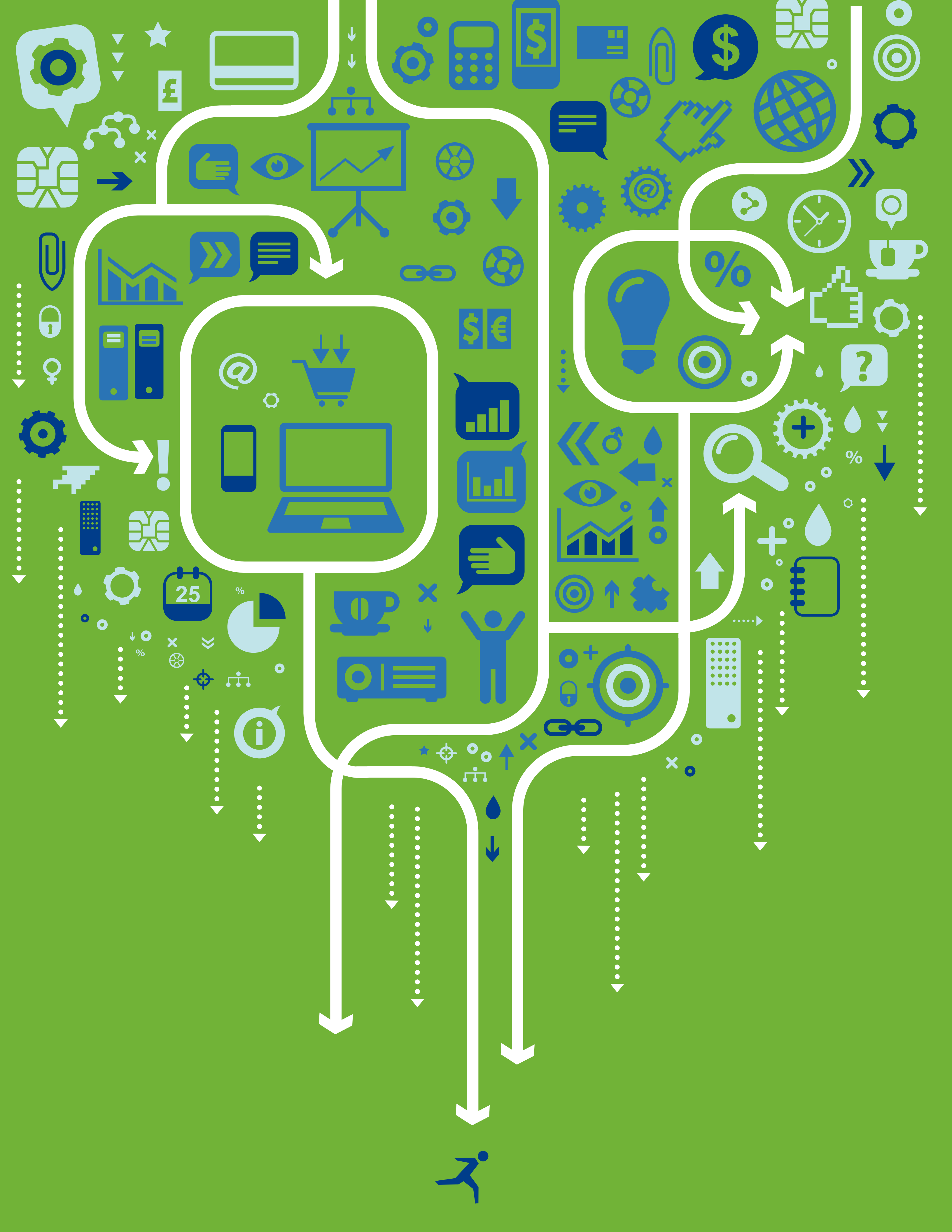
Annual Financial Report
2013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Board of Directors and Controlling Bodies

Board of Directors

Chairman and Chief Executive Officer
Mario Rizzante

Chief Executive Officer
Tatiana Rizzante

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

Board of Statutory Auditors

President
Cristiano Antonelli

Statutory Auditors
Paolo Claretta Assandri
Ada Alessandra Garzino Demo

Auditing firm

Reconta Ernst & Young S.p.A.

(1) Directors not invested with operational proxies.
(2) Independent Directors according to the Corporate Governance code drawn up by the Committee for Corporate Governance.
(3) Lead Independent Director.

The Group's financial highlights

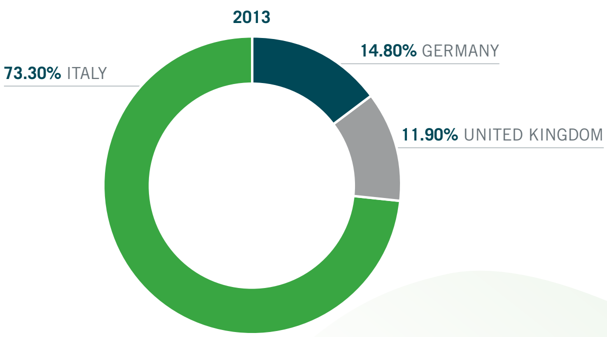
Economic data (Euro/000)	**2013**	**%**	**2012**	**%**	**2011**	**%**
Revenue	560,151	100.0	494,831	100.0	440,296	100.0
Gross operating income	72,600	13.0	62,424	12.6	54,997	12.5
Operating income	64,171	11.5	52,249	10.6	48,665	11.0
Income before taxes	61,732	11.0	50,265	10.2	46,473	10.6
Group net income	34,450	6.2	27,094	5.5	24,150	5.5

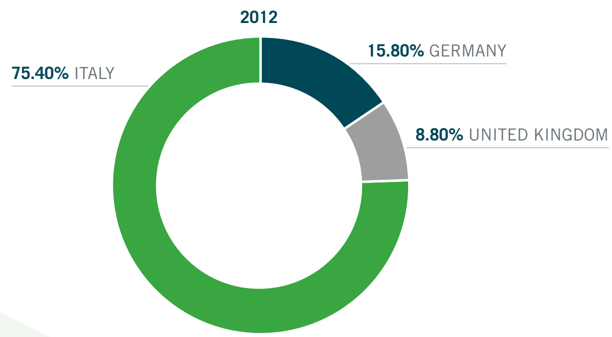
Financial figures (Euro/000)	**2013**	**2012**	**2011**
Group shareholders' equity	211,809	175,756	156,100
Non controlling interest	799	2,704	1,917
Total assets	549,531	475,298	423,701
Net working capital	124,374	120,476	116,172
Net invested capital	207,597	178,834	174,731
Cash flow	44,132	31,986	4,679
Net financial position	5,011	(373)	(16,714)

Data per single share (in Euros)	**2013**	**2012**	**2011**
Number of shares	9,307,857	9,222,857	9,222,857
Operating result per share	6.89	5.67	5.28
Net result per share	3.81	3.01	2.67
Cash flow per share	4.74	3.47	0.51
Shareholders' equity per share	22.76	19.06	16.92

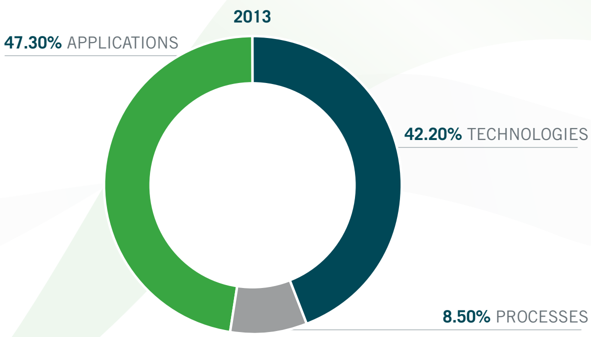
Other information	**2013**	**2012**	**2011**
Number of employees	4,253	3,725	3,422

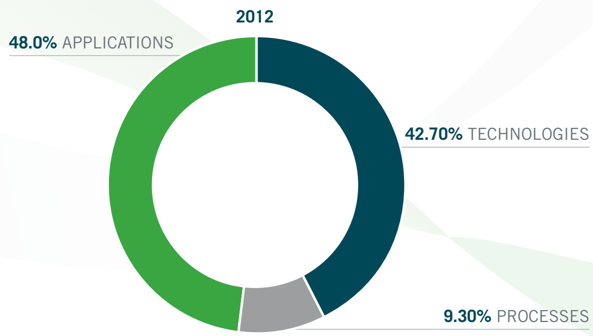
Revenue by geographic area



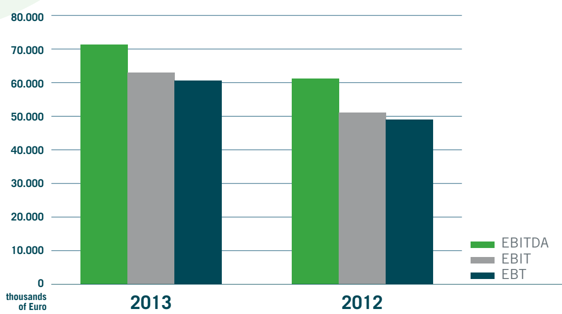


Revenue by businesss lines

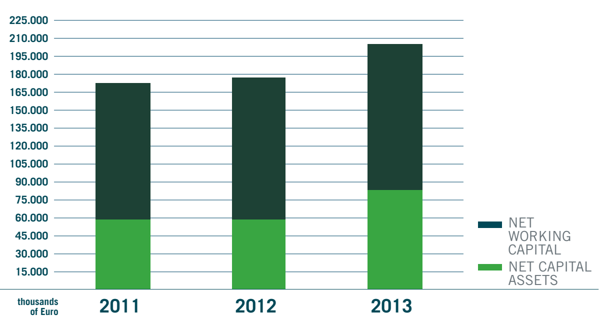




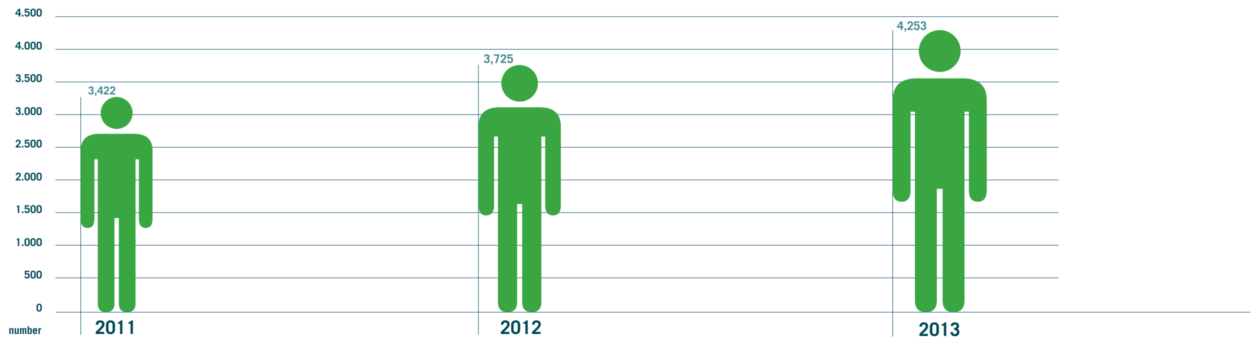
Trend in the principle economic indicators

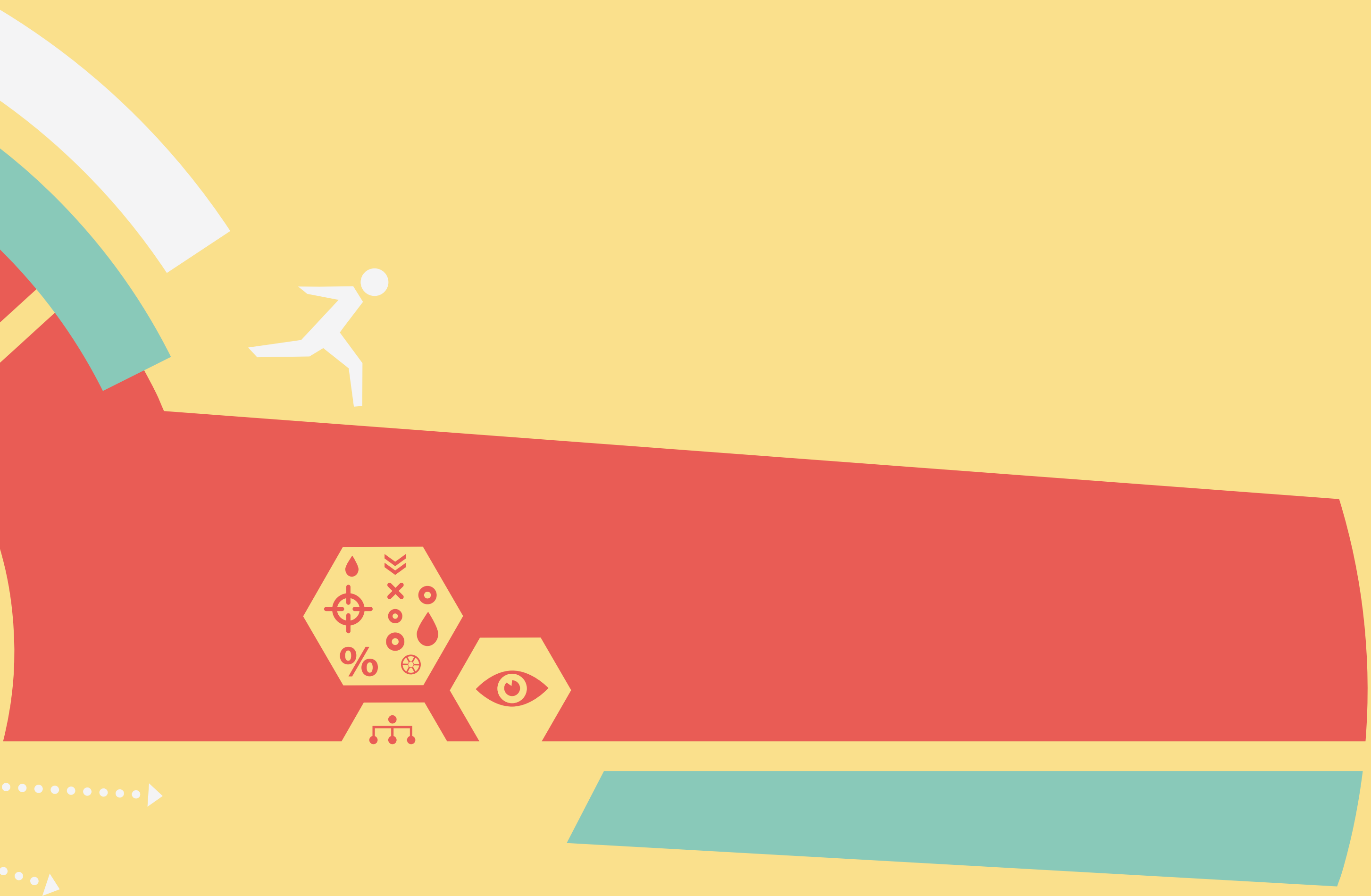


Net invested capital



Human resources





Letter to Shareholders

Dear Shareholders

2013 was a very positive year for Reply, with performance well above the market average. Our consolidated turnover grew by 13% to 560 million euros, with EBITDA of over 72 million euros and EBIT of more than 64 million.

These results are proof of our leading position in many of the arenas that are increasingly vital in ensuring business survival and competitiveness in any industrial market. Our ability to innovate in a way that meets our customers' needs is our hallmark and key strength.

Today, technology is pervasive - it is part of every product, service and human interaction. With its huge speed and ease of connectivity, the power of the internet is underpinning the main changes in our society and, therefore, the way in which products and services are marketed.

Today, we are experiencing the biggest cultural, social and entrepreneurial step change in the internet era, as our real and virtual worlds converge into a new environment powered and supported by new technologies. In this emerging world, the boundaries between products and services will blur and ultimately, vanish, in a new generation of "smart products and services". This is our future.

In 2013, we have placed a major emphasis on re-engineering our offering. We remain acutely aware that to stay ahead, we need to continually realign our proposition with the demands of a market in a profound state of flux, where technology is becoming more cohesively aligned with increasingly agile and far-reaching processes.

We have bolstered our expertise in areas that are proving to be crucial instruments for companies to redefine their business models, from big data and cloud computing to digital services and social media.

We have invested heavily to broaden our knowledge in the "Internet of Things" arena. This journey of innovation began in 2009, when Reply took over a European centre of excellence. Today the centre sits at the heart of our objective to consolidate our presence in a sector of ever-greater importance in the evolutionary process, both in business and in everyday life.

