l.	-	-	239.737	239.737	100,0%
Technology Reply Torino S.r.l.	2.500	-	-	2.500	25,0%
XYZ Reply S.r.l.	-	2.349.879	-	2.349.879	70,0%
YH Reply S.r.l.	89.657	-	-	89.657	100,0%
<b>Total</b>	<b>2.624.344</b>	<b>4.383.420</b>	<b>-</b>	<b>7.007.764</b>	

Due to the positive trend in 2001, and the positive outlook for 2002 of all the subsidiaries, it was not necessary any devaluation of the original values.

Here below a detail off all changes incurred in the balance of *Equity investments* during the year

#### Subscriptions, take-over and other operations

- *Aktive Reply S.r.l.*

The amount refers to the reserve to cover the subsidiary's losses set up through renunciation of the financial receivable from the same; This reserve has been utilized by the subsidiary to cover the 2000 losses amounting to euro 42.842.

- *Atlas Reply S.r.l.*  
This amount refers to:
  - subscription of 70% of the share capital of the company (before Link Reply S.r.l.) in January 2001;
  - acquisition at nominal value of the residual 30% of the share capital in September 2001.
 The company, operating in the *e-services* sector, has changed its corporate name in Atlas Reply S.r.l.
- *BeWit Reply S.r.l and Blue Reply S.r.l.*  
Changes in 2001 refer to the residual portion of Share Capital subscribed by Reply S.p.A.
- *e\*finance consulting Reply S.p.A.*  
The amount refers to the subscription on December 2001 of 58% of the share capital of the company. The difference between the nominal value of the equity investment and the related quota of the shareholders' equity of the company, amounting to 1.446 thousand euro, is the goodwill and it is accounted in the consolidated financial statements of Reply S.p.A.
- *Logistics Reply SL*  
The amount refers to the constitution in October 2001 of this new Company operating in the *Supply Chain Management* sector in Spain. The share capital of the subsidiary amounted to euro 3.010, has been subsequently increased to euro 15.510, with a share-premium of euro 37.500.
- *planeT Reply S.r.l.*  
The amount refers to the subscription on May 2001 of 80% of the share capital of Planet Reply S.r.l., company operating in *ISP and Telecommunications* Line of business.
- *XYZ Reply S.r.l.*  
The amount refers to the subscription on January 2001 of 70% of the share capital of the company. The difference between the nominal value of the equity investment and the related quota of the shareholders' equity of the company, amounting to 2.221 thousand euro, is the goodwill and it is accounted in the consolidated financial statements of Reply S.p.A.

#### Other changes

As effect of the split of Technology Reply S.r.l. since July 1<sup>st</sup> 2001 into two different companies, @Logistics Reply S.r.l. (the former Technology Reply S.r.l.) and Technology Reply S.r.l. (the beneficiary newly-established company) are shown among the subsidiaries of Reply S.p.A. Decrease or increase values in the column "Other changes" reflect the effects of the split operation on the book value of the investment in @logistics Reply S.r.l.

In compliance with art. 2426 Italian Civil Code nr. 3, all negative variances emerging by the comparison of the book values of investments and their respective equity holding, resulting from the last approved financial statements, net of dividends and adjustments carried out in compliance with accounting principles required for the preparation of the consolidated Financial Statements, are not referable to losses lasting values

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

The list of all Equity investments, with all the information required by art.2427 of Italian Civil Code, is attached to the Notes to the Consolidated Financial Statements

## **Receivables**

### Receivables from subsidiaries

This item includes loans granted to the subsidiary companies for a total amount of euro 11.418.862.

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

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
@Logistics Reply S.r.l.	2.892.159	619.748	2.272.411
Aktive Reply S.r.l.	315.039	361.520	(46.481)
Atlas Reply S.r.l.	103.291	-	103.291
BeWit Reply S.r.l.	154.937	-	154.937
Blue Reply S.r.l.	413.166	-	413.166
Business Reply S.r.l.	1.626.839	464.811	1.162.028
Cluster Reply S.r.l.	1.291.142	-	1.291.142
Cluster Reply Milano S.r.l.	-	258.228	(258.228)
Cluster Reply Roma S.r.l.	568.103	413.166	154.937
Creative Reply S.r.l.	335.697	335.697	-
PlaneT Reply S.r.l.	284.051	-	284.051
Sytel Reply S.r.l.	1.807.599	516.457	1.291.142
Sytel Reply Milano S.r.l.	335.697	284.051	51.646
Technology Reply S.r.l.	154.937	-	154.937
Technology Reply Torino S.r.l.	154.937	154.937	-
XYZ Reply S.r.l.	206.583	-	206.583
YH Reply S.r.l.	774.685	206.583	568.102
<b>Total</b>	<b>11.418.862</b>	<b>3.615.198</b>	<b>7.803.664</b>

## C) CURRENT ASSETS

### II. Receivables

#### *Trade Receivables*

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

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Trade receivables from third parties	4.952.729	734.956	4.217.773
Notes to be issued	(20.862)	(142)	(20.720)
<b>Total</b>	<b>4.931.867</b>	<b>734.814</b>	<b>4.197.053</b>
Allowance for doubtful accounts	(53.397)	(7.601)	(45.796)
<b>Total net receivables</b>	<b>4.878.470</b>	<b>727.213</b>	<b>4.151.257</b>

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

The above contractual practice has been much more frequent in year 2001 than in the previous one, and this explain the significant increase of net receivables position.