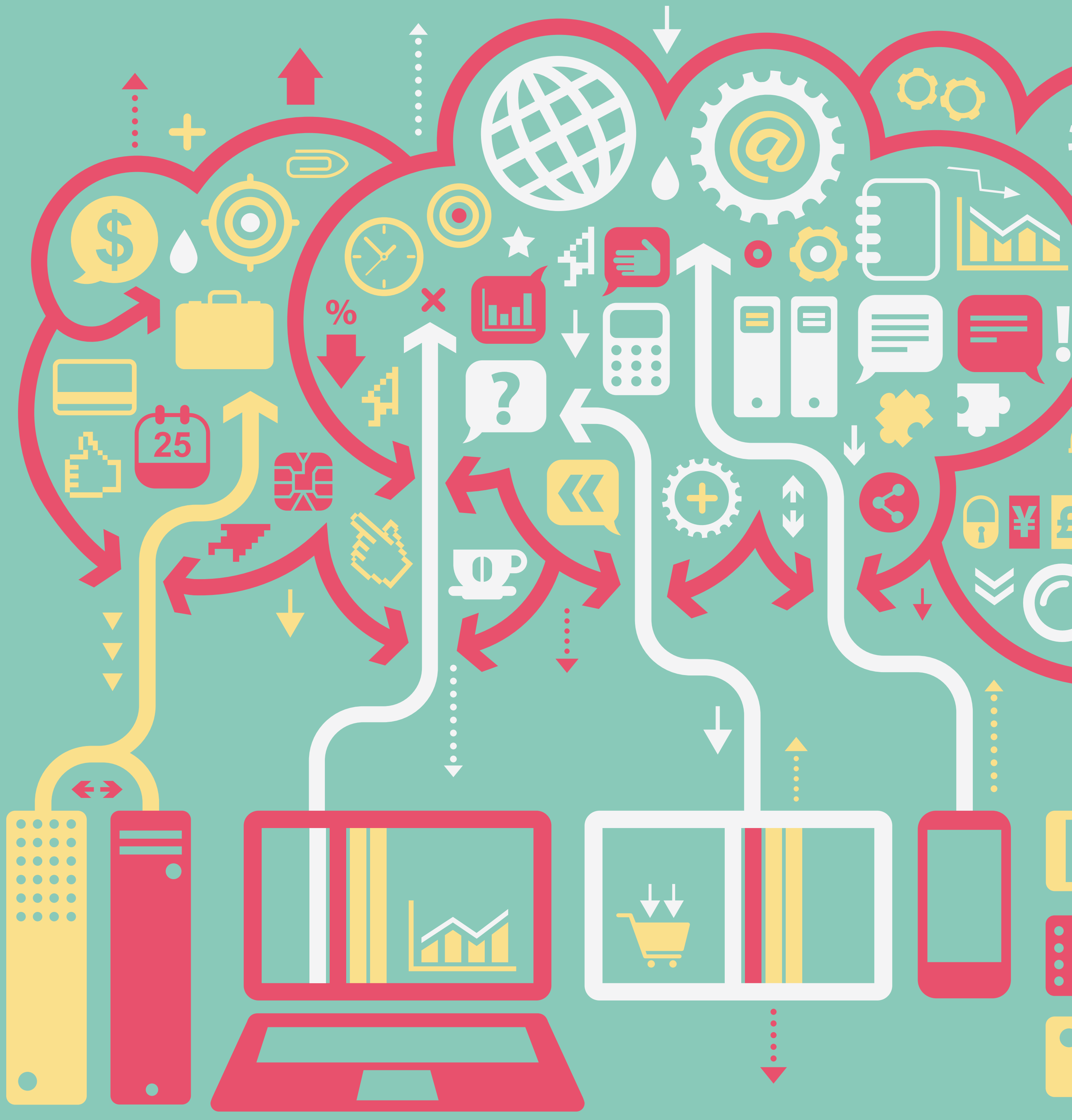
We have also extended our international foothold, with fresh openings and acquisitions in North America, Brazil, Germany and the UK. These are all markets of strategic importance that hold great development potential for us.

The successful completion of Reply Deutschland's merger into Reply S.p.A. in December 2013 will not only bring real economic benefits, by consolidating once-separate operating departments, but also enable us to become even more efficient in marketing our Group's entire offering throughout Europe.

2014 promises to be another challenging year. The encouraging signs from the main industrial and financial markets justify a reasonably optimistic outlook. Nonetheless, months of hard work lie ahead, when our team spirit, service quality and unquenchable thirst for innovation will be vital to see us through. Reply has the strength, the drive and the agility needed to conquer new market share. We know we can do it and the goal is within our reach.

Yours faithfully

The Chairman
Mario Rizzante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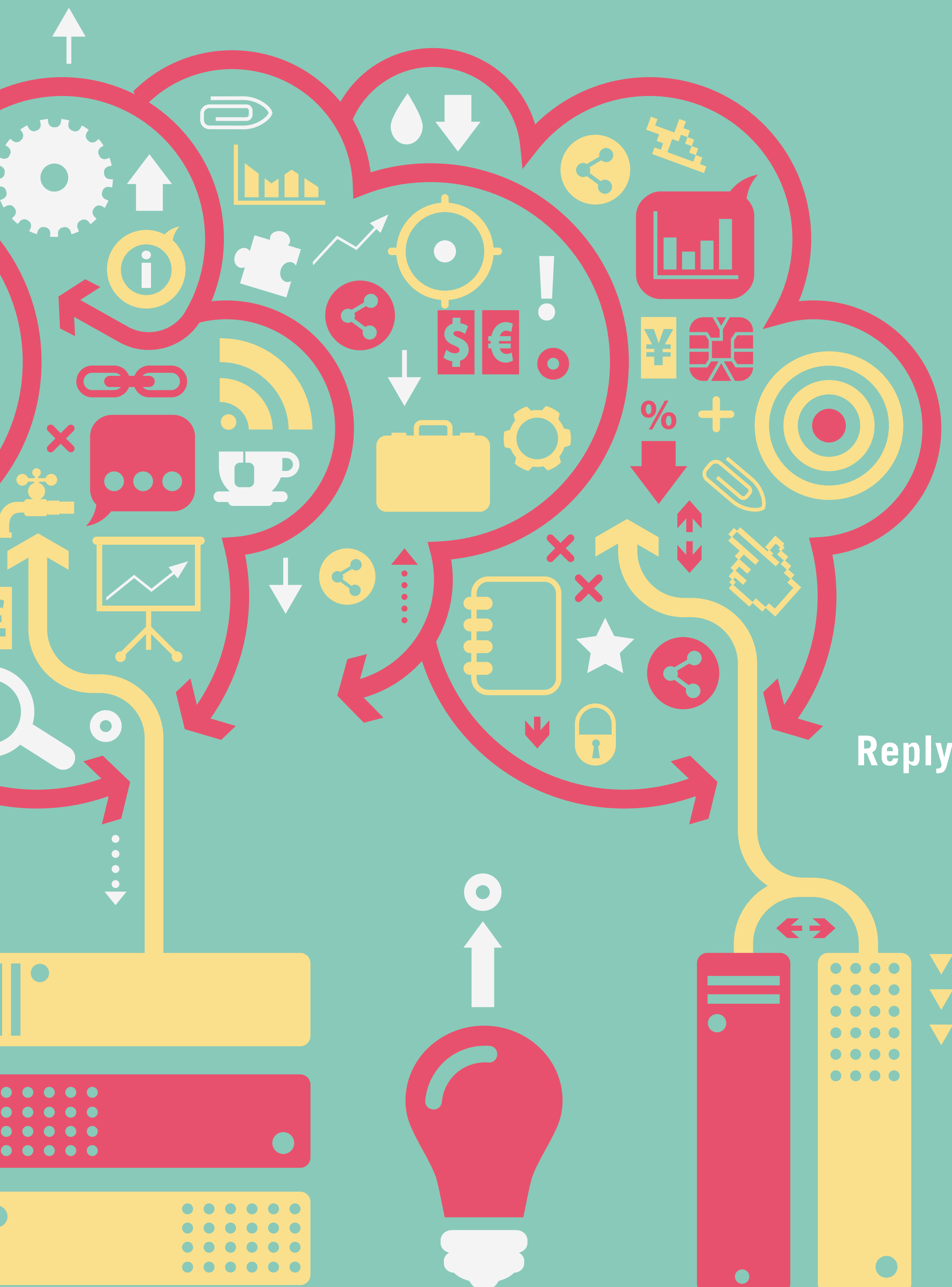


Reply Living network

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

Reply is made up of a network of highly-specialised companies, which support leading industrial groups in defining and developing business models to optimise and integrate processes, applications and devices, using new technology and communication paradigms, such as big data; cloud computing; digital communication; Internet of Things; mobile and social networking.

Reply's defining characteristics are:

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

Organisational model

With over 4,200 employees as at 31 December 2013, Reply operates as a network, made up of individual companies, each specialising in different processes, applications and technologies and all acknowledged as centres of excellence in their relative sectors.

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

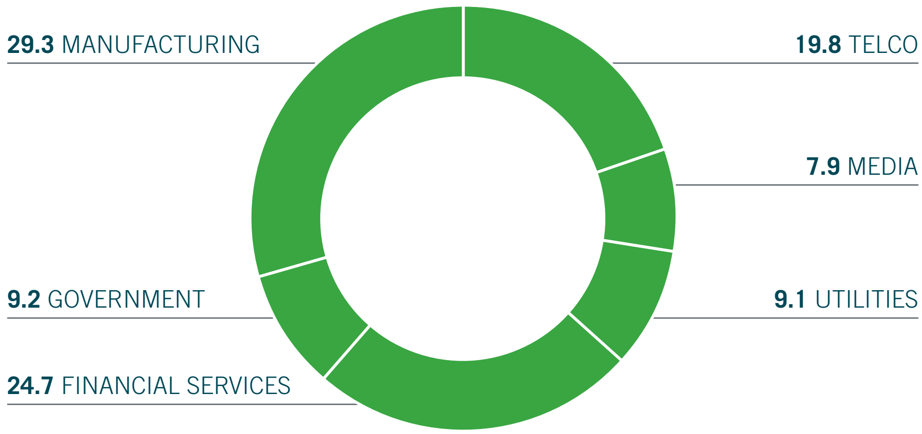
Reply's services include:

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

Market focus

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

In 2013 the Group's turnover for each vertical sector was as follows:



Telco and media

Reply is a leading technology partner for the telco & media industry, a market whose players are continually evolving and increasingly positioning themselves as suppliers of innovative services and digital content. As digitalisation becomes pervasive and the physical and digital realities merge, businesses' means of communicating with the end consumer are changing radically and thus influencing the underlying models, processes, systems and technologies.

Reply is responding by supporting its own customers in redefining multichannel customer-engagement models both at a (physical or digital) touchpoint level and through the development of new customer experiences, increasingly based with social approaches.

With an integrated offering of consultancy, communication and creativity, Reply is active in devising and developing bespoke services as well as applications for the latest-generation devices. Reply has a special focus on building over the top content services and implementing the new wallets to which the telco operators are now turning.

Reply works on integrating processes and services for Business Support Systems (BSS) and Operation Support Systems (OSS). Reply concentrates on the increasingly strategic fields of network capacity and network discovery and on specific competencies for telco operators, which thanks to the cloud enable them to build new virtual networks which are critical for operators faced with exponential data-traffic growth.

Banking, Insurance and Financial Institutions

Reply is working with leading banks and insurance companies to develop solutions for the most important business areas, underpinned by profound and innovative changes to business models, operating processes, and underlying platforms.

Reply has accrued in-depth and distinctive expertise in all aspects of retail digital transformation for banks and insurance companies. Reply works with the main institutions and the most innovative players on issues including developing multichannel models, new ways of segmenting customer portfolios, advanced mobile- and internet-banking models, digital branding and marketing, digitising front-end processes, and customer-behaviour-analysis and CRM solutions.

For wealth management, Reply supports the sector's leading players with a wide range of specific solutions and skills for both the factory and the distribution networks. Reply also has a proprietary platform for asset and portfolio evaluation.

In the Governance, Risk, and Control-services (GRC) sphere, Reply operates through a dedicated consultancy unit, part of a European network with a strong specialism in risk-evaluation/control and credit issues. Reply is also significantly involved in assisting numerous banks in setting up the European Banking Union piloted by the ECB.

Another of Reply's chief specialisms is mobile payment, a fast-changing area bringing together players from different industry sectors (e.g. banks, internet operators, vendors, telco operators, and card networks). Reply has established a distinctive offering of consultancy services and dedicated technology platforms to support banks, financial institutions, telecoms companies, utilities and retailers in creating and delivering innovative remote and proximity mobile-payments services. One important technology asset is HI Credits™, the Reply platform enabling a wide spectrum of personalised and context-sensitive payment services using the technologies available on smartphones.

Manufacturing and retail

Reply supports businesses in revamping and running their information systems, from strategic design to understanding and remodelling the core processes and implementing solutions to integrate applications supporting the extended enterprise.

Reply's expertise has focused on and developed on the following key areas: processes and applications for Customer Relationship Management (CRM); support for Supplier Relationship Management (SRM); designing Manufacturing Execution Systems (MES); and support for Supply Chain Management (SCM).

Reply has also established a specific retail offer that combines ecommerce and multichannel with the design and development of solutions that integrate web, mobile, call centre and in-store. This enables digital devices, technological innovation and physical locations to meet to create a coherent and engaging customer experience.

Energy and utilities

The energy & utilities sector is going through continual change. In recent years, the spread of renewable sources and the adoption of new grid technologies have driven the main players' investment strategies.

Reply has put together a dedicated offering to support companies in the industry through operational, organisational and technological change initiatives, with advanced real-time-billing and energy-management solutions. In particular, Reply combines a deep knowledge of the market and the business processes with a distinctive ability to design, implement and manage application solutions to support 'core' activities.

Finally, Reply assists companies that sell and distribute electricity and gas in devising new operational models with solutions embracing the main market trends (e.g. smart metering, smart grid, and demand response).

Government and defence

In the public-administration and health sector, a pressing need has emerged over the last year to cut costs while maintaining quality and enhancing citizens' access to services. There are two contributory factors: the law, which has established 'standard costs' as a means of balancing local variations in service costs, and the operating framework, which sees the increasing use of big-data, cloud-computing and internet technologies as a way to reduce overall expenditure. In this scenario, Reply brings to bear its expertise in the latest online services, by verticalising applications and skills to create dedicated solutions for managing the interface with business and the public.

Another of Reply's specialist fields is telemedicine, which is, through the use of information technology and telecommunications, the ability to deliver care services and remote support from health professionals. Reply has created a set of applications and systems to foster a network among patients and local service-providers at various levels (hospitals, nursing homes, health centres, social centres, etc.), that enables specific communities, such as long-term sufferers, to be managed independently. This frees doctors from routine tasks, allowing them to concentrate on acute care.

In the UK, Reply is supporting various Government bodies, including the Ministry of Defence (MoD) for which Reply has helped to define and implement a new approach to the use of IT architecture. This architecture supports decision-making processes, which can integrate heterogeneous information flows, improving data management and ensuring, at the same time, the complete visibility of available resources.

Technology innovation

Technology innovation drives Reply forward. Reply has always striven to supply its customers with the tools needed to boost flexibility and efficiency. Reply is continually researching, selecting and marketing innovative solutions to support value-creation in organisations.

Big data and analytics

With over 50 billion objects set to be networked by 2020 and 900 million people sharing information on social networks, every day, millions of links become billions of events generating trillions of data items. This is the realm of big data, where diversity, volumes, speed of analysis, and value generation for the customer are the qualities that demand new architectures and new usage paradigms.

However, there is a growing realisation that big data technologies can be applied even by companies with data volumes nowhere near "petabyte" levels. 2013 was the year when big-data technology initiatives moved off the drawing board and into live use, as companies push to extract value from a mass of heterogeneous and often distributed data.

Previous years' investments in establishing implementation models for big-data architectures and in building specific multidisciplinary teams of analysts, business experts, statisticians and IT specialists have enabled Reply to position itself as a major big-data player in various European industries.

Cloud computing

In recent years, cloud computing has become one of the most important revolutions for businesses to grapple with. And it is increasingly clear that this is just the beginning. The major world vendors' offering of services and virtual environments has effectively transformed, if not overturned companies' traditional concept of IT.

Cloud computing is now increasingly viewed across many sectors as a strategic initiative to boost competitiveness, inject flexibility, and hasten time to market. To serve customers by implementing the most suitable cloud model for their specific requirements, Reply has devised an offering structured around the following points:

- consultancy support (from processes to operational management) to help customers understand, choose and refine the best technology and application solutions;
- an end-to-end provider service exploiting its strong partnership with the leading global vendors – including Amazon, Google, Microsoft, Oracle and Salesforce.com – to enable customers to benefit from solutions with the model and technology best suited to their own needs;
- SaaS and solutions based on Reply proprietary application platforms (Discovery Reply, Gaia Reply, SideUp Reply and TamTamy).

CRM

The ever-deeper integration with the new communication technologies (especially in the mobile arena), the social element of participation and collaboration, and the spread of multichannel methods have acquired crucial importance in the creation of CRM solutions that add real value, replacing the traditional models by a customer-centric approach.

Therefore, it is vital for companies to establish and enact a communication strategy that is no longer one-to-many but peer-to-peer, based both on the customers' value drivers and on the company's own distinctive hallmarks. Accordingly, Reply has built a strategic framework founded on a holistic approach that exploits customer-journey mapping and analysis through a detailed, comprehensive vision of the customer experience. Companies gain the tools and solutions to engage targeted prospects and customers.

Reply's framework not only supports the process of transforming a company's CRM model but can also be integrated into the existing procedures and structures, through its heritage in the end-to-end governance of functional and organisational processes. Reply has assisted growing numbers of businesses both with establishing the principles and auditing their processes and with designing the architecture as well as implementing the technology solution.

By exploiting its expertise in digital communications, social media, gamification, mobile, and the Internet of Things, Reply has identified new techniques and methods for establishing an omnichannel CRM strategy that allows firms to create different touchpoints. These facilitate engagement with people anywhere and at any time, with constant monitoring (customer analytics) of end-customer satisfaction, through the potential of big-data analysis.