As of 31 December 2001, after having carried out a careful risk evaluation, the provision made for doubtful accounts amounted euro 45.796.

#### *Receivables from subsidiary companies*

Detail as follows:

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Dividends from subsidiaries recorded on accrual basis	3.431.500	2.040.004	1.391.496
Other receivables	6.921.754	1.463.999	5.457.755
<b>Total</b>	<b>10.353.254</b>	<b>3.504.003</b>	<b>6.849.251</b>

*Dividends from subsidiary companies* recorded on accrual basis were resolved by the shareholders' meeting of the subsidiaries at the time of approval of the financial statements for the year 2001. The detail is as follows:

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
@Logistics Reply S.r.l.	290.000	247.899	42.101
Business Reply S.r.l.	130.000	129.114	886
Cluster Reply S.r.l.	790.000	872.812	-82.812
Cluster Reply Milano S.r.l.	255.000		255.000
Cluster Reply Roma S.r.l.	171.500		171.500
Sytel Reply S.r.l.	1.000.000	516.457	483.543
Sytel Reply Milano S.r.l.	137.500		137.500
Technology Reply S.r.l.	480.000		480.000
Technology Reply Torino S.r.l.	37.500		37.500
YH Reply S.r.l.	140.000	273.722	-133.722
<b>Total</b>	<b>3.431.500</b>	<b>2.040.004</b>	<b>1.391.496</b>

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

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

#### ***Other receivables***

Detail is as follows:

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Advance to suppliers	334.005	15.928	318.077
Receivables from tax authorities for prepaid taxes on dividends	1.930.219	1.459.152	471.067
Deferred tax assets	290.555	5.552	285.003
VAT receivables	54.384	250.659	(196.275)
Other receivables	3.326	65.779	(62.453)
<b>Total</b>	<b>2.612.489</b>	<b>1.797.070</b>	<b>815.419</b>

The item *Receivables from tax authorities for prepaid taxes on dividends* includes the tax credit on dividends recorded on accrual basis, amounting to euro 1.930.219, which will be reversed in 2002 against the relative tax credit.

The item *Deferred Tax assets* includes:

	<b>(in euro)</b>
Receivables from tax authorities for prepaid taxes on dividends	1.198.095
Other tax receivables	30.346
Current taxes debt	(937.886)
<b>Total</b>	<b>290.555</b>

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

#### ***Equity investments in subsidiaries***

The Balance Sheet value of investment in the subsidiary Acquent Reply S.r.l. (before Backer Reply S.r.l.), amounts to euro 9.297.500, and is aligned to the Net Equity value of the subsidiary.

This investment is included within the current assets because originally addressed to the Group financial activities management, waiting for taking the market or disposal opportunities to meet other business requirements. In the first months of 2002 Backer Reply disposed of its surplus financial resources and modified its firm name in Acquent Reply S.r.l.,

#### ***Treasury shares***

This item includes the value of Treasury Shares corresponding to the purchase cost. Movements during year 2001 are detailed as follows:

	<b>Quantity</b>	<b>Average cost (euro)</b>	<b>Final value (euro)</b>
<b>Balance as at 31/12/00</b>	-	-	-
Purchase of the year	25.000	12,28	307.073
Sales of the year	(17.613)	12,28	(216.359)
<b>Balance as at 31/12/01</b>	<b>7.387</b>	<b>12,28</b>	<b>90.714</b>

Within the Shareholders' Equity there is a reserve of the same amount

### **Other securities**

This item of euro 1.549.382, is detailed as follows:

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Receivables from sale of securities	-	11.352.445	(11.352.445)
Government Bond (BTP) and Treasury Certificates (CCT)	-	9.171.997	(9.171.997)
Mutual investment funds	1.549.347	5.164.448	(3.615.101)
Other	35	135.376	(135.341)
<b>Total</b>	<b>1.549.382</b>	<b>25.824.266</b>	<b>(24.274.884)</b>

*Receivables from sale of securities* reflected in year 2000 the purchase cost of securities held under agreements to resell at established date and price.

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

### **IV. LIQUID FUNDS**

This item amounting to euro 2.002.235, shows a difference of euro 564.817 compared to 31 December 2000, and is referred to cash at banks and in hand at year-end.

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

### **D) ACCRUED INCOME AND PREPAID EXPENSES**

This item, amounting to euro 159.005, with an increase of 102.864 euro compared to 31 December 2000, mainly refers to prepaid expenses from leasing contracts and other utility expenses, which are accounted for on accrual basis.

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

### A) SHAREHOLDERS' EQUITY

The table below shows changes in shareholders' equity in the last two years

(in euro)	Share Capital	Additional paid-in capital	Legal Reserve	Reserve for treasury shares on hand	Extraordinary reserve	Reserve for treasury shares to purchase	Rounding reserve	Retained earnings	Net result of the year	Total
<b>Balance as at 31/12/99</b>	<b>711.420</b>	<b>110.909</b>	<b>1.514</b>	-	<b>28.757</b>	-	-	-	<b>36.492</b>	<b>889.092</b>
Allocation of 1999 result	-	-	2.045	-	34.447	-	-	-	(36.492)	-
Increase of share capital through contribution of investments and trademark	957.821	2.873.514	-	-	-	-	-	-	-	<b>3.831.335</b>
Free capital increase	1.376.822	(1.376.822)	-	-	-	-	-	-	-	-
Translation adjustment of share capital in Euro	20.897	(20.897)	-	-	-	-	-	-	-	-
Increase of share capital set aside for the company managers of 102,000 shares (price 0,81 Euro)	53.040	29.580	-	-	-	-	-	-	-	<b>82.620</b>
Increase of share capital set aside for strategic partners of 300,000 shares (price: 0,949 euro)	156.000	128.700	-	-	-	-	-	-	-	<b>284.700</b>
Global Offer of 1.832.200 shares (price: 18,0 Euro)	952.744	32.026.856	-	-	-	-	-	-	-	<b>32.979.600</b>
Global Offer of 30.000 shares set aside for employees (price: 16,2 Euro)	15.600	470.400	-	-	-	-	-	-	-	<b>486.000</b>
Net result 2000	-	-	-	-	-	-	-	-	1.490.289	<b>1.490.289</b>
<b>Balance as at 31/12/2000</b>	<b>4.244.344</b>	<b>34.242.240</b>	<b>3.559</b>	-	<b>63.204</b>	-	-	-	<b>1.490.289</b>	<b>40.043.636</b>
Allocation of 2000 result	-	-	74.514	-	-	-	-	1.415.775	(1.490.289)	-
Treasury shares purchase	-	(307.073)	-	307.073	-	-	-	-	-	-
Treasury shares sales	-	216.359	-	(216.359)	-	-	-	-	-	-
Set up of reserve for treasury shares purchase	-	(21.000.000)	-	-	-	21.000.000	-	-	-	-
Rounding due to euro conversion	-	-	-	-	-	-	1	(1)	-	-
Net result 2001	-	-	-	-	-	-	-	-	3.641.016	<b>3.641.016</b>
<b>Balance as at 31/12/2001</b>	<b>4.244.344</b>	<b>13.151.526</b>	<b>78.073</b>	<b>90.714</b>	<b>63.204</b>	<b>21.000.000</b>	<b>1</b>	<b>1.415.774</b>	<b>3.641.016</b>	<b>43.684.652</b>

As of 31 December 2001 the fully subscribed paid-in share capital of Reply S.p.A. amounted to euro 4.244.344, without any change compared to prior year  
This is represented by 8.162.200 ordinary shares, par value 0,52 Euro each.

Movements in the shareholders' equity during the year have been determined by the following transactions:

- *Reserve for treasury shares on hand* amounts to 90.714 euro as at 31 December 2001, corresponding to the value of n. 7.387 shares of Reply S.p.A. hold by the same, which are included in the balance sheet item *Financial assets not held as fixed assets*, in compliance with art. 2357 ter of Italian Civil Code. This reserve, formed through a partial utilization of the additional paid-in capital reserve, is not available until treasury share are on hand;
- Set up of the *Reserve for treasury shares to purchase* for 21 million euro, following the Reply S.p.A. Shareholders' meeting resolution held on December 12<sup>th</sup> 2001, which authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase, at a time or more, for an eighteen months period, of a maximum number of 816.220 ordinary shares corresponding to 10% of the Company's share capital, up to a maximum of 21 million euro. This reserve has been formed through a withdrawal from the additional paid-in capital reserve.

The *Rounding Reserve* includes all the differences coming from the translation to euro units of all the accounting items originally expressed with decimals; such differences appear in the Balance Sheet just balance and are not accounted for.

### Future potential changes in share capital

The Extraordinary Shareholders' meeting of Reply S.p.A. held on June 26<sup>th</sup> 2001 resolved the share capital increase of nominal 130.000 euro, without stock option right, in compliance with art. 2441, paragraph 8 of Italian Civil Code, by issuing nr. 250.000 new ordinary shares of Reply S.p.A., par value 0,52 euro each, set aside for employees at any level of the Company and its subsidiaries.

The option plan will be in force until June 30<sup>th</sup> 2003 for the rights allotment, while December 31<sup>st</sup> 2005 is the deadline for the subscription of the share capital increase.

The Board of Directors of Reply S.p.A., which is responsible for the conduct of the whole plan, resolved till now the following allotments:

<b>B.o.D. meeting dates of assignment</b>	<b>Option nr. (*)</b>	<b>Exercise price (euro)</b>	<b>Exercise period</b>
July 6 <sup>th</sup> , 2001	201.200	15,969	06/07/2003 – 06/01/2004
September 28 <sup>th</sup> , 2001	2.400	13,379	28/09/2003 – 28/03/2004
November 13 <sup>th</sup> , 2001	5.700	15,035	13/11/2003 – 13/05/2004
February 13 <sup>th</sup> , 2002	14.300	16,776	13/02/2004 – 13/08/2004
March 21 <sup>st</sup> , 2002	5.700	17,066	21/03/2004 – 21/09/2004
	<b>229.300</b>		

(\*): net of options recovered from leaving employees

## **B) RESERVES FOR RISKS AND CHARGES**

### ***Taxation reserve***

Reserve for taxes as of 31 December 2001 amounts to euro 1.930.219. This reserve entirely includes deferred taxes on dividends from subsidiaries recorded in the Balance Sheet on accrual basis.