To support the CRM framework, Reply continues to strengthen its skills through partnerships with the industry's world-wide leading vendors – Microsoft, Oracle, Salesforce.com, SAP and others – and through the experience accrued in many sectors (automotive, telco & media, energy & utilities, finance, manufacturing, pharma and retail).

Digital communication

In the communication market, individual brands', products' or services' presence on the various digital platforms, both for consumers and for employees, has grown in importance in recent years. This multichannel presence, with multiple target groups, is increasingly dialogue-based and interactive, a long way from the classic shop-window model.

In this scenario, where the boundaries between media are blurring by the day, and communication even involves company assets traditionally excluded from brand-engagement activities, the know-how needed to tackle these fresh challenges is becoming more diverse and specialised. Creative skills have always been the real added value in an effective advertising project. However additional technology proficiency and forward-thinking capabilities are now critical, such as internet, mobile telephony and now digital POS and game platforms across the ever-wider panorama of channels where brands must maintain a presence. To complicate matters further, communication must be kept consistent across the various media. To do so requires a unified input of consultancy, creativity and implementation incorporating a multimedia asset-management strategy, as well.

Besides creating and managing every aspect of a brand's image through interactive digital means, Reply applies its creative and technological expertise to important sectors like mobile telephony, ecommerce and gaming. It is vital that commercial brands master these areas, now and especially in the future.

Another vital field where Reply is assisting its customers is social-network communications. Firmly a mainstream area, it has grown strongly in recent years and is now, more than ever, a prominent global arena in brand-user relations. Accordingly, Reply has defined an offering to support companies in new strategic efforts needed to position a brand properly, including on social channels. The initiatives range from promotional work, like couponing and social gaming, to content marketing and CRM activities, like social caring and social monitoring.

Ecommerce

In recent years, ecommerce has become increasingly central to B2C relationships. Indeed, before 2014 is out, global ecommerce earnings are set to equal those from physical shops. More and more often, businesses are expanding their model with new multichannel strategies to offer consumers different touchpoints – both digital and physical – to use when buying products.

Consumers are becoming increasingly mobile and demanding. They expect their purchasing experience to be completely integrated, personalised and as unified as possible across the various channels, hence the need to complement the digital with the physical, and vice versa.

Consumer behaviours have driven a real transformation in the way in which customers interact, driven in part by social media. There is now a demand for reviews and comparisons on products, both on and offline, and hybrid purchasing methods, such as online and point of sales.

In response to this major change in the classic purchase scenario, Reply has devised an omnichannel strategy centred on customer needs, to enable companies to provide a completely integrated, unified end-consumer experience. Reply's solutions for both B2B and B2C enterprises cover end-to-end management of the entire sales chain, from managing the products and the catalogue to promotions and price-optimisation, and from managing warehousing, logistics to customer engagement both in physical stores and on digital channels.

Internet of Things

The impetus for convergence in the telco, media and consumer-electronics sectors is driving the need to treat objects currently without any kind of connectivity (domestic appliances, integrated domotic system controllers, etc...) as "networked devices". Underlying the Internet of Things (IoT) is machine to machine (M2M), a market that leading analysts predict will grow by over 39% a year in Europe during 2014–20, to be worth over 400 billion euros worldwide by 2020, with more than 26 billion networked objects.

One of the biggest developments in the next few years will be the gradual linking-up of not just computers and similar devices, but a broad gamut of objects, creating an increasingly pervasive web integrated with people's everyday lives. The applications are myriad: from industrial production processes to logistics and infomobility, and from energy efficiency to remote support and environmental protection.

Reply has developed HI Reply™, a platform of services, devices and middleware as a foundation for specific vertical applications, such as advanced logistics, environmental safety, contactless payments, and product traceability. HI Reply™ has been designed and built at Reply's IoT research and development centre.

Mobile

Through its consolidated expertise in devices, user experience and communication protocols and its knowledge of the main telco and media processes, Reply supports its customers in establishing scenarios and models for multichannel interaction. Reply creates new collaborative environments that offer:

- convenient independent access to services and information;
- integration of wireless and wired devices;
- an "always on" infrastructure for managing and distributing services and content.

The ever-growing demand for services with high levels of user interaction across all mobile platforms, channels and devices has also prompted Reply to build its own application factory dedicated to developing mobile apps for businesses and consumers.

Indeed, mobile apps' march into all aspects of our personal and professional life and will be a hallmark of this decade. This trend will create opportunities in virtually every sector, through the ever-deeper penetration of smartphones, mobile devices, and new generations of networked objects.
Additionally, Reply has devised a specific offering for gaming, not just for the consumer arena but also for the most complex B2B scenarios. In particular, applying specific approaches adapted from the video-games world to business-oriented contexts (gamification) brings interesting customer- or employee-engagement benefits. Reply supports businesses in promoting a new product or raising brand awareness (advergames) and as a tool for using mobile games for training purposes (edutainment).

Mobile payment

Mobile devices are increasingly pervasive in consumers' daily lives. Mobile-device developments combined with the growing take-up of new payment methods as alternatives to cash and as ways to transfer funds between private individuals (PtoP), are making the mobile-payments sector a very promising market for the coming years.

Leading analysts calculate that mobile transactions grew in value by 57% to 235 billion dollars worldwide in 2013. This figure is set to reach 730 billion in 2017. Reply has established a distinctive offering – based on consultancy services and technology platforms – to support banks, financial institutions, telecoms companies, utilities and retailers in creating and delivering innovative remote and proximity mobile-payments services. One important technology asset is HI Credits™, the Reply platform that exploits smartphone technologies to provide personalised and context-sensitive payment services. The platform was extended in 2013 with the integration of two new solutions: mobile POS, for accepting payments via chip & PIN, chip & signature, magstripe and contactless cards; mobile couponing which provides real-time support for context-sensitive and geolocalised offers and to enable upselling and cross-selling strategies.

Security

In 2013, Reply further strengthened its position in the managed-security-services arena and in project-based and consultancy work. The Security Operation Centre's (SOC) services and expertise grew considerably, requiring the set up of a second control room.

This investment has opened up its managed-security-services offering to new markets while extending it with new services, such as "reputational risk", based on a social-platform analysis, and models for "early warning" about the risks involved in network operations. The heart of Reply's managed-security-services offering is still: security as a service, antifraud services, the cloud security framework, and smart IT management – with a special focus on mobile-device management.

As for project-based and consultancy activities, Reply is now a key player with an integrated offering covering IT risk management, threat and vulnerability assessment, and the design and implementation of technological, procedural and organisational countermeasures.

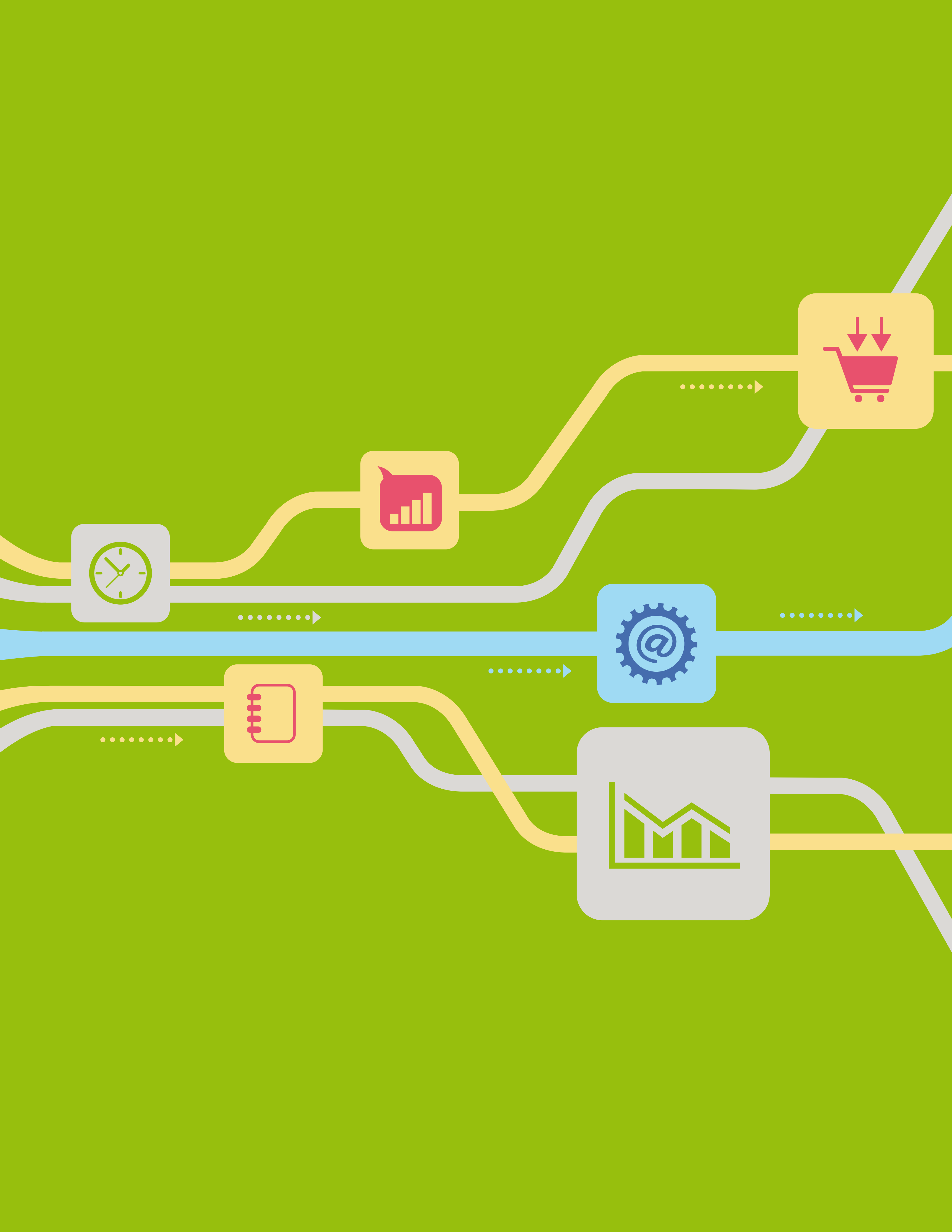
In addition, Reply has developed specific security capabilities for the IoT, especially in SCADA security, i.e. managing the intrinsic IT security of major industrial installations by controlling the "machine-to-machine" channels.

Social media

Social media has changed the way people find information and how they interact and communicate. People of all ages use this communication model in an increasingly pervasive and natural way in their daily lives. It has now been embraced on a massive scale by businesses, too, which have seized new opportunities for using these paradigms, both internally (employee networks) and externally (B2C or B2B), seeking innovative ways to connect their organisation/brand/service with their customers and stakeholders.

Reply has built specific solutions for the market, to maximise customer and stakeholder participation and involvement (social engagement) and to implement tools for monitoring and engaging conversations and interactions within communities (social listening). In addition, Reply bases its enterprise social-networking offering on its proprietary platform, TamTamy™, available both on-premises and as a service on a cloud architecture.

Reply also offers a specific solution, based on Starbytes™, to introduce the crowdsourcing organisational model into businesses wishing to have a project, product or service developed by a distributed group of people in an organised virtual community (crowd).



Reply Services & platforms

Today, the web is a distributed 'information system', used to access an ever-growing amount of data, information and complex content in real-time. This use of the internet introduces new competitive models based on 'as a service' approaches. These are enabled by three core components: software platforms; process comprehension and domain; and service management.

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

Business Process Outsourcing

Reply supplies specialist services in the following three areas:

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

CFO Services

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

- definition of company control model;
- strategic planning and budgeting;
- creation of consolidated financial statements;
- IPO support.

Application Management

Reply has defined an application management model, characterised by a modular approach and a flexible distribution model, designed to integrate Reply's services with the customer's processes in the best possible way, adapting it to suit the company's specific requirements.

Click Reply™

Click Reply™ is Reply's supply-chain execution platform for optimising inventory- and warehouse-management processes. Click Reply™ is a leading solution in the automotive, fashion and 3PL (third party logistics) markets, now used by over 400 firms and 20,000+ users worldwide.

The solution's fully service-oriented architecture capitalises on open standards and integrates with ERP and SCM systems and MESs. Click Reply™ exploits native technology to integrate and use a broad gamut of mobile devices for reading and writing tags based on RFID technology and for voice recognition, besides traditional barcode readers. The Warehouse Management platform has also recently been extended with new Yard Management, Labour Management, Warehouse Billing and Warehouse Performance modules.

Definio Reply™

Definio Reply™ is Reply's risk and wealth-management platform for financial institutions needing to analyse and monitor financial transactions handled directly and via third parties. It is of interest to banks, savings-management companies, insurance companies, pension funds, banking foundations, private and investment banks, and family offices.

Discovery Reply™

Discovery Reply™ is Reply's platform for digital asset management. With its innovative workflow-organisation methods, its high interoperability with other corporate systems, and its advanced multichannel content-distribution services, managing the entire life cycle of digital assets becomes that much easier. Discovery Reply™ supports integrated models for producing, using and storing content. The platform is based on a flexible open platform and a simple, intuitive interface for digitising, editing, cataloguing, accessing, searching and distributing digital assets over the various delivery channels, both traditional (analogue and digital TV) and IP-based (web TV, over-the-top TV, mobile TV, connected TV, and digital signage).

Gaia Reply™

Gaia Reply™ is a flexible, scalable framework for developing and supplying services and content on a variety of mobile terminals. Gaia Reply™ integrates data from any structured source and aggregates it as the type of service requires, making it available seamlessly across any mobile device or channel. The framework also optimises the content for ergonomic viewing and browsing on different devices. With its great scalability and the service-management toolset, Gaia Reply™ is well-placed to meet various business needs concerning both the development of highly feature-rich services (e.g. mobile banking) and the implementation of specific niche services (e.g. m-sites, promotions, or landing pages).

HI Reply™

HI Reply™ is Reply's IoT solution. It is a platform of services, devices and middleware as a foundation for specific vertical applications, such as infomobility, advanced logistics, environmental protection, contactless payments, and product traceability.
HI Reply™ provides a simple standard means of communicating among networked objects. It comprises a combination of hardware, firmware and software components distributed across the actual objects, from simple sensors and actuators to more sophisticated systems, like smartphones and minicomputers.
The platform makes the objects "smart", with the ability to expose their functionality to each other, using standard internet technologies and acquiring the core functions that the objects need to operate "seamlessly" (self-configuration, location, discovery and ontology of the exposed services).

SideUp Reply™

SideUp Reply™ is Reply's service platform for warehouse management and supply-chain integration and collaboration. It optimises the management of warehousing, supply-chain visibility, and proof-of-delivery processes. The solution is wholly cloud-based and integrates both with ERP and supply-chain-planning systems and with ecommerce systems.
SideUp Reply™ is targeted at companies needing to improve their logistical chain's efficiency and visibility quickly. SideUp Reply™ can be used directly via the internet with a pay-per-use model.

Starbytes™

Starbytes™ – the Reply-developed crowdsourcing platform based on a cloud architecture – is for businesses looking to implement an open-enterprise model to develop projects, services or products using the skills of a digital community, through a direct, unmediated channel between demand and supply. Starbytes™ injects new dynamics into traditional engagement mechanisms. It stimulates interaction, through techniques adapted from the video-games world (gamification), and provides not only online collaboration tools but also a complete way of managing the rules and regulations governing contracts with freelancers. Starbytes™ introduces a new and flexible labour-market model. Supply and demand meet through contests and tenders, and a sophisticated, transparent feedback system lets the cream rise to the top on merit. Launched on the Italian market in July 2012, it amassed over 40,000 registered users, from ICT professionals to creatives, by the end of 2013.

TamTamy™

TamTamy™ – the Enterprise Social Network platform developed by Reply – offers a solution for the emerging communication, participation and collaboration scenarios, for use both internally (employee networks and participative internet) and externally (B2B or consumer communities). TamTamy™ complements the functionality of enterprise-class social-networking platforms. It adds connectors for integrating with third-party systems, flexible management of multimedia and other content, plus a dashboard for reporting on use of the platform, through a simple, effective user interface (also available for mobile devices).

Partnerships / R&D

Reply considers research and a continuous focus on innovation crucial in encouraging customers to adopt new technologies.

Thanks to Reply's partnerships with world-wide, leading vendors, and the maximum level of certification on enterprise-leading technologies, Reply offers the best solutions for a wide range of customers and needs.

Microsoft

Reply is a Microsoft Certified Partner committed to a continually innovative use of Microsoft solutions, as its numerous certifications testify. Reply works with Windows 8, Windows Server 2012, Office and SharePoint 2013, SQL Server 2014, the Microsoft .NET Framework, Dynamics CRM/AX/NAV, Exchange 2013, Lync 2013 and System Center 2012. As for Business Solutions, Reply has consolidated its position as a leader in Microsoft Dynamics CRM/ERP solutions and as a key Italian partner for Dynamics CRM. Finally, Reply is a centre of excellence and an integration centre for the Microsoft Cloud OS, Hybrid Cloud, Microsoft Data Platform, Microsoft Power BI, and Application Integration.

Oracle

Reply, an Oracle Platinum Partner, has always kept pace with developments in Oracle's product and technology range. Reply now has one of Europe's main Competence Centres, offering coverage of the entire stack and full mastery of the application suites and the main vertical solutions for industry. Reply's partnership with Oracle grew even stronger in 2013, especially in customer experience and big data. Furthermore, Reply was one of the first partners to successfully market Oracle cloud-computing application solutions based on Oracle Rightnow, and Reply has been actively involved in the beta testing for the Oracle Cloud Environment (database and middleware). In various initiatives at the Reply Exalab, a demo ground, unmatched in Italy, customers have got involved in testing the most innovative Oracle solutions (e.g. CRM Siebel) integrated with the new Exadata and Exalogic engineered systems. Finally, in the ecommerce arena, Reply has progressed several projects based on the Oracle ATG Web Commerce suite, to establish a unified, personalised, customer-centric strategy over the various channels.

SAP

With a wealth of international experience in implementing application solutions based on the SAP product suite, Reply helps businesses optimise their activities and processes, through an integrated approach to the design and development of company information systems. In particular, as regards the business components and the changes demanded by the market, its expertise covers both the traditional enterprise processes and the functions of the extended enterprise, with a distinctive focus on multichannel-CRM components, BI and big data. And one of Reply's distinguishing features is its established expertise in mobile SAP technologies. Another important factor is its mastery of the technology and the design side. Working with the SAP Cloud infrastructure and SAP HANA in-memory technologies, Reply can shape the application-integration and the people-&-knowledge-integration agendas in complex technological environments.

Amazon

Reply is currently a leading partner of Amazon Web Services (AWS), the Amazon division that supplies Infrastructure as a Service (IaaS). Reply has worked with the infrastructure and components supplied to businesses by AWS. Reply has completed numerous B2B and B2C projects and offered complete end-to-end support, from consultancy to selecting the most suitable cloud model for individual firms' requirements, and from building and integrating custom applications and platforms to providing maintenance and management services based on pay-as-you-go models.

In late 2013, in recognition of its expertise, the importance of the projects completed, and the customer satisfaction generated, Amazon appointed Reply as a Premier Consulting Partner. This, as the highest certification level possible, has been granted to an elite group of just 22 AWS partners worldwide.

Google

Reply is one of Google's main partners in Italy. Reply supports businesses looking to implement Google Enterprise solutions. Through its expertise in applications, architectures and infrastructure, Reply helps customers make the most of Google's new paradigms in business settings. With services like Gmail, Google Apps and Google Maps – Google is introducing companies to extended social-collaboration and social-networking models delivered through public-cloud architectures.

hybris

As one of hybris's main partners worldwide, Reply received the "Global Partner of the Year" award in January 2013, for the second consecutive year, for its important multichannel ecommerce projects delivered for leading retail customers. Reply – the only hybris Platinum Elite partner in the world – outdid hybris's other leading partners in Europe, North America and the Asia Pacific area to win this prestigious recognition.

Salesforce.com

Reply is now one of Europe's leading Salesforce.com specialists, with over 90 successful projects and applications published on the Salesforce.com Appexchange. Reply's customers include some of the most important industrial and media groups in Europe. In particular, Reply combines cloud competencies and specific process, market and integration know-how with a special focus on social, data-migration and integration issues, on components as a service and on the Force.com and Heroku platforms. Reply also has Germany's first Social Media Command Centre on Salesforce Radian6. Based at Reply's Munich offices, the centre is dedicated to all companies wishing to monitor the online conversations about their brand in real time.

Developing and enhancing proprietary platforms

Reply continuously devotes resources to research and development, focusing on two areas: the development and evolution of proprietary platforms; and the continuous process of scouting, selecting and learning new technologies. This expertise delivers market-innovative solutions that support the business objectives of organisations.

Click Reply™

In the Click Reply™ 2013 roadmap, product development was geared to consolidating the new modules for optimising logistical and operational processes. Particular examples include the modules for Yard Management (for managing inbound and outbound flows), Warehouse Billing (for costing warehousing processes), Labour Management (for analysing the time taken to perform warehousing tasks), and Warehouse Performance (for measuring and monitoring warehouse performance). In parallel, a new version of the product was launched, including a renewed user experience.

Discovery Reply™

During 2013, the Advertising Workflow Management module was added to the platform, offering collaborative support for initiatives whose end product is a multimedia object. The module allows authorised profiled users to enter, edit and approve their content for an advertising campaign – e.g. documents, videos, images and films – thus making it possible to manage the multimedia product's entire life cycle. Further investments in the pipeline for 2014 will keep extending the platform's functionality, services and extensibility.

Definio Reply™

Definio Reply™ has completely revised the management structure of interest rates, in order to better meet the needs of the market. Fixed spreads, variable (CDS) or function of several parameters are natively now integrated. The advanced reporting module has been consolidated with the previous version, and a scheduler has been introduced along with a library dedicated to the extraction of complex data for reporting. The portfolio of available/realised reports has increased greatly. The risk module has been improved. By combining the synergies of the modules, Definio Pricing and Definio Risk, the linked and convertible bonds are managed more effectively.

Gaia Reply™

The main 2013 developments to Gaia Reply™ were enhancements to the way push notifications are sent to mobile client applications and new ways to create multichannel pages to facilitate and streamline service development and to reduce time to market. The platform framework has been optimised to support cross-platform implementations of native client applications and to make the entire application responsive, in line with the latest mobile requirements. In 2014, Reply plans to integrate Gaia with the Open Source Apache Cordova framework, to generate mobile client applications those are considered hybrid because of native and web components.

HI Reply™

In 2013, Reply's vertical mobile-payment solutions, based on HI Reply™, were integrated into the mobile-payments services of companies operating industry-wide. These include banks, cash-register manufacturers, merchants, telco operators, utilities and companies that have invested in mobile payments to innovate their products and services, including with NFC technology. Organisations in various sectors, from the automotive industry to museums, have integrated the innovations in the solutions for mobile contextual based advertising and digital broadcast advertising into their multichannel communication projects. Additional investment is coming in 2014 for the energy-efficiency arena. The correlation between physical parameters and contextual knowledge will be of instrumental importance for the energy market and the energy exchange and will inform future developments to the platform.

SideUp Reply™

Developments in 2013 included completing the extension of new logistical services in a cloud-computing implementation, thus broadening the "as a service" offering. The Supplier Visibility component was strengthened with the release of the Supply Chain Replenishment module for managing replenishments collaboratively with suppliers. In parallel, development work began on a second module to enable customers to exploit the opportunities in the SaaS model, including in the logistical processes involved with inbound transport. Reply has invested not only in new functionality but also in the mobile-technology platform. This initiative will conclude later this year and will enable the SideUp Reply modules to be used fully, not just on Windows Mobile and CE devices but also on smartphones and tablets running the Android OS.

Starbytes™

The Starbytes development plans for 2014 include several new projects to integrate the Starbytes community services transparently and intuitively into the software packages offered as a service. This facility will create a technology layer shared between freelancers and customers. Consequently, freelancers will be able to focus their skills and standardise the way they collaborate, while customers will be able to combine the power and cost-effectiveness of a software service with the chance to commission professional customisation at moderate prices.

TamTamy™

During 2013, Reply continued to develop the TamTamy™ platform. Reply has made it more adaptable to the burgeoning and increasingly diverse set of usage scenarios, extending its offering to consumer arenas, and providing companies with an effective tool for communicating directly with their customers. Further investments are planned for 2014. The aim is to strengthen the company communities' market presence, to extend the available services, and to enhance their integrability, by offering TamTamy as a core platform for social mobile strategies and applications.

The value of people

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

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

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

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

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

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

The Reply team

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

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

Annual Financial Report

2013

Report on Operations

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

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

External risks

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

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

Risks associated with competition
The ICT market is highly competitive. Competitors could expand their market share squeezing out and consequently reduce the Group's market share. Moreover the intensification of the level of competition is also linked with possible entry of new entities endowed with human resources and financial and technological capacities in the Group's reference sectors, offering largely competitive prices which could condition the Group's activities and the possibility of consolidating or amplifying its own competitive position in the reference sectors, with consequent repercussions on business and on the Group's economic, earnings and financial situation.

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

Risks associated with segment regulations

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

Internal risks

Risks associated with key management

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

Risks associated with relationship with client

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

Risks associated with internationalization

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

Risks associated with contractual obligations

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

Financial risks

Credit risk

For business purposes, specific policies are adopted to assure its clients' solvency.
With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

Liquidity risk

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The cash flows, funding requirements and liquidity of the Group's companies are monitored or centrally managed under the control of the Group Treasury, with the objective of guaranteeing effective and efficient management of capital resources (maintaining an adequate level of liquid assets and funds obtainable via an appropriate *committed* credit line amount).
The difficult economic context of the markets and financial markets requires specific attention as regards the management of liquidity risk and in such a way that particular attention is given to shares tending to generate financial resources with operational management and to maintaining an adequate level of liquid assets. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Exchange rate and interest rate risk

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

Financial review of the Group

Introduction

The financial statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated financial statements as at 31 December 2013, to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

Trend of the period

The Group closed financial year 2013 with consolidated revenue of 560.2 million Euros an increase of 13.2% relative to the 494.8 million Euros reported for 2012.
The EBITDA amounted to 72.6 million Euros (62.4 million Euros in 2012) while the EBIT achieved was 64.2 million Euros (52.2 million Euros in 2012).
The net result amounted to 34.5 million Euros (27.1 million Euros in 2012).
The Group's net financial positions on 31 December 2013 is positive at 5.0 million Euros relative to an indebtedness of 0.4 million Euros on 31 December 2012.
2013 was a very positive year for the Group, which had a performance widely superior than the market average, owing to a distinctive and in-depth know how on the entire digital transformation area.
Today we are at the start of a cultural, social and entrepreneurial discontinuance as a result of the arrival of the internet: the convergence between real world and the digital world. A new exemplar in which the borders between product and service shall increasingly become blurred in which technology, besides becoming pervasive, shall be the main qualifying factor.
Reply has the skills, magnitude and the soundness to be a reference player in this new scenario. For this reason the investments shall revolve around further strengthening of Big Data, in Cloud Computing, in Digital Services, in Social Media and in the Internet of Things; fields which serve to redefine business models on the part of companies from every industrial sector.

Reclassified consolidated Income statement

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

(thousand Euros)	**2013**	**%**	**2012**	**%**
Revenues	**560,151**	**100.0**	**494,831**	**100.0**
Purchases	(10,644)	(1.9)	(10,894)	(2.2)
Personnel	(269,893)	(48.2)	(239,258)	(48.4)
Services and other costs	(200,419)	(35.8)	(180,240)	(36.4)
Other operating (costs)/income	(6,595)	(1.2)	(2,015)	(0.4)
Operating costs	**(487,551)**	**(87.0)**	**(432,407)**	**(87.4)**
Gross operating income (EBITDA)	**72,600**	**13.0**	**62,424**	**12.6**
Amortization, depreciation and write-downs	(7,949)	(1.4)	(6,855)	(1.4)
Other unusual (costs)/income	(480)	(0.1)	(3,319)	(0.7)
Operating income (EBIT)	**64,171**	**11.5**	**52,249**	**10.6**
Financial income/(expenses)	(2,439)	(0.4)	(1,984)	(0.4)
Income before taxes	**61,732**	**11.0**	**50,265**	**10.2**
Income taxes	(26,652)	(4.8)	(22,006)	(4.4)
Net income	**35,080**	**6.3**	**28,259**	**5.7**
Non controlling interests	(630)	(0.1)	(1,164)	(0.2)
Group net income	**34,450**	**6.2**	**27,094**	**5.5**

Group key events of 2013 are summarized below:

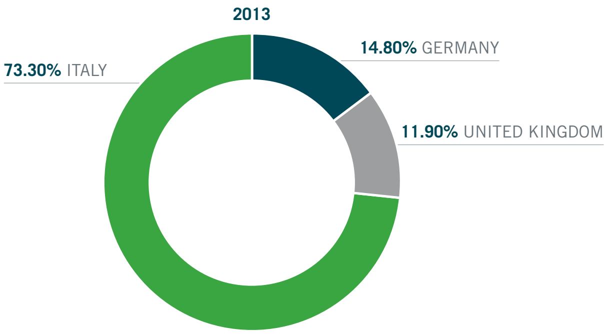
→ January 2013: Portaltech Reply, a company of the Reply Group specialized in consulting and the implementation of e-commerce multi-channel strategies and solutions, received the "Global Partner of the Year" award for the second consecutive year from Hybris, leader in omni-channel solutions. Portaltech Reply, sole global partner of Hybris holding the Platinum Elite partnership, was awarded the prize of "Global Partner of the Year" emerging among the 160 Hybris European partners of North America and Asia Pacific.

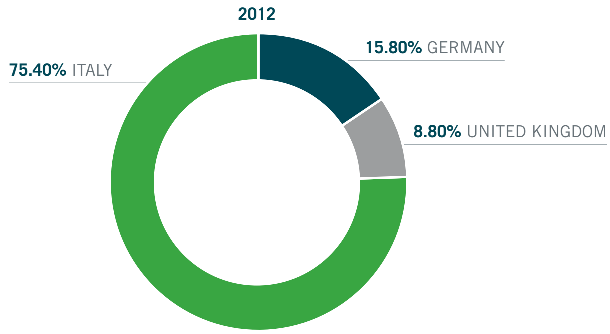
→ March 2013: Sytel Reply and Technology Reply - both Platinum Partner Oracle and the only companies to have an Exalogic and Exadata knowledge centre – are the first partners in EMEA to obtain the Cloud Partner specialisation. The award was awarded to Sytel Reply for having led the first Italian implementation of Oracle RightNow Cloud Services and Technology Reply for continuous investments in Cloud of Oracle technologies.

→ May 2013: HI Shop, the Contextual Marketing solution conceived and developed by Concept Reply, receives from POPAI, the Marketing and Retail Organization, the POPAI Best in Show award, a special recognition that awards best achievement at the Popai Award 2013.

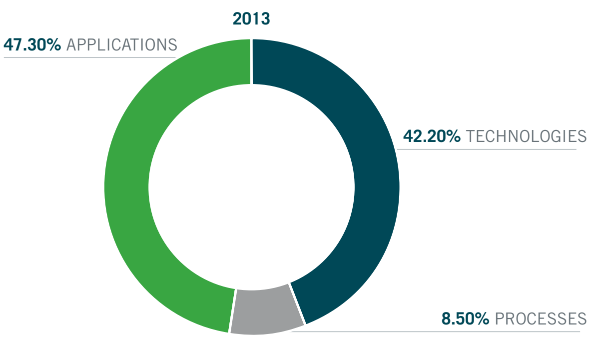
→ August 2013: Forge Reply, company of the Reply Group specialised in the development of games for mobile devices, smartphones and tablets, and Atlantyca Lab, the digital division of Atlantyca Entertainment, announce a partnership with BulkyPix, publisher and developer of video games for smartphones and tablets, for the launch of Joe Dever's Lone Wolf – Blood on the Snow for tablets and smartphones.

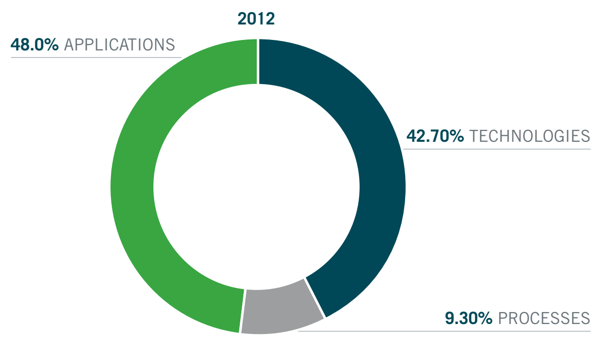
Revenue by geographic area



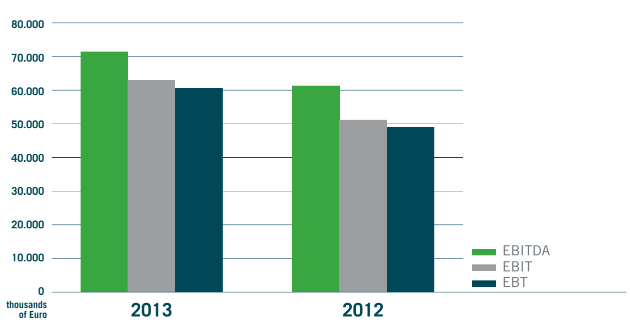


Revenue by business lines





Trend in the principle economic indicators



Analysis of the financial structure

The Group's financial structure is set forth below as at 31 December 2013, compared to 31 December 2012:

(thousand Euros)	31/12/2013	%	31/12/2012	%	Change
Current operating assets	318,530		280,451		38,079
Current operating liabilities	(194,155)		(159,974)		(34,181)
Net working capital (A)	**124,374**		**120,476**		**3,898**
Non current assets	162,570		136,689		25,880
Non current liabilities	(79,347)		(78,332)		(1,016)
Fixed capital (B)	**83,222**		**58,358**		**24,865**
Net invested capital (A+B)	**207,597**	**100.0**	**178,834**	**100.0**	**28,763**
Shareholders' equity (C)	212,608	102.4	178,461	99.8	34,147
NET FINANCIAL POSITION (A+B-C)	**(5,011)**	**(2.4)**	**373**	**0.2**	**(5,384)**

Net invested capital on 31 December 2013, amounting to 207,597 thousand Euros, was financed for 212,608 thousand Euros by net capital and reserves and by available overall funds of 5,011 thousand Euros.