The reserve as at 31 December 2000, of euro 1.198.095 has been completely utilised against the fiscal results of the year and the decrease of temporary differences compared to prior year.

The new provision has been calculated in consideration of the tax ratios that will occur when the above temporary differences will be reversed.

## **C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES**

Movements in the reserve during the year were as follows:

<b>(in euro)</b>	
<b>Balance as at 31/12/2000</b>	<b>71.551</b>
Provision for the year	84.188
Utilizations	(22.433)
<b>Balance as at 31/12/2001</b>	<b>133.306</b>

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

The number of employees as at 31 December 2001 is of 39 units, with an increase of 18 units compared to last December 31<sup>st</sup>.

## D) PAYABLES

Payables as at 31 December 2001 amount to euro 8.450.795, with an increase of euro 3.586.867 compared to 31 December 2000 (euro 4.863.928).

(in euro)	31/12/2001	31/12/2000	Difference
<b>Financial payables</b>			
3) Due to banks			
- within 12 months	1.549.845	-	1.549.845
<b>Total</b>	<b>1.549.845</b>	<b>-</b>	<b>1.549.845</b>
<b>Trade payables and other payables (within 12 months)</b>			
4) Advances	718.908	-	718.908
6) Trade payables	1.189.510	3.369.826	(2.180.316)
8) Due to subsidiary companies	4.507.601	748.668	3.758.933
10) Due to parent companies	8.494	473.200	(464.706)
11) Due to tax authorities			
Withholding taxes (employees)	91.086	42.145	48.941
Withholding taxes (self-employed workers)	6.289	14.383	(8.094)
Other	5.731	5.732	(1)
	103.106	62.260	40.846
12) Due to social security authorities			
Inps	40.638	27.131	13.507
Inpdai	68.891	44.921	23.970
Inail	1.978	1.322	656
Previdai	19.781	4.857	14.924
Contribution on employees accruals	38.348	26.266	12.082
Other	1.017	1.017	-
	170.653	105.514	65.139
13) Other payables			
Employees accruals	121.917	79.448	42.469
Other payables to employees	-	479	(479)
Due to Directors	5.802	339	5.463
Other payables	74.959	24.194	50.765
	202.678	104.460	98.218
<b>Total trade payables and other payables</b>	<b>6.900.950</b>	<b>4.863.928</b>	<b>2.037.022</b>
<b>Total payables</b>	<b>8.450.795</b>	<b>4.863.928</b>	<b>3.586.867</b>

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

***Advances***

This item includes advances received from customers for contracts subcontracted to subsidiary companies, which at the Balance Sheet date were not yet completed.

***Trade payables***

They are related to normal trade transactions. The decrease of 2.180 thousand euro compared to the previous year, is mainly due to the costs incurred by the Company near year-end 2000 in relation to the listing in the New Market, organised and run by Borsa Italiana.

***Due to subsidiary companies***

This item refers to trade transactions carried out at normal market conditions. Such payables refer to professional services related to third parties agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2001 compared to prior year and explain the difference in the payable position

***Due to parent companies***

The balance expresses the payables due to Alika S.r.l., carried out at normal market conditions, for usage of office area and secretarial services

***Due to tax authorities***

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

***Due to Social security authorities***

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

***Other payables***

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

## ANALYSIS OF THE NET FINANCIAL POSITION

Financial payables amount to euro 1.549.845; net financial position as at 31 December 2001 amount to euro 22.871.913 and is detailed as follows:

(in euro)	31/12/2001	31/12/2000	Difference
<b>Financial fixed assets</b>			
Financial receivables due beyond 12 months			
Subsidiary companies	11.418.862	3.615.198	7.803.664
Other	63.065	4.531	58.534
<b>Total Financial fixed assets</b>	<b>11.481.927</b>	<b>3.619.729</b>	<b>7.862.198</b>
<b>Current assets</b>			
Receivables from the sale of securities	-	11.352.445	(11.352.445)
Equity interests	9.297.500	-	9.297.500
Securities	-	9.171.997	(9.171.997)
Mutual Investment Funds	1.549.347	5.164.448	(3.615.101)
Other	90.749	135.376	(44.627)
Liquid funds	2.002.235	2.567.052	(564.817)
<b>Total financial assets within current assets</b>	<b>12.939.831</b>	<b>28.391.318</b>	<b>(15.451.487)</b>
<b>Total Financial assets</b>	<b>24.421.758</b>	<b>32.011.047</b>	<b>(7.589.289)</b>
<b>Financial payables</b>			
Due within 12 months	(1.549.845)	-	(1.549.845)
Due beyond 12 months	-	-	-
<b>Total Financial payables</b>	<b>(1.549.845)</b>	<b>-</b>	<b>(1.549.845)</b>
<b>Net Financial position</b>	<b>22.871.913</b>	<b>32.011.047</b>	<b>(9.139.134)</b>