The following table provides a breakdown of net working capital:

(thousand Euros)	31/12/2013	31/12/2012	Change
Work in progress	21,910	15,428	6,482
Trade receivables	271,166	237,700	33,467
Other current assets	25,454	27,323	(1,869)
Current operating assets (A)	**318,530**	**280,451**	**38,079**
Trade payables	68,124	56,656	11,468
Other current liabilities	126,032	103,318	22,713
Current operating liabilities (B)	**194,155**	**159,974**	**34,181**
Net working capital (A-B)	**124,374**	**120,476**	**3,898**
% return on revenues	*22.2%*	*24.3%*	

Net financial position and cash flows statement

(thousand Euros)	31/12/2013	31/12/2012	Change
Cash and cash equivalents, net	38,861	18,610	20,251
Current financial assets	1,010	1,315	(305)
Due to banks	(13,752)	(9,150)	(4,602)
Due to other providers of finance	(666)	(572)	(94)
Short-term financial position	**25,453**	**10,203**	**15,250**
Non current financial assets	1,278	2,851	(1,573)
Due to banks	(20,755)	(12,778)	(7,977)
Due to other providers of finance	(964)	(649)	(315)
M/L term financial position	**(20,442)**	**(10,576)**	**(9,866)**
Total net financial position	**5,011**	**(373)**	**5,384**

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

(thousand Euros)	31/12/2013
Net cash flows from operating activities (A)	44,132
Net cash flows from investment activities (B)	(28,892)
Net cash flows from financing activities (C)	5,011
Net cash flows (D) = (A+B+C)	**20,251**
Cash and cash equivalents at beginning of period (*)	18,610
Cash and cash equivalents at period end	38,861
Total change in cash and cash equivalents (D)	**20,251**

(*) Liquid assets and cash equivalents net are net of current account overdrafts

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

Significant operations in 2013

Acquisition of Triplesense GmbH

Reply S.p.A. strengthened its presence in Europe at the beginning of July with the acquisition of 100% of the shares of Triplesense GmbH, leading German company in consultancy and in the development of strategies and solutions for digital communication on mobile and social channels.
Based in Frankfurt, Triplesense counts amongst its clients, some of the main German and international groups, amongst which are BASF, Deutsche Bahn, Direct Line, eprimo, Fraport AG, RMV, Tele Columbus and Vorwerk.
The total consideration for the purchase of 100% of Triplesense's share capital is 3.4 million Euros, wholly paid up in cash.
With this acquisition Reply has reinforced its position in Europe in the sphere of digital communication, an area which seems to be more and more crucial in the development of integrated and multi-channel marketing and communication strategies.

Acquisition of Mind Services Informatica Ltda

In the month of November Reply S.p.A., through its subsidiary Reply do Brasil, purchased 76% of the capital of Mind Services Informática LTDA, a Brazilian company specialized in consultancy and in the development of technological solutions for the insurance sector.
Based in San Paolo, Mind Services counts amongst its clients, some of the main South American groups, amongst which are AON, Chubb, Icatu and Mapfre.
The total consideration for the purchase of 76% Mind Services's share capital is 1.9 million Euros, wholly paid up in cash.
The purchase of Mind Services forms part of the Reply international development strategy, based on the implementation, within Europe and America, of a highly specialized company network model. In particular, with Mind Services Reply, it is reinforcing its own presence in Brazil, the main market for ICT expenditure in South America.

Acquisition of Solidsoft Ltd

In the month of December, Reply S.p.A., through its subsidiary Reply Ltd., strengthened its presence in England with the acquisition of 100% of the share capital of Solidsoft Ltd., a company specialised in the consultancy and development of Microsoft cloud architectures and solutions
Solidsoft, recognized by Microsoft on a global level as Cloud Partner in 2013, for solutions based on the Windows Azure platform, counts amongst its clients some of the main English and international groups among which are Bank of Tokyo, Capita, EFPIA (European Federation of Pharmaceutical Industry Associations), HM Government, Molton Brown and Securicor.
The total consideration for the purchase of 100% of Solidsoft's share capital is GBP 6.2 million, paid entirely in cash.
The acquisition of Solidsoft is part of Reply's development strategy within Cloud Computing, presently, one of the most important exchange drivers within the companies. Indeed a continuous and strong focus on all segments of Cloud services is foreseen, with an annual growth percentage, averaging 16.9% on a global level of and revenue estimated at greater than 181 billion by 2017. As far as Europe is concerned, the Cloud services market is foreseen to increase from the current 22 to over 37 billion Euros by 2017, with an annual growth rate of more than 12.5%.

Corporate reorganization

During the financial year, the company integration process, was initiated with German operations, aimed at rationalizing and simplifying the Reply Group structure.
The Shareholders' meeting of Reply Deutschland AG and Reply S.p.A. last July resolved the approval of the merger project for incorporation of Reply Deutschland AG into Reply S.p.A.
Coherently with what was communicated in December 2012, the operation was completed on 6 December 2013, date in which the merger deed for the incorporation of Reply Deutschland AG into Reply SA was registered in the Companies Register of Turin (effective legal date of the operation). In compliance with the merger project, legal effectiveness elapsed from the same date of 6 December 2013, whilst accounting and fiscal effectiveness were retro-dated to 1 April 2013.
The exchange ratio was defined on the basis of economic-financial values of the two companies as at 31 March 2013. In compliance with applicable German and Italian regulations, the shareholders of Reply Deutschland AG, which held a shareholding in the same on the legal date of effectiveness of the merger, received in share swap no. 5 shares of Reply S.p.A. each 19 shares of the German owned company or, as an alternative, a corresponding amount in cash equal to 10.95 Euros per share, in the event that there is no intent to adhere to the merger.
The merger operation occurred via the annulment of the shares held by Reply S.p.A. in Reply Deutschland AG (equal to 81.18% of capital) and via the use, for share swap purposes, of Reply S.p.A.'s treasury shares, without any variation in the share capital of the incorporating company.
The 235,216 treasury shares assigned in share swap were made available to the shareholders of Reply Deutschland AG on 12 December 2013, according to the appropriate forms of the dematerialized shares.
For more details on the merger operation refer to the documentation made available on the company's website (www.reply.eu) within legal time limits.
As far as the effects of the merger on Reply S.p.A.'s economic-financial data are concerned, refer to the Reply Parent Company paragraph.

Other operations

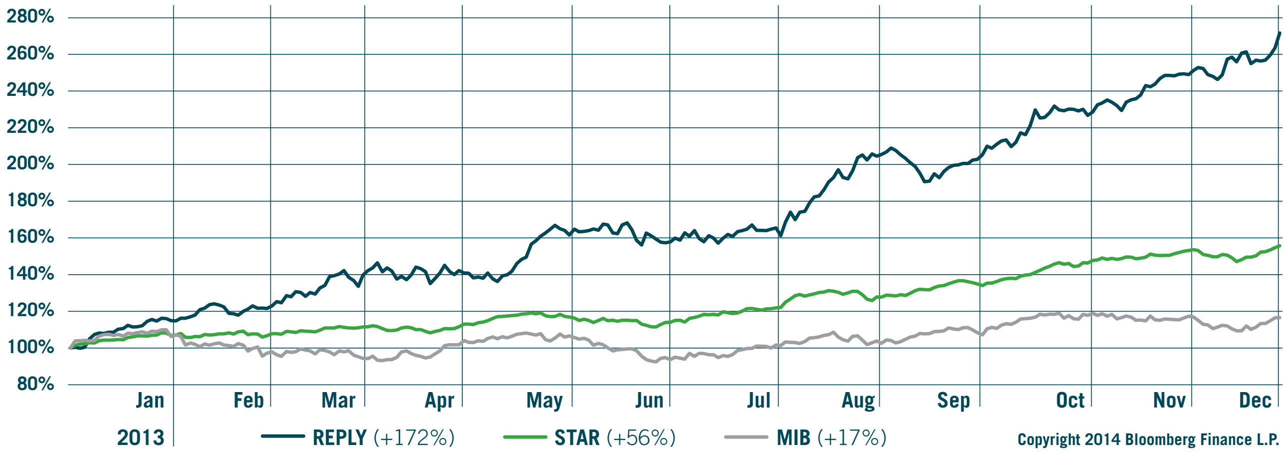
In the month of June 2013, an agreement between Reply Services S.r.l. and Alika S.r.l. was signed for the transfer of the business branch related to the management of the office services for the Reply Group companies that provides equipped third party office spaces and related services in the Turin and Milan offices.
The operation was carried out in order to rationalize the office management services within the Group, allocating these activities within Reply Services S.r.l. – company already designated in providing administrative services to the Group companies – and thus reduce the costs of the management of all office equipment and office services of the group headquarters and locations in Turin and Milan.
The transfer price amounted to 1.6 million Euros and was based on an evaluation carried out by an independent third party. The operation, that had effect as of July 1, 2013, was subject to the examination of the Committee of operation with Related parties, as it was executed by Alika S.r.l., the holding company of Reply S.p.A. and thus a related party; in this respect the Committee of operation with Related parties issued a positive opinion on the convenience and correctness of the conditions of the aforesaid operation.

Reply on the stock market

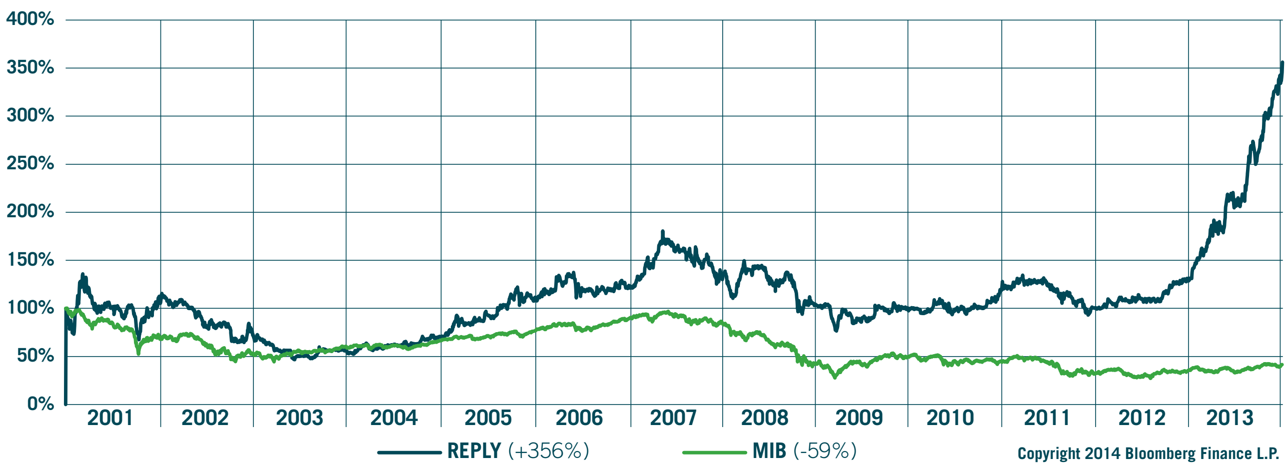
2013 has been a milestone for the position of the Reply share on the capital markets. The share price increased by 172%, significantly outperforming the main European indexes and the performance of peer companies. Apparently, the capital markets discovered the Reply story. The substantial under-evaluation of former years has been eliminated. As a result of a cross-border merger of the listed German subsidiary Reply Deutschland AG with the Italian Reply S.p.A., the capital market structure of the group has been optimised; Reply now presents one listed group company to its shareholders and investors.

Reply share performance

Due to uncertainties regarding economic growth in Europe and the emerging countries, the stock markets were highly volatile in the reporting period. Until the end of August, the Italian MIB basically remained unchanged compared to its value at the beginning of the year. Starting in September, the MIB entered into a steady upward trend which led to a value increase of 17% at the end of 2013. The Italian STAR index showed a much more dynamic development, having improved by 56% during the year 2013. It basically saw three different phases. The year started with an increase of 20% until mid of May, the index entered a phase of stability until end of July, and - like the MIB index - finally entered a continuous upward trend which brought another 36% performance increase. The Reply share however outperformed the indexes right from the beginning of 2013 when the share price stood at 21 euros. January closed with a performance of 15%; at the end of March, the share price already improved by 42%. Following a short consolidation phase in April, we saw the next major increase in May, bringing the share price performance to 65%. Until the end of August, the Reply share already doubled its value. With the beginning of October, the Reply share entered a steady upward development – like the indexes, but at a much higher gradient – closing 2013 at a share price of 56.90 euros. All in all, the value improved by 172%.



Extending the analysis period to the time since the Reply IPO in December 2000 basically shows the same picture. Although the Reply share until the end of 2012 performed 100% points better than the Italian MIB index, its share price was only 31% higher than the price of the IPO. Only in 2013, the share price more than tripled to 56.90 euros, an increase of 356% since the IPO.



Capital market position

The extremely positive development of the share price had a substantial impact on the position of Reply in the capital markets. Since March 2013, Reply has been a member of the Italian MidCap Index, consisting of 60 companies. In terms of market capitalisation, Reply in March held rank 55 among the 60 MidCap companies. Reply closed the year at rank 46.
Also the liquidity situation of the Reply share improved substantially in 2013. The overwhelming majority of the trading in Reply is taking place at the Italian Stock Exchange. In 2013, 3.7 million Reply shares were traded there, an increase of 147% compared to the year before. On average, this equaled 14.7 thousand shares per trading day. One year ago, the daily trading volume amounted to 5.9 thousand Reply shares. The improvement in the number of shares traded and the positive share price development united in the trading volume of the Reply share, which improved from EUR 27.3 million to EUR 123.9 million in the reporting period. Sorting the 60 companies of the MidCap Index by trading volume, Reply entered the index in March at rank 31. At the end of 2013, Reply improved to rank 29. Notably, the liquidity situation of the Reply share is better than the position based on market capitalisation.

Dividend

Reply is sharing its positive course of business with its shareholders also by means of dividend distributions. In 2013, Reply achieved earnings per share of EUR 3.81 an increase of 26.6% compared to 2012. For the financial year 2013, the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 0.70 (dividend 2012: EUR 0.57). Since 2009, the dividend of Reply nearly doubled. Referred to the share price of Reply at the end of 2013, this means a dividend yield of 1.2%. Assuming the approval of the shareholders' meeting, Reply will pay to its shareholders a dividend total of EUR 6.5 million. In 2012, Euro 5.26 million were distributed.

The subsequent table gives an overview on the main parameters of the Reply share and their substantial developments during the last 5 years.

		2013	2012	2011	2010	2009
Share price						
Year-end	EUR	56.90	20.99	16.02	19.21	16.04
High for the year	EUR	56.90	21.00	21.49	20.44	16.90
Low for the year	EUR	20.92	15.89	14.86	14.94	12.21
Trading						
Number of shares traded (year)	# thousand	3,705.0	1,497.3	1,403.1	1,693.6	1,865.7
Number of shares traded (day)	# thousand	14.7	5.9	5.5	6.6	7.3
Trading volume (year)	EUR million	123.9	27.323	26.615	28.529	28.453
Trading volume (day)	EUR million	0.492	0.108	0.104	0.111	0.112
Number of shares	**# thousand**	**9,307.9**	**9,222.9**	**9,222.9**	**9,222.9**	**9,222.9**
Share capital	EUR million	4.840	4.796	4.796	4.796	4.796
Free Float	%	42.1	41.8	42.3	42.3	42.8
Market capitalisation	EUR million	529.6	193.6	147.8	177.2	147.9
Earnings per share	EUR	3.81	2.94	2.62	2.21	1.80
Dividend[1)]	EUR	0.70	0.57	0.50	0.45	0.35
Dividend payment	EUR million	6.615	5.257	4.611	4.150	3.228
Dividend yield[2)]	%	1.3%	2.7%	3.1%	2.3%	2.2%

1) Amount proposed for shareholder approval for 2013
2) Related to year-end closing price

The shareholder base

Based on the information Reply obtained on the occasion of the shareholders’ meeting on July 22, 2013, 67.6% of the Reply shares are held by the founders and the management of Reply, institutional shareholders own 21.6% of the shares, whereas 10.8% of the shares were in the hands of retail shareholders.
An analysis of the home countries of the Reply shareholders revealed that 71.4% of the shares are allotted to Italian shareholders, 10% are held by shareholders from Germany, 6.5% are related to Luxembourg, 4.8% are owned by US shareholders, and 1.4% are allotted to British and French shareholders respectively. The rest is held by other nationalities, mainly in Europe and the Americas.

Analysts

Currently 4 analysts from Italy and Germany are covering the Reply share. 25% of them had an “overweight” rating, while 75% casted a “neutral” vote on the Reply share. No “sell” ratings were recorded.

Dialogue with the capital markets

Our corporate strategy aims to create long-term value. We support this strategy through regular and open communication with all capital market participants. To keep institutional investors informed, we take part in conferences, host numerous one-on-one meetings and roadshows all over Europe. It is very important for Reply that analysts and investors have direct contact with the Reply management, because investors should get to know the people who manage the businesses. Against the background of the very positive development of the Reply share in financial year 2013, we saw a substantial increase in investor attention and our related Investor Relations activities.

The Parent Company Reply S.p.A.