The difference of euro 9.139.134 compared to prior year is mainly explained as follows:

(in euro)	2001
Cash flows from operating activities before working capital movements	5.977.401
Change in net working capital	(9.941.726)
<b>Cash flows from operating activities (A)</b>	<b>(3.964.325)</b>
<b>Cash flows used in investing activities (B)</b>	<b>(5.174.809)</b>
<b>Change in net financial position (A+B)</b>	<b>(9.139.134)</b>

## MEMORANDUM ACCOUNTS

The detail is as follows:

<b>(in euro)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Guarantees issued on behalf of subsidiary companies	601.672	1.996.106	(1.394.434)
Guarantees received from third parties	47.514	-	47.514
Obligations for leasing commitments	328.719	175.985	152.734
<b>Total</b>	<b>977.905</b>	<b>2.172.091</b>	<b>(1.194.186)</b>

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

## NOTES TO THE STATEMENT OF INCOME

### A) VALUE OF PRODUCTION

#### Revenues from sales and services

Revenues amount to euro 10.949.097 and are detailed as follows

<b>(in euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Revenues from services	5.612.770	664.160	4.948.610
Royalties on "Reply" trademark	1.695.306	981.397	713.909
Inter-company services	2.420.375	652.802	1.767.573
Other inter-company charges	1.220.646	400.771	819.875
<b>Total</b>	<b>10.949.097</b>	<b>2.699.130</b>	<b>8.249.967</b>

*Revenue from services* mainly refers to professional services related to third parties agreements with the Parent Company Reply S.p.A. and subcontracted by the latter to the subsidiaries. Such a practice has become much more frequent in 2001 compared to prior year and explains the significant difference in revenues.

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

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

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

*Other inter-company charges* are related to consultancy and managerial activities carried out by the Parent Company on behalf of subsidiaries through its own managerial personnel.

## B) COSTS OF PRODUCTION

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

This item refers to:

(in euro)	2001	2000	Difference
Software licenses for resale	540.934	-	540.934
Other	96.112	30.596	65.516
<b>Total</b>	<b>637.046</b>	<b>30.596</b>	<b>606.450</b>

*Software licenses for resale* refers to the cost of a sales contract stipulated by third parties with Reply S.p.A. and subcontracted by the latter to a subsidiary.

### Services

The cost of services is detailed as follows:

(in euro)	2001	2000	Difference
Commercial and technical consultancy	77.391	44.144	33.247
Services from Group companies	5.327.445	793.092	4.534.353
Services from Parent companies	216.912	74.112	142.800
Directors' fees	392.507	132.316	260.191
Travel and professional training expenses	211.694	46.167	165.527
Marketing expenses	347.892	150.261	197.631
Administrative and legal services	510.030	78.911	431.119
Statutory Auditors' and Independent Auditors' fees	66.693	67.139	(446)
Utilities	135.077	38.699	96.378
Other	553.821	196.741	357.080
<b>Total</b>	<b>7.839.462</b>	<b>1.621.582</b>	<b>6.217.880</b>

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

## Leases and rentals

Charges for leases and rentals are detailed as follows:

<b>(in euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Rentals	174.078	3.542	170.536
Leasing of automobiles	117.121	34.477	82.644
Royalties for use of trademarks	-	245.226	(245.226)
Other	14.611	47.377	(32.766)
<b>Total</b>	<b>305.810</b>	<b>330.622</b>	<b>(24.812)</b>

The item "*Royalties for use of trademarks*" in 2000 represented the costs incurred by the company for the acquisition of the exploitation rights for the "Reply" trademark until 9 June 2000.

## Personnel Costs

Costs for personnel amount to euro 1.845.166, and are detailed in the statement of income. The following table indicates the number of employees by category:

<b>(number)</b>	<b>31/12/2001</b>	<b>31/12/2000</b>	<b>Difference</b>
Executives	11	5	6
Managers	5	4	1
Staff	23	12	11
<b>Total</b>	<b>39</b>	<b>21</b>	<b>18</b>

## Depreciation, amortisation and writedowns

Amortisation of Intangible assets amounts to euro 1.360.722. The details are provided at the notes to Intangible Assets herein.

Depreciation of tangible assets, amounting to euro 113.555, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to Tangible fixed assets herein.

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

## Other operating costs

These expenses include:

<b>(in euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Hospitality expenses	17.958	2.234	15.724
Gifts to clients	4.039	5.832	(1.793)
Other costs	52.468	11.243	41.225
Magazines	2.226	497	1.729
Taxes on automobiles	3.537	770	2.767
<b>Total</b>	<b>80.228</b>	<b>20.576</b>	<b>59.652</b>

## C) FINANCIAL INCOME AND EXPENSES

This item is detailed as follows:

<b>(in euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Dividends and tax credit	5.361.719	3.238.100	2.123.619
Interest from securities	818.095	40.823	777.272
Interest from subsidiaries	440.323	11.165	429.158
Interest income on bank accounts	82.224	22.014	60.210
Interest due to banks	(2.559)	(3.597)	1.038
Financial losses	(75.071)	-	(75.071)
Losses on exchange differences	2.063	(108)	2.171
<b>Total</b>	<b>6.626.794</b>	<b>3.308.397</b>	<b>3.318.397</b>

## E) EXTRAORDINARY INCOME AND CHARGES

Extraordinary income amounting to euro 5.230 is mainly related incomes derived from non typical activity

Extraordinary expenses are mainly related to unexpected losses.