Introduction

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2013, to which reference should be made, prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.
As described in the paragraph Significant Operations in 2013, the merger operation for the incorporation of the subsidiary company, Reply Deutschland AG in Reply S.p.A., was finalized in the financial year under review.
The operation was completed on 6 December 2013, date in which the merger deed for the incorporation of Reply Deutschland AG into Reply SA was registered in the Companies Register of Turin. (effective legal date of the operation). In compliance with the merger project, legal effectiveness elapsed from the same date of 6 December 2013, whilst accounting and fiscal effectiveness were retro-dated to 1 April 2013.
The economic-financial amounts incorporated in Reply S.p.A.'s financial statements are summarized below:

(thousand Euros)	**06/12/2013**
Non current assets	41,303
Current assets	659
TOTAL ASSETS	**41,962**
SHAREHOLDERS' EQUITY	**37,934**
Non current liabilities	161
Current liabilities	3,867
TOTAL LIABILITIES	**41,962**

(thousand Euros)	
Revenues	-
Operating costs	625
Taxation	420
Profit/(loss) for the period	**1,045**

Reclassified income statement

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

As at 31 December 2013 the Parent Company had 89 employees (95 employees in 2012).

Reply S.p.A. also carries out commercial fronting activities for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group's overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Revenue from fronting operations of the Income Statement set forth below.

The Parent Company's income statement is summarized as follows:

(thousand Euros)	**2013**	**2012**	**Change**
Revenues from operating activities	39,794	34,976	4,818
Revenues from fronting operations	243,973	222,258	21,715
Purchases, services and other costs	(273,920)	(246,404)	(27,516)
Work and relative expenses	(16,081)	(15,833)	(248)
Other unusual operating income/(expenses)	250	(550)	800
Amortization, depreciation and write-downs	(698)	(800)	102
EBIT	**(6,682)**	**(6,353)**	**(328)**
Net financial Income/(Expenses)	443	474	(32)
Income from equity investments	28,814	26,686	2,129
Loss on equity investments	(8,393)	(5,670)	(2,724)
Income before taxes	**14,183**	**15,138**	**(955)**
Income tax	624	1,088	(464)
NET RESULT	**14,807**	**16,226**	**(1,419)**

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 13,276 thousand Euros (11,731 thousand Euros in the financial year 2012);
- activities developed on a central level for controlled companies for 19,585 thousand Euros (17,482 thousand Euros in the financial year 2012);
- management services for 6,790 thousand Euros (5,548 thousand Euros in the financial year 2012).
- Operating income 2013 marked a negative result of 6,682 thousand Euros after having deducted amortization expenses of 698 thousand Euros (of which 543 thousand Euros referred to intangible assets and 155 thousand Euros to tangible assets).

The result of financial management, equivalent to 443 thousand Euros, included interest income for 1,943 thousand Euros and interest expenses for 1,458 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net positive exchange rate differences amounting to 117 thousand Euros.

Income from equity investments which amounted to 28,814 thousand Euros refers to dividends received from subsidiary companies in 2013.

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

Net income for the year ended 2013, amounted to 14,807 thousand Euros after income taxes of 624 thousand Euros.

Financial structure

Reply S.p.A.'s financial structure as at 31 December 2013, compared to that as at 31 December 2012, is provided below:

(thousand Euros)	**2013**	**2012**	**Change**
Tangible assets	447	201	246
Intangible assets	1,140	1,349	(209)
Equity investments	130,197	125,267	4,929
Other intangible assets	1,670	1,679	(9)
Non current financial liabilities	(17,011)	(26,808)	9,797
Non current assets	**116,443**	**101,689**	**14,754**
Net working capital	**9,061**	**4,306**	**4,755**
NET INVESTED CAPITAL	**125,504**	**105,995**	**19,509**
Shareholder's Equity	145,504	124,121	21,383
Net financial position	(19,999)	(18,126)	(1,873)
TOTAL	**125,504**	**105,995**	**19,509**

The net invested capital on 31 December 2013, amounting to 125,504 thousand Euros, was financed for 145,504 thousand Euros from Shareholders' equity and available overall funds of 19,999 thousand Euros.

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

Net Financial Position

The Parent Company's net financial position as at 31 December 2013, compared to 31 December 2012, is detailed as follows:

(thousand Euros)	**31/12/2013**	**31/12/2012**	**Change**
Cash and cash equivalents, net	(3,615)	(6,410)	2,795
Loans to subsidiaries	42,874	50,324	(7,450)
Receivables from factoring companies	669	834	(164)
Due to banks	(13,956)	(9,163)	(4,793)
Due to subsidiaries	(22,062)	(17,053)	(9,612)
Short-term net financial position	**3,911**	**18,532**	**(14,621)**
Long-term financial assets	36,251	14,091	22,160
Due to banks	(20,163)	(11,996)	(8,166)
Due to subsidiaries	-	(2,500)	2,500
M/L term financial position	**16,088**	**(406)**	**16,494**
Total net financial position	**19,999**	**18,126**	**1,873**

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

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

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

	31/12/2013		31/12/2012	
(thousand Euros)	**Shareholder's Equity**	**Net Result**	**Shareholder's Equity (*)**	**Net Result**
Reply S.p.A.'s separate financial statements	**145,504**	**14,807**	**124,121**	**16,226**
Results of the subsidiary companies	**133,592**	**52,793**	**114,295**	**39,531**
Carrying value of investments in consolidated companies	(63,035)		(57,027)	
Elimination of dividends from subsidiary companies		(28,854)		(26,726)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(3,453)	(3,668)	(1,283)	(773)
Non controlling interests	(797)	(630)	(2,704)	(1,164)
Net Group consolidated financial statement	**211,809**	**34,450**	**177,402**	**27,094**

(*) Subsequent to the application, from the 1st January 2013 (retrospectively) of the amendment to IAS 19, the data on the 31st December 2012, provided as a comparison, have been re-stated as specified with IAS 1. For further details, please refer to the paragraph, Accounting principles, amendments and interpretations applied from the 1st January 2013.

Corporate Governance

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

During the meeting held in March 2013, The Board of Directors, at the proposal of the Remuneration Committee, established a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob which took effect on 31 December 2011. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders' Meeting called to approve the 2013 financial statements.

In compliance with regulatory obligations the annually drafted "Report on Corporate Governance and Ownership Structures" contains a general description of the corporate governance system adopted by the Group, reporting information on ownership structures and compliance with the Code of Conduct, including the main governance practices applied and the characteristics of the risk management and internal control system also with respect to the financial reporting process.
The above Report is available on the Corporate Governance section of the website www.reply.eu.
The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. www.borsaitaliana.it.

Other information

Research and development activities

Reply offers high technology services and solutions in a market where innovation is of primary importance. Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.

Reply dedicates resources to Research and Development activities and concentrates on the following sectors:

- Development and evolution of its own platforms:
  - Click Reply™
  - Definio Reply™
  - Discovery Reply™
  - Gaia Reply™
  - Hi Reply™
  - Sideup Reply™
  - Starbytes™
  - TamTamy™
- Reply has important partnerships with major global vendors so as to offer the most suitable solutions to different company needs. Specifically, Reply boasts the highest level of certification amongst the technology leaders in the Enterprise sector, among which:
  - Microsoft
  - Oracle
  - SAP
  - Amazon
  - Google
  - Hybris
  - Salesforce

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

Human resources

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

The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.
At the end of 2013 the Group had 4,253 employees compared to 3,725 in 2012. During the year around 854 were employed and approximately 454 left the Group, while change in consolidation counts for 128 employees.

Security Planning Document

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

Transactions with related parties and Group companies

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

Treasury shares

At the balance sheet date, the Parent Company holds no. 597 treasury shares amounting to 9,127 Euros, nominal value equal to 310 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount.
At the balance sheet date the Company does not hold shares of other holding companies.

Financial instruments

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

Events subsequent to 31 December 2013

No significant events have occurred subsequent to 31 December 2013.

Outlook on operations

During 2013, Reply has strengthened its position in all market sectors in which it's present. Reply is increasingly recognized and appreciated by clients for the quality of its solutions and excellence in delivery.

Reply is leader in those areas which are increasingly characterized, within every industrial division, as determinant in guaranteeing competitiveness and survival: the ability to interpret innovation and making it a functional requirement of companies is Reply's strong point and its distinctive characteristic.

Technology has indeed become omnipresent and pervasive: it is part of every product, service or human relationship. The network, with its enormous power in terms of speed and connection simplicity, is the basis for main company changes and consequently the way in which products and services are brought to the market.

Today we are facing that which very probably shall be the strongest cultural, social entrepreneurial discontinuance since the coming of the internet: the convergence of the real world and the digital world in a new "exemplar" fed and sustained by new technologies. A new world in which the borders between product and service shall become blurred with a new generation of "smart products and services".

The financial and economic soundness of the Group enables Reply to face this new situation to emerge and conquer new areas in Europe and America.

Motion for the approval of the financial statement and allocation of the result for the financial year

The financial statements at year end 2013 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 14,806,929 Euros and net shareholders' equity on 31 December 2013 amounted to 142,058,027 thus formed:

(in Euros)	**31/12/2013**
Share capital	4,840,086
Share premium reserve	22,365,837
Legal reserve	960,737
Reserve for treasury shares on hand	9,127
Other reserves	99,075,310
Total share capital and reserves	**127,251,097**
Net result	14,806,929
Total	**142,058,027**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2013, showing a net result of 14,806,929 Euros, proposes that the shareholders resolve:

- to approve the financial statement (Separate Statements) of Reply S.p.A. which records net profit for the financial year of 14,806,929 Euros;
- to approve the motion to allocate the net result of 14,806,929 in the following way:
  - to the Legal Reserve for 11,960 Euros up to the limit of one fifth of the share capital in accordance with Art. 2430 of the Italian Civil Code;
  - a unit dividend to shareholders amounting to 0.70 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 25 April 2014, coupon cutoff date 22 April 2014 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 24 April 2014;
  - as for the residual amount brought forward through attribution in the Extraordinary Reserve;
  - approving the proposal of attribution to Directors entrusted with operative positions as regards a shareholding in the profits of the Parent Company in accordance with Article 22 of the articles of association, to be established for an overall amount of 2,600,000.00 Euros, corresponding to around 3.5% of the consolidated gross operative margin 2013 (before allocation of the shareholding in profits for Directors invested with operative positions) calculated at 75,200 Euros, which will be paid taking into account the related reserve funds in the financial statement in compliance with that foreseen in the main IAS/FRS international accounts, ratifying as the related allocation in the financial statement requires.

Turin, 14 March 2014

For the Board of Directors
The Chairman
Mario Rizzante

Consolidated Financial Statements as at 31 December 2013

Consolidated income statement(*)

(thousand Euros)	Note	2013	2012
Revenues	5	560,151	494,831
Other income		14,307	11,563
Purchases	6	(10,644)	(10,894)
Personnel	7	(269,893)	(239,258)
Services and other costs	8	(214,726)	(191,803)
Amortization, depreciation and write-downs	9	(7,949)	(6,855)
Other unusual (cost)/income	10	(7,075)	(5,334)
Operating income		**64,171**	**52,249**
Financial income/(expenses)	11	(2,439)	(1,984)
Income before taxes		**61,732**	**50,265**
Income taxes	12	(26,652)	(22,006)
Net income		**35,080**	**28,259**
Non controlling interest		(630)	(1,164)
Group net result		**34,450**	**27,094**
Earnings per share	*13*	*3,81*	*3,01*
Diluted Earnings per share	*13*	*3,79*	*2,97*

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

Consolidated statement of comprehensive income

(thousand Euros)	Note	31/12/2013	31/12/2012 (*)
Profit of the period (A)		**35,080**	**28,520**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) from employee benefit plans	24	850	(1,502)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		**850**	**(1,502)**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges	24	(51)	(73)
Gains/(losses) on exchange differences on translating foreign operations	24	404	115
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2)		**353**	**42**
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B) = (B1) +(B2)		**1,203**	**(1,460)**
Total comprehensive income (A)+(B)		**36,283**	**27,060**
Total comprehensive income attributable to:			
Owners of the parent		35,639	25,635
Non-controlling interests		644	1,426

(*) Subsequent to the application, from the 1st January 2013 (retrospectively) of the amendment to IAS 19, the data on the 31st December 2012, provided as a comparison, have been re-established as specified with IAS 1. For further details, please refer to the paragraph, Accounting principles, amendments and interpretations applied from the 1st January 2013.

Consolidated statement of financial position(*)

(thousand Euro)	Note	31/12/2013	31/12/2012(**)	01/01/2012(**)
Tangible assets	14	13,553	11,562	10,361
Goodwill	15	125,637	105,195	96,646
Other intangible assets	16	6,363	5,960	6,180
Equity investments	17	23	23	58
Financial assets	18	4,275	5,724	4,430
Deferred tax assets	19	13,997	11,530	9,689
Non current assets		**163,847**	**139,994**	**127,364**
Work in progress	20	21,910	15,428	10,184
Trade receivables	21	271,166	237,699	219,764
Other current assets	22	25,454	27,323	25,774
Financial assets	18	1,010	1,315	341
Cash and cash equivalents	23	66,145	53,992	40,444
Current assets		**385,684**	**335,757**	**296,507**
TOTAL ASSETS		**549,531**	**475,751**	**423,871**
Share capital		4,840	4,796	4,796
Other reserves		172,519	142,808	126,756
Group net income		34,450	27,094	24,150
Group shareholders' equity	**24**	**211,809**	**174,698**	**155,702**
Non controlling interest	24	799	2,704	1,915
SHAREHOLDERS' EQUITY		**212,608**	**177,402**	**157,617**
Payables to minority shareholders and corporate transactions	25	35,364	40,190	32,307
Financial liabilities	26	21,719	13,427	16,414
Employee benefits	27	20,089	19,547	16,309
Deferred tax liabilities	28	12,458	9,945	8,404
Provisions	29	11,436	10,162	11,244
Non current liabilities		**101,067**	**93,271**	**84,677**
Financial liabilities	26	41,702	45,104	42,025
Trade payables	30	68,124	56,914	48,005
Other current liabilities	31	125,047	102,160	90,868
Provisions	29	984	901	677
Current liabilities		**235,857**	**205,078**	**181,575**
TOTAL LIABILITIES		**336,924**	**298,349**	**266,252**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**549,531**	**475,751**	**423,869**

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 34.
(**) Subsequent to the application, from the 1st January 2013 (retrospectively) of the amendment to IAS 19, the data on the 1st January 2013 and the 31st December 2012, provided as a comparison, have been re-established as specified with IAS 1. For further details, please refer to the paragraph, Accounting principles, amendments and interpretations applied from the 1st January 2013.

Statement of changes in consolidated equity

(thousand Euros)	Share capital	Treasury shares	Capital reserves	Earning reserves	*Cash flow hedge reserve*	Cumulative translation adjustment reserve	Reserve for actuarial gains (losses)	Non-controlling interests	Total
Balance at 31 December 2011 (reported amounts)	**4,796**	**(3,183)**	**49,184**	**104,666**	**0**	**(91)**	**728**	**1,917**	**158,017**
Payables originating from application of IAS 19 amended	-	-	-	-	-	-	(400)	-	(400)
On 1 January 2012	**4,796**	**(3,183)**	**49,184**	**104,666**	**0**	**(91)**	**328**	**1,917**	**157,617**
Share capital increases	-	-	-	0	-	-	-	-	-
Dividends distributed	-	-	-	(4,497)	-	-	-	(579)	(5,076)
Change in treasury shares	-	(422)	-	0	-	-	-	-	(422)
Increase reserve for payments based on shares	-	-	-	0	-	-	-	-	-
Total profit (loss)	-	-	-	27,094	(73)	115	(1,502)	1,426	27,060
Other changes	-	-	(408)	958	-	-	(350)	(60)	(1,776)
Balance at 31 December 2012	**4,796**	**(3,605)**	**48,776**	**126,305**	**(73)**	**24**	**(1,524)**	**2,704**	**177,403**

(thousand Euros)	Share capital	Treasury shares	Capital reserves	Earning reserves	*Cash flow hedge reserve*	Cumulative translation adjustment reserve	Reserve for actuarial gains (losses)	Non-controlling interests	Total
On 31 December 2012 (reported amounts)	**4,796**	**(3,605)**	**48,776**	**126,305**	**(73)**	**24**	**(466)**	**2,704**	**178,461**
Payables originating from application of IAS 19 amended	-	-	-	-	-	-	(1,058)	-	(1,058)
On 1 January 2013	**4,796**	**(3,605)**	**48,776**	**126,305**	**(73)**	**24**	**(1,524)**	**2,704**	**177,403**
Share capital increases	44	-	1,743	0	-	-	-	-	1,787
Dividends distributed	-	-	-	(5,131)	-	-	-	(844)	(5,975)
Change in treasury shares	-	3,596	-	-	-	-	-	-	3,596
Total profit (loss)	-	-	-	34,450	(51)	404	836	644	36,283
Other changes	-	-	1,380	226	-	(115)	(272)	(1,705)	(486)
Balance at 31 December 2013	**4,840**	**(9)**	**51,899**	**155,850**	**(124)**	**313**	**(960)**	**799**	**212,608**

Consolidated statement of cash flows

(thousand Euros)	2013	2012
Group net income	34,450	27,094
Income taxes	26,652	22,006
Amortization and depreciation	7,949	6,855
Other non monetary expenses/(income)	7,075	5,334
Change in inventories	(6,482)	(5,244)
Change in trade receivables	(27,511)	(17,920)
Change in trade payables	9,191	8,652
Change in other assets and liabilities	16,163	8,080
Income tax paid	(22,006)	(21,327)
Interest paid	(1,501)	(1,716)
Interest collected	151	171
Net cash flows from operating activities (A)	**44,132**	**31,986**
Payments for tangible and intangible assets	(9,979)	(7,836)
Payments for financial assets	1,934	(2,266)
Payments for the acquisition of subsidiaries net of cash acquired	(20,846)	(2,930)
Net cash flows from investment activities (B)	**(28,892)**	**(13,031)**
Shares issued	1,787	-
Dividends paid	(5,975)	(5,076)
Change in treasury shares	-	(422)
In payments from loans	21,720	6,000
Repayment of loans	(12,715)	(7,798)
Other changes	191	558
Net cash flows from financing activities (C)	**5,008**	**(6,738)**
Net cash flows (D) = (A+B+C)	**20,249**	**12,216**
Cash and cash equivalents at beginning of period	18,613	6,393
Cash and cash equivalents at period end	38,861	18,610
Total change in cash and cash equivalents (D)	**20,249**	**12,216**

Detail of cash and cash equivalents

(thousand Euros)	2013	2012
Cash and cash equivalents at beginning of period	**18,613**	**6,393**
Cash and cash equivalents	53,992	40,444
Bank overdrafts	(35,379)	(34,050)
Cash and cash equivalents at period end	**38,861**	**18,610**
Cash and cash equivalents	66,145	53,992
Bank overdrafts	(27,284)	(35,382)

Notes to the Consolidated financial statements

NOTE 1 - General Information

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

NOTE 2 – Accounting principles and basis of consolidation

Compliance with International accounting principles

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

General principles

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

Financial statements

The consolidated financial statements include, statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.
The income statement format adopted by the Group classifies costs according to their nature, which is deemed to properly represent the Group's business.