## INCOME TAXES

Income taxes due for the year 2001 amount to euro 1.931.067

<b>(in euro)</b>	<b>2001</b>	<b>2000</b>	<b>Difference</b>
Current taxes	848	32.697	(31.849)
Deferred taxes, net	1.930.219	937.037	993.182
<b>Total</b>	<b>1.931.067</b>	<b>969.734</b>	<b>961.333</b>

*Current taxes* include:

	<b>(in euro)</b>
Income taxes	937.886
Utilization of deferred tax liabilities on dividends 2000	(1.198.095)
Deferred tax on fiscal losses 2000	261.057
<b>Total</b>	<b>848</b>

*Deferred taxes* (euro 1.930.219) are related to deferred tax liability on dividends from the subsidiary companies, recorded according to the "maturity" principle

The impact of tax burden before taxation is equivalent to 34,7% (39,4% in prior year), compared to the theoretical tax incidence of 40,25%.

## OTHER INFORMATION

### Emoluments of Directors and Statutory Auditors

Emoluments due by the Parent Company Reply S.p.A. to Directors for the year 2001, amount to euro 392.507 Emoluments to Statutory Auditors amount to euro 54.693. The detail is as follows:

<b>Name</b>	<b>Office</b>	<b>Term of office (days)</b>	<b>Fees</b>
Mario Rizzante	Chairman	365	154.937
Sergio Ingegnatti	Chief Executive Officer	365	103.291
Oscar Pepino	Chief Executive Officer	365	103.291
Marco Mezzalama	Independent Director	365	15.494
Paul de Sury	Independent Director	365	15.494
<b>Total Directors</b>			<b>392.507</b>
Piergiorgio Re	Chairman	365	23.292
Giorgio Gianeri	Regular auditor	365	15.184
Tommaso Vallenzasca	Regular auditor	365	16.217
<b>Total Statutory auditors</b>			<b>54.693</b>

REPLY S.p.A.  
STATEMENT OF CASH FLOW

(in euro)	2001	2000
Net result for the year	3.641.016	1.490.289
Depreciation and amortisation	1.474.277	1.171.409
Accrual for employee severance indemnities	84.188	23.065
Accrual for reserve for risk and charges	732.124	1.198.095
Accrual for allowances for doubtful accounts	45.796	7.601
<b>Cash flows from operating activities before working capital movements</b>	<b>5.977.401</b>	<b>3.890.459</b>
Change in trade receivables	(8.819.094)	(734.814)
Dividends collection from subsidiaries	2.040.004	-
Change in other current assets	(5.184.377)	(4.956.625)
Change in trade payables	1.113.911	3.126.359
Change in other current liabilities	930.263	1.539.430
Change in employee severance indemnities	(22.433)	(5.911)
<b>Change in working capital</b>	<b>(9.941.726)</b>	<b>(1.031.561)</b>
<b>Cash flows from operating activities (A)</b>	<b>(3.964.325)</b>	<b>2.858.898</b>
Capitalisation of intangibles assets	(291.469)	(6.255.134)
Purchase and disposal of plant, property and equipment	(499.920)	(55.703)
Fixed assets acquired through branches	-	(304.332)
Equity investments	(4.383.420)	(2.222.088)
<b>Cash flows used in investing activities (B)</b>	<b>(5.174.809)</b>	<b>(8.837.257)</b>
Increase in share capital and share premium	-	37.664.256
<b>Cash flows used in financing activities (C)</b>	<b>-</b>	<b>37.664.256</b>
<b>Change in net financial position (A + B + C)</b>	<b>(9.139.134)</b>	<b>31.685.897</b>
Net financial position at the beginning of the year	32.011.047	325.150
Change in net financial position	(9.139.134)	31.685.897
<b>Net financial position at the end of the year</b>	<b>22.871.913</b>	<b>32.011.047</b>

REPLY S.p.A.  
RECLASSIFIED BALANCE SHEET

(in euro)	31/12/01	31/12/00
Intangible fixed assets	4.290.592	5.359.845
Tangible fixed assets	481.703	95.338
Financial fixed assets	7.007.764	2.624.344
<b>Total Fixed assets (A)</b>	<b>11.780.059</b>	<b>8.079.527</b>
Inventories	-	-
Trade Receivables	10.956.569	2.183.271
Other current assets	7.047.738	3.903.365
<b>Total current assets (B)</b>	<b>18.004.307</b>	<b>6.086.636</b>
Trade Payables	(5.705.605)	(4.591.694)
Other current liabilities	(1.202.497)	(272.234)
<b>Total current liabilities (C)</b>	<b>(6.908.102)</b>	<b>(4.863.928)</b>
<b>Net current assets (D) (B + C)</b>	<b>11.096.205</b>	<b>1.222.708</b>
<b>Employee severance indemnities (E)</b>	<b>(133.306)</b>	<b>(71.551)</b>
<b>Reserve for risks and charges (F)</b>	<b>(1.930.219)</b>	<b>(1.198.095)</b>
<b>Net invested capital (A + D + E + F)</b>	<b>20.812.739</b>	<b>8.032.589</b>
Shareholders' equity	43.684.652	40.043.636
Long-term net financial position	(11.481.927)	(3.619.729)
Short-term net financial position	(11.389.986)	(28.391.318)
<b>Shareholders' equity and net financial position</b>	<b>20.812.739</b>	<b>8.032.589</b>

REPLY S.p.A.  
EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES

Subsidiaries	Registered Office	Share Capital	Shareholders' Equity As at 31/12/01	Net result 2001	Interest	Balance Sheet Value as at 31/12/01	Valuation pursuant ex art. 2426 '4 Italian civil code.	Difference
Logistics Reply S.r.l.	Torino	78.000	399.202	292.490	100,0%	759.167	720.687	(38.480)
Active Reply S.r.l.	Torino	10.000	34.503	20.864	100,0%	56.496	34.503	(21.993)
Alas Reply S.r.l.	Torino	10.000	17.325	7.325	100,0%	10.000	17.325	7.325
Amwit Reply S.r.l.	Torino	10.000	29.479	19.479	70,0%	7.000	20.635	13.635
Arche Reply S.r.l.	Torino	10.000	322.874	312.871	85,0%	8.500	274.443	265.943
Business Reply S.r.l.	Torino	78.000	322.282	140.622	100,0%	374.461	405.475	31.014
Cluster Reply S.r.l.	Torino	52.000	1.499.619	790.595	100,0%	531.191	1.583.078	1.051.887
Cluster Reply Milano S.r.l.	Torino	10.400	1.161.839	727.563	25,0%	3.426	35.460	32.034
Cluster Reply Roma S.r.l.	Torino	10.400	514.317	294.743	35,0%	4.412	8.511	4.099
Creative Reply S.r.l.	Torino	10.000	49.478	(3.384)	100,0%	10.049	49.478	39.429
Finance consulting Reply S.p.A.	Roma	104.000	790.370	56.250	58,0%	1.905.200	1.759.886	(145.314)
Logistics Reply SL	Barcelona	15.510	53.010	-	100,0%	53.010	53.010	-
ManeT Reply S.r.l.	Torino	10.000	94.097	84.096	80,0%	8.000	75.278	67.278
Medtel Reply S.r.l.	Torino	62.400	1.280.389	755.924	100,0%	592.579	665.287	72.708
Medtel Reply Milano S.r.l.	Torino	10.000	580.653	506.303	25,0%	2.500	7.663	5.163
Medtechnology Reply S.r.l.	Torino	78.000	826.167	309.710	100,0%	239.737	1.063.635	823.898
Medtechnology Reply Torino S.r.l.	Torino	10.000	170.757	115.026	25,0%	2.500	5.189	2.689
NetZ Reply S.r.l.	Torino	10.329	187.240	(21.149)	70,0%	2.349.879	2.129.756	(220.123)
NetI Reply S.r.l.	Torino	21.224	223.309	147.251	100,0%	89.657	83.309	(6.348)
						<b>7.007.764</b>	<b>1.980.241</b>	

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

To the Shareholders,

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

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

With reference to the recommendations provided in the CONSOB communication no. DAC/RM/97001574 dated February 20<sup>th</sup> 1997 and n. DEM/1025564 dated April 6<sup>th</sup> 2001 we present to you the following information:

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

We obtained, on a quarterly basis, from the Board of Directors, information about the activity of the company and about all transactions incurred in the year 2001, with a significant impact on the Financial Statements, and we can assert that all the above transactions have been made in compliance with the Law and with the Articles of Incorporation.

Also regarding all significant transactions occurred after year end, we received from the Board of Directors adequate information so that we can state that such transactions have been carried out in compliance with the Law and with the Articles of Incorporation, and never against the Shareholders' meeting resolution.

In particular, referring to the subsidiary Acquent Reply S.r.l. (before Backer Reply S.r.l.), we verified that, due to the failure of the economical and financial assumptions of the operations, the investment in this subsidiary have been reimbursed to the Parent Company and the subsidiary has been relocated within the Group with a different function

## **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 nor following the year-end closing.

In reference to inter-company operations or those carried out with related parties, further to what has been mentioned, we inform You that

- The Company has granted surety ships and patronage letters on behalf of some subsidiary companies in order to enable them to have adequate financial means for the development of their activities;
- During the accounting year REPLY S.p.A. has granted loans to some subsidiaries, regulated under normal market conditions, with the objective of providing financial support to the subsidiaries' activities;
- REPLY S.p.A. provides the subsidiaries administrative, managerial, commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services. Also in this case all transactions are regulated at normal market conditions
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company. The compensations agreed are in line with current market conditions.

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

The Directors have provided in the Directors' Report of Operations, as well as during our meetings throughout the year, complete information on the major economic, financial and monetary transactions and on the relations with associate companies and other related parties. Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year-end closing.

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

Arthur Andersen S.p.A., the Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2001, issued its report on April 24<sup>th</sup> 2002, in which it asserts that REPLY S.P.A.'s financial statements as of 31 December 2001 comply with laws governing the criteria for their preparation.