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

Basis of consolidation

Subsidiaries
The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.
Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Non controlling interest is stated separately with respect to the Group’s net equity. Such Non controlling interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post-acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.
Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders’ equity.

Business combinations
Acquisition of subsidiary companies is recognized according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company. In addition, any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognized according with IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance with IFRS 5, which are recognized and measured at fair value less selling costs.
The positive difference between the acquisition costs and Group interest of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.
Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognized.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

Investments in associate companies

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.
Where a group company transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.
Transactions eliminated on consolidation
All significant intercompany balances and transactions and any unrealized gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the company's interest in those entities.

Foreign currency transactions

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

Consolidation of foreign entities

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

The following table summarizes the exchange rates used in translating the 2013 and 2012 financial statements of the foreign companies included in consolidation:

	Average 2013	On 31 December 2013	Average 2012	On 31 December 2012
GBP	0.84928	0.83370	0.810871	0.8161
CHF	1.23091	1.22760	1.20528	1.2072
Real	2.87401	3.25760	2.50844	2.7036
US Dollar	1.32826	1.37910	1.28479	1.3194
Polish Zloty	4.19866	4.15430	4.18474	4.0740

Tangible assets

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

Buildings	3.5%
Equipment	30%
Plants	40%
Hardware	40%
Furniture and fittings	24%

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

Goodwill

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

Other intangible assets

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

Development costs can be capitalized on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.
An internally-generated intangible asset arising from the Group's e-business development (such as informatics solutions) is recognized only if all of the following conditions are met:

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

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization is determined on a straight line basis over the relevant useful lives.
When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognized in the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful lives

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
The recoverable amount of an asset is the higher of fair value, less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, the so-called Cash generating unit).
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.
Where the value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.
Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognized for the asset. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity investments

Shareholdings different from the shareholdings connected or held in joint control are registered in the non current assets in the "Other financial activities" item and are assessed in accordance with IAS 39 as "Available for sale" in fair value financial activities (or alternatively to cost should the fair value not be determined as reliable) with attribution of the effects of assessment (up to the achievement of the activity itself and with exception of the situation where it has undergone permanent losses in value) for suitable reserves of net shareholders equity.
In the event of write-down for impairment, the cost is recognized in the income statement; the original value is restored in subsequent years if the assumptions for the write-down no longer exist.
The risk resulting from possible losses beyond equity is entered in a specific provision for risks to the extent to which the Parent Company is committed to fulfil its legal or implicit obligations towards the associated company or to cover its losses.

Current and non current financial assets

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

Transfer of financial assets

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

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

→ if the Group has retained control, it continues to recognize the financial asset to the extent of its residual involvement in the financial asset.
At the time of removal of financial assets from the balance sheet, the difference between the carrying value of assets and the fees received or receivable for the transfer of the assets is recognized in the income statement.

Work in progress

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.
Product inventories are stated at the lower of cost and net realizable value. Cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Trade payables and receivables and other current assets and liabilities

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

Cash

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

Treasury shares

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

Financial liabilities and equity investments

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

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

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

→ Non current financial liabilities
Liabilities are stated according to the amortization cost.

Derivative financial instruments and other hedging transactions

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.
All derivative financial instruments are measured in accordance with IAS 39 at fair value.
Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately in the Income Statement.
If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.
For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For effective hedging against a change in fair value, the hedged item is adjusted by the changes in fair value attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.
Changes in the fair value of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net

cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.
Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly related to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the Income Statement.

Employee benefits

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Consolidated financial statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.
For Italian companies with less than 50 employees, severance pay ("TFR") remains a "post-employment benefit", of the "defined benefit plan" type, whose already matured amount must be planned to estimate the amount to settle at the time of annulment of working relations and subsequently updated, using the "Projected unit credit method". Such actuarial methodology is based on an assumption of demographic and financial nature in order to carry out a reasonable estimate of the amount of benefits that each employee had already matured based on his employment performances.
Through actuarial valuation, current service costs are recognized as "personnel expenses" in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the interest cost is recognized as "Financial gains or losses" and represents the figurative expenditure the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR").
Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity without being ever included in the consolidated income statement.

Pension plans

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

Share-based payment plans ("Stock options")

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

Share-based payments are measured at fair value at granting date. Such amount is recognized in the Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis over the "vesting period". The fair value of the option, measured at the granting date, is measured through actuarial calculations, taking into account the terms and conditions of the options granted.

Provisions and reserves for risks

Provisions for risks and liabilities are costs and liabilities having an established nature and the existence of which is certain or probable that at the reporting date the amount cannot be determined or the occurrence of which is uncertain. Such provisions are recognized when a commitment actually exists arising from past events of legal or contractual nature or arising from statements or company conduct that determine valid expectations from the persons involved (implicit obligations).

Provisions are recognized when the Group has a present commitment arising from a past event and it is probable that it will be required to fulfil the commitment. Provisions are accrued at the best estimate of the expenditure required to settle the liability at the balance sheet date, and are discounted when the effect is significant.

Revenue recognition

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

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

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

Government grants

Government grants are recognized in the financial statements when there is reasonable assurance that the company concerned will comply with the conditions for receiving such grants and that the grants themselves will be received.

Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

Dividends

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

Earnings per share

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

Use of estimations

The preparation of the financial statements and relative notes under IFRS requires that management makes estimates and assumptions that have effect on the measurement of assets and liabilities and on disclosures related to contingent assets and liabilities at the reporting date. The actual results could differ from such estimates. Estimates are used to accrue provisions for risks on receivables, to measure development costs, to measure contract work in progress, employee benefits, income taxes and other provisions. The estimations and assumptions are reviewed periodically and the effects of any changes are recognized immediately in income.
In this context it is made known that the situation caused by the current economic and financial crisis has included the need to carry out undertakings regarding future progress characterized by significant uncertainty, for which the materialization cannot be excluded in the next financial year of results different from that estimated and that therefore could require rectification, up to the present day, neither assessable or foreseeable in the accounting value of the related items. The items of the financial statements mainly effected by such uncertainty are the impairment funds, risk funds, goodwill and deferred taxes.

Changes in accounting principles

The accounting principles newly adopted by the Group and their outcomes are described in the subsequent paragraph "Accounting principles, amendments and interpretations applied since 1 January 2013". There have been no further changes other than those described in the aforementioned paragraph.

Changes in accounting estimates and reclassifications

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

Accounting principles, amendments and interpretations adopted from 1 January 2013

Amendment to IAS 19 – Benefits for employees

On June 16, 2011, the IASB issued an amendment to IAS 19 – Employee Benefits, that the Group has retrospectively applied from January 1, 2013. The amendment modifies the requirements for recognizing defined benefit plans and termination benefits. The amendment removes the previous option of being able to defer actuarial gains and losses under the "corridor method", requiring these to be recognized directly in other comprehensive income. In addition, the amendment requires the immediate recognition of past service costs in profit or loss. Net interest expense is calculated for all components by using the discount rate applied for measuring the obligation for defined benefit plans at the beginning of the period. In accordance with the previous version of IAS 19, the expected return on plan assets was calculated by using a long-term expected rate of return.
In accordance with the transitional rules included in paragraph 173 of IAS 19, the Group has applied this amendment retrospectively from January 1, 2013, restating the balances of the statement of financial position at January 1, 2012 and December 31, 2012, as if the amendments to IAS 19 had always been applied.

In detail, the final effects arising on the consolidated statement of financial position at January 1, 2012 and at December 31, 2012 due to the adoption of the amendment are as follows:

			On 1 January 2012
(thousand Euros)	Values previously reported	Outcomes owing to the adoption of IAS 19 amended	Values re-determined
Group shareholders' equity	156,100	(398)	155,702
Deferred tax assets	9,519	170	9,689
Employee benefits	15,740	569	16,309

			On 31 December 2012
(thousand Euros)	Values previously reported	Outcomes owing to the adoption of IAS 19 amended	Values re-determined
Group shareholders' equity	175,756	(1,058)	174,698
Deferred tax assets	11,076	454	11,530
Employee benefits	18,035	1,512	19,547

The application of the amendment to IAS 19 retrospectively has had no effect on the consolidated income statement nor on the consolidated statement of cash flows in 2012.

Other accounting principles, amendments and interpretations adopted from 1 January 2013

On May 12, 2011, the IASB issued IFRS 13 – Fair Value Measurement, which clarifies the determination of fair value for the purpose of the financial statements and is applicable to all IFRSs permitting or requiring a fair value measurement or the presentation of disclosures based on fair value. The Group has prospectively applied this standard from January 1, 2013. The application of this standard did not have any effect on the measurement of items in these annual financial statements.
On June 16, 2011, the IASB issued an amendment to IAS 1 – Presentation of Financial Statements requiring companies to group items presented in comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendment is applicable for periods beginning on or after July 1, 2012; the Group has applied this amendment since January 1, 2013. The application of this amendment had no effect on the measurement of items and had a limited effect on the disclosures provided in in these annual financial statements.
On December 16, 2011, the IASB issued certain amendments to IFRS 7 – Financial Instruments: Disclosures. The amendments require information about the effect or potential effect of netting arrangements for financial assets and liabilities on an entity's financial position. The required disclosures should be provided retrospectively. The Group has applied these amendments from January 1, 2013. Applying these amendments has not had effects on the disclosures presented in in these annual financial statements.
On May 17, 2012, the IASB issued a set of amendments to IFRSs ("Annual Improvements to IFRSs 2009-2011 Cycle"), to be applied retrospectively from January 1, 2013; set out below are those applicable to the Group that lead to changes in the presentation, recognition or measurement of financial statement items, excluding those that only regard changes in terminology having a limited accounting effect:

- IAS 1 – *Presentation of Financial Statements*: the amendment clarifies the way in which comparative information should be presented when an entity changes accounting policies and when an entity provides comparative information in addition to the minimum comparative financial statements;
- IAS 16 – *Property, Plant and Equipment*: the amendment clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment, otherwise such items shall be classified as inventory.
- IAS 32 – *Financial instruments*: Presentation: the amendment eliminates an inconsistency between IAS 12 – Income Taxes and IAS 32 concerning the recognition of taxation arising from distributions to shareholders, establishing that this shall be recognized in profit or loss to the extent the distribution refers to income generated by transactions originally recognized in profit or loss;
- IAS 34 – *Interim Financial Reporting*: the amendment clarifies that the disclosures for total assets and total liabilities for a particular reportable segment shall be provided if and only if:
  - a) a measure of total assets and liabilities, or both, is regularly provided to the chief operating decision maker, and
  - b) there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The Group adopted such amendments from 1 January 2013. The adoption of such amendments has not had any effect on the evaluation of the entries and has had limited effects on the information provided in this Annual report.

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

On 12 May 2011, the IASB issued the "IFRS 10 – Consolidated financial statements" standard, which will replace "SIC-12 Consolidation – Company with specific destination (vehicle companies)" and parts of the "IAS 27 – Consolidated and Separate financial statements", which will be renamed as separate financial statements and which will regulate the accounting requirements of shareholdings in the separate financial statement. The new standard introduces a new control model applicable to all entities, including vehicles. The standard must be applied retrospectively from 1 January 2014.

On 12 May 2011 the IASB issued the main "IFRS 11 – - Joint Agreements" which shall replace the "IAS 31 – Shareholdings in Joint Venture" and the "SIC-13 – Jointly controlled companies – granting in kind on the part of the participants in the check". The new standard provides the criteria for identifying joint arrangements by focusing on the rights and obligations of the arrangement rather than on its legal form, and requires a single method to account for interests in jointly controlled entities, the equity method. The standard must be applied retrospectively commencing on 1 January 2014. Following the issue of the standard, the "IAS 28 – Shareholdings in linked companies" has been amended in its limits of application, from the date that the standards comes into effect and also shareholdings in jointly controlled companies.

On 12 May 2011 the IASB issued the "IFRS 12 – Additional information on shareholdings in other companies", which constitutes a new and complete standard on additional information to supply on every type of shareholding. The standard must be applied retrospectively commencing on 1 January 2014.

On 16 December 2011, the IASB issued some amendments to "IAS 32 - Financial Instruments: presentation in the financial statements", to clarify the application of certain criteria for offsetting financial assets and financial liabilities appearing in IAS 32. The amendments must be applied retrospectively for financial years starting from or after 1 January 2014.

On 29 May 2013 the IASB issued an amendment to "IAS 36 – Information on recoverable value of non financial activities", which regulates information to be supplied on the recoverable value of activities which have undergone

a reduction in value, if such an amount is based on the fair value net of sales costs. The amendments must be applied retrospectively for the financial years that start on or after 1 January 2014.
On 27 June 2013 the IASB issued some minor amendments to "IAS 39 – Financial instruments: identification and measurement" entitled "Innovation of derivatives and continuity of Hedge Accounting". The modifications enable hedge accounting to continue in the event where a derivative financial instrument, designated as a cover instrument is innovated following the application of laws or regulations for the purpose of replacing the original counterpart to guarantee the good order of the obligations assumed and fulfilment of determined conditions. The same modification shall also be included in IFRS 9 – Financial instruments. Such amendments must be applied retroactively starting from financial years starting from 1 January 2014.
No significant outcome is expected from the first adoption of such new standards and amendments.

NOTE 3 - Risk management

Credit risk

For business purposes, specific policies are adopted to assure its clients' solvency.
With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

Liquidity risk

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time. The cash flows, funding requirements and liquidity of the Group companies are monitored and centrally managed under the control of the Group Treasury. The aim is to guarantee the efficiency and effectiveness of the management of current and perspective capital resources (maintaining an adequate level of reserves of liquidity and availability of funds via a suitable amount of committed credit lines).
The difficult economic situation of the markets and of financial markets necessitates special attention being given to the management of the liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and maintaining an adequate level of liquid assets. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Exchange rate and interest rate risk

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

NOTE 4 - Consolidation

Companies included in consolidation are consolidated on a line-by-line basis.
Change in consolidation compared to 31 December 2012 is as follows:

- Triplesense Reply GmbH, acquired in the month of July 2013 by Reply S.p.A which holds 100% of its shares, is a leading German company in consultancy and in the developments of strategies and solutions for digital communication on mobile and social channels.
- Mind Services Informatica Ltd acquired in the month of November by Reply S.p.A. by means of the subsidiary Reply do Brasil Ltda which holds 76% of its capital, is a Brazilian company specialized in consultancy and in the development of technological solutions for the insurance world.
- Solidsoft Reply Ltd, acquired in the month of December by Reply S.p.A., by means of the subsidiary Reply Ltd. which holds 100% of its share capital, and is a company specialized in consultancy and in the development of architectures and Microsoft cloud solutions.

The change in consolidation does not significantly affect the Group's revenues (0.8 %) and profits before tax (0.1%) on 31 December 2013.
Furthermore, the list of the Reply Group's companies and equity investments, presented as an annex herein, also includes in the consolidation the following newly incorporated companies with respect to 31 December 2012:

- Pay Reply S.r.l. incorporated in November 2012, in which Reply holds 100% of the share capital. The company is specialised in consultancy services related to platforms based on remote and proximity payments;
- Juice Reply S.r.l. incorporated in December 2012, in which Reply holds 100% of the share capital. The company is specialised in the production of technical software applications and the integration of computer systems both hardware and software with specific focus on Bigdata services.
- InEssence Reply GmbH incorporated in June 2013, in which Reply S.p.A holds 70% of the share capital. The company specializes in Cloud Computing services on SAP technologies.
- Portaltech Reply GmbH incorporated in November 2013, in which Reply holds 68% of share capital. The company operates in consultancy and implementation of multi-channel e-commerce strategies and solutions on German territory.