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

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

**6. Petitions.**

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

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

From the listing date, no other engagements have been assigned to the Auditing firm Arthur Andersen S.p.A., apart from the legal audit of the Financial Statements and the Consolidated Financial Statements for the years 2001, 2002 and 2003, and the auditing of the half-year report as of June 30<sup>th</sup> 2002 e 2003 and for the other activities pursuant to art.155 of Italian Legislative Decree issue on February 24<sup>th</sup>, 1998 n. 58, for the years 2001, 2002 and 2003.

As for the year 2002, we remind you that on April 24<sup>th</sup>, 2002 the Board of Directors resolved to convene the Extraordinary Shareholders' Meeting in order to resolve the increase of the share capital against payment, with additional paid-in capital pursuant to art. 2441 paragraph 8 of the Italian Civil Code, reserving the subscription of such increase to the directors, managers and employees at all levels of the Company and its subsidiaries.

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

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

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

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

The Statutory Auditors did non issue opinions pursuant to the law, besides the one with reference to the annulment of the engagement of the audit to PricewaterhouseCoopers S.p.A. and to the engagement of the audit to Arthur Andersen S.p.A. pursuant to art.159 paragraph 1 of Italian Legislative Decree 58/1998, presented on November 26<sup>th</sup>, 2001

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

During the year 2001 and up to date, the Board of Directors have held 14 meetings and we attended to all of them, and the Statutory Auditors have held 7 meetings by the representative of the Auditing company.

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

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

In this regards, we inform You that in order to guarantee the timeliness of the information requested, the Chief Executive Officer of REPLY S.P.A., Mr. Sergio Ingegnatti, is covering all the duties of director in all the corporate bodies of the subsidiary companies.

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

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

**13. Compliance with the self-disciplinary code set out by the Corporate Governance Committee of listed companies.**

The company has consented to comply with the self-disciplinary code set out by the Corporate Governance Committee of listed companies in light of the adaptations made to the articles of incorporation resolved by the Extraordinary Shareholders' meeting on July 10<sup>th</sup> 2000 and subsequent resolutions by the board to execute them.

In addition, on April 22<sup>nd</sup>, 2002, the Board of Directors approved the term of compliance to the Corporate Governance Code for listed Companies. -"Codice Preda", adopted by Reply S.p.A.

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

We have keep up and developed, through meetings and occasions, a systematic relationship with the audit firm PricewaterhouseCoopers S.p.A during the first eleven months of the year, and with Arthur Andersen S.p.A. since December 2001, for purpose of a reciprocal exchange of information and data.

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

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

*1) ADMINISTRATION*

In compliance with paragraph 2.2 of the Statutory Auditors Conduct Principles, we verified that administration has been carried out pursuant to the law and the articles of incorporation. It has not departed from correct administration principles adopted by the Directors in making managerial decisions, which were in turn adopted in compliance with the rationale criteria of the company's economic policy, as well as with the law and the Articles of Incorporation.

*2) ORGANISATIONAL STRUCTURE*

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

*3) INTERNAL CONTROL SYSTEM*

Within the Board of Directors the activities of Internal Control and Internal Auditing Committee are carried out in accordance to a work program, which we deem adequate

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

#### 4) ADMINISTRATIVE AND ACCOUNTING SYSTEM

We state that the administrative and accounting system is set-up correctly, also for the companies within the Group, and we consider it suitable to represent and monitor operations and to provide data for the periods.

In view of what has been said, the Statutory Auditors, having witnessed that the Financial Statements as at 31/12/2001 and the Directors' Report on Operations comply with existing legislation and with the by-laws, hereby agree to the proposal of approval set out by the Board of Directors, as well as the proposal of the allocation of the result for the year amounting to Euro 3.641.016.

Turin, May 23<sup>rd</sup> 2002

THE STATUTORY AUDITORS

*(Prof. Piergiorgio Re)*

*(Mr. Tommaso Vallenzasca)*

*(Prof. Giorgio Gianeri)*



**Report of the Independent Auditors  
on the financial statements pursuant to art. 156 of  
Legislative Decree no. 58 of February 24, 1998  
(Translation from the Original Issued in Italian)**

Arthur Andersen SpA  
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10121 Torino  
[www.andersen.com](http://www.andersen.com)

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, 2001. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion. For the opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to the predecessor auditors' report dated May 25, 2001.
3. In our opinion, the financial statements of Reply S.p.A. as of and for the year ended December 31, 2001 comply with the Italian statutory provisions related to financial statements; therefore, they give a true and fair view of the Company's financial position and results of operations.

Turin, Italy  
April 24, 2002

**Arthur Andersen SpA**  
s/Giuseppe Pedone - Partner

*This report and the financial statements have been translated into English from the original versions in Italian. They have been prepared in accordance with the Italian law related to financial statements. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Italy, may not conform with generally accepted accounting principles in other countries.*

Sevi Legali  
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Partita IVA 0249970361  
Capitale Sociale Euro 1.500.000 i.v.

Ran Bologna Brescia Firenze  
Genova Milano Napoli Padova  
Roma Torino Trieste Verona

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### **LEGAL DATA**

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Torino register of Commerce 938289  
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