NOTE 5 - Revenue

Revenues from sales and services, including changes in work in progress on orders, amounted to 560,151 thousand Euros (494,831 thousand Euros in 2012).
This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.

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

Country	**2013**	**2012**
Italy	73.30%	75.40%
Germany	14.80%	15.80%
UK	11.90%	8.80%
	100.00%	**100.00%**

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

NOTE 6 - Purchases

Detail is as follows:

(thousand Euros)	**2013**	**2012**	**Change**
Software licenses for resale	5,885	6,748	(864)
Hardware for resale	452	700	(248)
Other	4,308	3,446	861
Total	**10,644**	**10,894**	**(250)**

Purchases of Software licenses and Hardware licenses for resale are recognized net of any change in inventory. The item Other includes the purchase of fuel for 2,405 thousand Euros and the purchase of consumption material for 912 thousand Euros.

NOTE 7 - Personnel

Detail is as follows:

(thousand Euros)	**2013**	**2012**	**Change**
Payroll employees	237,659	213,456	24,203
Executive Directors	26,630	20,625	6,005
Project collaborators	5,604	5,177	428
Total	**269,893**	**239,258**	**30,635**

The increase in the cost of employees, amounting to 30,635 thousand Euros, is attributable to the total registered increase in the Group’s business and in the increase in employees.

Detail of personnel by category is provided below:

(number)	**2013**	**2012**	**Change**
Directors	269	260	9
Managers	627	579	48
Staff	3,357	2,886	471
Total	**4,253**	**3,725**	**528**

On 31 December 2013 the Group had 4,253 employees compared with 3,725 at the end of 2012.
The acquisitions of Triplesense Reply GmbH, Mind Services Informatica Ltd and Solidsoft Ltd have resulted in an increase to the workforce equal to 128 employees.
The average number of employees in 2013 was 3,985 an increase with respect to n. 3,582 in the previous year.
Payroll employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Universities.

NOTE 8 – Services and other costs

Services and other costs comprised the following:

(thousand Euros)	**2013**	**2012**	**Change**
Commercial and technical consulting	120,918	108,701	12,216
Travelling and professional training expenses	23,088	21,933	1,154
Other service costs	48,277	38,942	9,336
Office expenses	10,963	10,828	135
Lease and rentals	6,540	6,398	142
Other	4,940	5,001	(61)
Total	**214,726**	**191,803**	**22,984**

The change in Services and other costs, amounting to 22,984 Euros, is attributable to an overall increase in the Group's business.
The item Other services mainly include marketing services, administrative and legal services, telephone and canteen.
Office expenses include services rendered by correlated parties relating to service contracts for the use of premises, domiciliation and provision of secretarial services for 4,590 thousand Euros and rent charged by third parties for 5,591 thousand Euros.

NOTE 9 – Amortization, depreciation and write downs

Depreciation of tangible assets, calculated on the basis of economic-technical rates determined in relation to the residual useful lives of the assets, resulted in an overall charge as at 31 December 2013 of 4,610 thousand Euros. Details of depreciation are provided in the notes to tangible assets.
Amortization of intangible assets for the year ended 2013 amounted to an overall loss of 3,339 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

NOTE 10 – Other unusual operating income/(expenses)

Other unusual operating costs amounted to 7,075 thousand Euros (5,334 thousand Euros in 2012), and refer to:

- Other operative costs amounting to 6,595 thousand Euros refer to accruals to risk and expense provisions for contractual and commercial risks and lawsuits;
- Other unusual costs amounting to 480 thousand Euros refer to the fair value adjustment of the liability referred to the deferred consideration for the acquisition of shareholdings in controlled companies (Business combination).

NOTE 11 – Financial income/(expenses)

Detail is as follows:

(thousand Euros)	**2013**	**2012**	**Change**
Financial income	154	171	(18)
Interest expenses	(1,647)	(1,799)	152
Other	(946)	(356)	(590)
Total	**(2,439)**	**(1,984)**	**(455)**

Financial gains mainly include interest on bank accounts amounting to 152 thousand Euros.
Interest expenses mainly include expenses related to loans for M&A operations.
The item Other includes the Exchange rate differences from the translation of balance sheet items not stated in Euros, as well as changes in fair value of financial liabilities pursuant to IAS 39.

NOTE 12 – Income taxes

Income taxes for the financial year ended 2013 amounted to 26,652 thousand Euros and is detailed as follows:

(thousand Euros)	2013	2012	Change
IRES and other taxes	20,095	16,645	3,451
IRAP (Italy)	8,508	7,328	1,180
Current taxes	**28,603**	**23,973**	**4,630**
Deferred tax expenses	2,805	1,411	1,394
Deferred tax income	(4,756)	(3,378)	(1,378)
Deferred taxes	(1,951)	(1,967)	16
Total income taxes	**26,652**	**22,006**	**4,646**

The tax burden on the result before taxes was equivalent to 43.2% (43.8% in the financial year of 2012).
The reconciliation between the tax charges recorded in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rate in effect in Italy, is the following:

Profit/(loss) before taxes from continuing operations	61,732	
Theoretical income taxes	16,976	27.5%
Tax effect of permanent differences	2,004	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	784	
Other differences	(1,619)	
Current and deferred income tax recognized in the financial statements, excluding IRAP	**18,145**	**29.4%**
IRAP (current and deferred)	8,508	
Current and deferred income tax recognized in the financial statements	**26,653**	**43.2%**

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

NOTE 13 – Earnings per share

Basic earnings per share

The basic earnings per share as at 31 December 2013 was calculated on the basis of the Group's net result amounting to 34,450 thousand Euros (27,094 thousand Euros as at 31 December 2012), divided by the weighted average number of shares as at 31 December 2013, which amounted to 9,092,021 (8,987,175 as at 31 December 2012).

(in Euros)	2013	2012
Group net income	34,450,000	27,094,000
Average number of shares	9,092,021	8,987,175
Basic earnings per share	3.81	3.01

Diluted earnings per share

Diluted earnings per share as at 31 December 2013 was calculated with reference to the net profit for the Group which amounted to 34,450 thousand Euros, divided by the weighted average number of shares as at 31 December 2013, also taking into consideration the effect of future dilutions which could derive from the hypothetical use of financial instruments potentially convertible in shares (stock options).

(in Euros)	2013	2012
Group net income	34,450,000	27,094,000
Average number of shares	9,092,021	8,987,175
Diluting effect	45,000	145,000
Weighted number of diluted shares	9,137,021	9,132,175
Diluted earnings per share	3.79	2.97

NOTE 14 – Tangible assets

Tangible assets as at 31 December 2013 amounted to 13,553 thousand Euros and are detailed as follows:

(thousand Euros)	31/12/2013	31/12/2012	Change
Buildings	2,190	2,332	(142)
Plant and machinery	1,154	712	442
Hardware	3,507	3,865	(358)
Other	6,702	4,652	2,050
Total	**13,553**	**11,562**	**1,992**

Change in Tangible assets during 2013 is summarized below:

(thousand Euros)	Buildings	Plants and machinery	Hardware	Other assets	Total
Historical cost	4,023	3,918	21,383	10,714	40,038
Accumulated depreciation	(1,691)	(3,206)	(17,517)	(6,062)	(28,477)
31/12/2012	**2,332**	**712**	**3,865**	**4,652**	**11,562**
Historical cost					
Purchases	-	301	2,249	1,157	3,707
Disposals	-	(70)	(399)	(368)	(837)
Other changes	-	435	486	2,532	3,453
Provisions for depreciation					
Depreciation	(142)	(260)	(2,794)	(1,414)	(4,610)
Utilization	-	38	372	202	612
Other changes	-	(2)	(272)	(59)	(333)
Historical cost	4,023	4,584	23,719	14,035	46,361
Accumulated depreciation	(1,833)	(3,430)	(20,211)	(7,333)	(32,808)
31/12/2013	**2,190**	**1,154**	**3,507**	**6,702**	**13,553**

During the financial year the Group carried out total investments for 3,707 thousand Euros (5,346 thousand Euros at 31 December 2012).
The item Buildings mainly includes the net value of a building owned by the group amounting to 2,185 thousand Euros, located in Gutersloh, Germany.
Change in the item Hardware is due to investments made by the Italian subsidiaries for 1,593 thousand Euros, 417 thousand Euros for purchases made by German companies and 145 thousand Euros for purchases made by the English companies. Furthermore this item includes financial leases for 628 thousand Euros (778 at 31 December 2012).
The item Other assets as at 31 December 2013 mainly includes improvements to third party assets and office furniture. The increase of 1,157 Euros mainly refers to improvements made to the offices where the Group's companies operate. Such item also includes a financial leasing for furniture for a net value amounting to 592 thousand Euros (81 thousand Euros at 31 December 2012)..
Other changes refer mainly to the first consolidation of Triplesense Reply GmbH, Solidsoft Reply Ltd. and Mind Services Informatica Ltd as well as the acquisition of the branch related to the office management previously carried out by a related party.
As at 31 December 2013, tangible assets were depreciated by 70.8% of their value, compared to 71.1% at the end of 2012.

NOTE 15 - Goodwill

This item includes goodwill arising from consolidation of subsidiaries and the value of business branches purchased against payment made by some Group companies.
Goodwill in 2013 developed as follows:

(thousand Euros)	
Initial balance	**105,195**
Increase	20,291
Total	**125,486**
Exchange differences	151
Final balance	**125,637**

Increase in 2013 refers to:

- Triplesense GmbH
  In the month of July Reply S.p.A. reinforced its presence in Europe with the acquisition of 100% of the shares of Triplesense GmbH, leading German company in consultancy and in the development of strategies and solutions for digital communication on mobile and social channels. The total consideration amounted to 3.4 million Euros, wholly paid up in cash and provides for an Earn Out subordinated to some predetermined parameters to be paid over a three year period.
- Mind Services Informatica Ltda
  In November Reply S.p.A., by means of its subsidiary Reply do Brasil Sistemas de Informatica Ltda purchased 76% of the capital of Mind Services Informática LTDA, a Brazilian company specializing in consultancy and in the development of technological solutions for the insurance world. The total consideration amounted to 1.9 million

Euros, wholly paid up in cash and provides for an Earn Out subordinated to some predetermined parameters to be paid over a three year period.

→ Solidsoft Ltd.

In the month of December, Reply S.p.A., by means of its subsidiary Reply Ltd., reinforced its presence in England with the acquisition of 100% of the capital of Solidsoft Ltd, a company specialized in consultancy and in the development of architecture and Microsoft cloud solutions. The total consideration amounted to 6.2 million Pounds Sterling, wholly paid up in cash and provides for an Earn Out subordinated to some predetermined parameters to be paid over a three year period.

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

(thousand Euros)	**Fair value (*)**
Tangible and intangible goods	365
Financial assets	179
Trade receivables and other	5,957
Cash and cash equivalents	1,697
Trade payables and other	(3,764)
Net assets acquired	**4,434**
Compensation	24,725
Goodwill	**20,291**

(*) book value is equal to fair value

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

CGU	**Euro/000**
Italy	38,894.00
Germany	34,151.90
UK	52,440.40
Total	**125,486.30**

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

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

In applying this model, Management uses different assumptions, which are applied to the single CGU over two years of extrapolation subsequent to the annual budget, in order to estimate:

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

The recoverable value of the CGU, to which the single goodwill is referred, is determined as the highest between the fair value less any selling costs (net selling price) and the present value of the estimated future cash flows expected

from the continuous use of the good (value in use). If the recoverable value is higher than the carrying amount of the CGU there is no impairment of the asset; in the contrary case, the model indicates a difference between the carrying amount and the recoverable value as the effect of impairment.
The following assumptions were used in calculating the recoverable value of the Cash Generating Units:

Assumption	**Italy**	**Germany**	**UK**
Terminal value growth rates:	1%	1%	1%
Discount rate, net of taxes:	10.64%	8.42%	8.4%
Discount rate, before taxes:	14.67%	11.94%	10.91%
Multiple of EBIT	9.1	9.1	9.1

As to all CGUs subject to the impairment tests at 31 December 2013, no indications emerged that such businesses may have been subject to impairment.
The positive difference between the value in use thus estimated on the accounting value of the net invested capital on 31 December 2013 of the CGU is equal to 117% for Italy, 41% for Germany and 65% for the UK.
Reply has also developed a sensitivity analysis of the estimated recoverable value. The Group considers that the growth rate of revenues and the discount rate are key indicators in estimating the fair value and has therefore determined that:

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

would not lead to an excess of the carrying value of the CGU compared to its recoverable value, which tends to be significantly higher.
Finally, it is appropriate to note that the estimates and budget data to which the above mentioned parameters have been applied are those determined by management on the basis of past performance and expectations of developments in the markets in which the Group operates. Moreover, estimating the recoverable amount of the Cash-Generating Units requires discretion and the use of estimates by Management. The Group cannot guarantee that there will be no goodwill impairment in future periods. Circumstances and events which could potentially cause further impairment losses are constantly monitored by Reply management.

NOTE 16 – Other intangible assets

Net intangible assets as at 31 December 2013 amounted to 6,363 thousand Euros (5,960 thousand Euros on 31 December 2012) and are detailed as follows:

(thousand Euros)	**Historical cost**	**Accumulated amortization**	**Net book value 31/12/2013**
Development costs	15,654	(12,038)	3,616
Software	14,804	(12,596)	2,208
Trademarks	538	-	538
Other intangible assets	3,150	(3,150)	-
Total	**34,146**	**(27,784)**	**6,363**

Change in intangible assets during 2013 is summarized in the table below:

(thousand Euros)	Net book value at 31/12/2012	Increases	Accumulated amortization	Net book value at 31/12/2013
Development costs	3,755	1,751	(1,890)	3,616
Software	1,184	1,990	(967)	2,208
Trademarks	538	-	-	538
Other intangible assets	482	-	(482)	-
Total	**5,960**	**3,741**	**(3,339)**	**6,363**

Development costs refer to software products and are accounted for in accordance with provisions of IAS 38.
The item Software mainly refers to software licenses purchased and used internally by the Group companies. This item includes 167 thousand Euros related to software development for internal use.
The item Trademark mainly refers to the value of the "Reply" trademark granted on 9 June 2000 to the Parent Company Reply S.p.A. (at the time Reply Europe Sàrl), in connection with the share capital increase that was resolved and subscribed to by the Parent Company. Such amount is not subject to systematic amortization.
Other intangible assets mainly includes the know-how of the Security Operation Centre (SOC), which offers a range of Managed Security Services (MSS) aimed at avoiding and identifying real or potential threats to which the complex IT infrastructures are exposed, in addition to proposing and implementing adequate counter-measures to limit or remove such dangers.

NOTE 17 – Equity investments

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

NOTE 18 – Financial assets

Current and non current financial assets amounted to a total of 5,284 thousand Euros with compared to 7,039 thousand Euros as at 31 December 2012.
Detail is as follows:

(thousand Euros)	2013	2012	Change
Receivables from insurance companies	2,984	2,852	131
Guarantee deposits	975	2,504	(1,529)
Loans to non consolidated companies	1	5	(4)
Long term securities	303	347	(44)
Other financial assets	13	28	(14)
Receivables from factor	669	834	(164)
Short term securities	340	469	(129)
Total	**5,284**	**7,039**	**(1,754)**

The item Receivables from insurance companies mainly refers to the insurance premiums paid against pension plans of some German companies and to directors' severance indemnities.
Long term securities mainly refers to long term investments against the pension plans of some German companies and are assessed at their fair value.
Decrease in the item Guarantee deposits is related to the transfer of the branch related to the office management to the subsidiary Reply Services S.r.l.
Receivables from factoring companies refer to receivables for the assignment of invoices without recourse, net of advance payments received.
Short term securities mainly refer to Time Deposit investments made by the Brazilian subsidiary.
The items Receivables from insurance companies other financial assets are not included in the net financial position.

NOTE 19 – Deferred tax assets

Such an item, amounting to 13,997 thousand Euros as at 31 December 2013 (11,530 thousand Euros as at 31 December 2012), includes the fiscal charge corresponding to the temporary differences originating among the anti-tax result and taxable income relating to entries with deferred deductibility.
Detail of deferred tax assets is provided at the table below:

(thousand Euros)	**31/12/2012**	**Accruals 2013**	**Utilization 2013**	**31/12/2013**
Prepaid tax on costs that will become deductible in future years	6,218	2,213	(2,278)	6,153
Prepaid tax on greater provision for doubtful accounts	1,680	2,400	(378)	3,702
Deferred fiscal deductibility of amortization	1,614	313	(269)	1,659
Consolidation adjustments and other items	2,018	3,167	(2,702)	2,483
Total	**11,530**	**8,093**	**(5,627)**	**13,997**

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

NOTE 20 – Work in progress

Work in progress, amounting to 21,910 thousand Euros, is detailed as follows:

(thousand Euros)	**31/12/2013**	**31/12/2012**	**Change**
Contract work in progress	63,669	46,711	16,958
Advance payments from customers	(41,759)	(31,283)	(10,476)
Total	**21,910**	**15,428**	**6,482**

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

NOTE 21 – Trade receivables

Trade receivables as at 31 December 2013 amounted to 271,166 thousand Euros with a net increase of 33,467 thousand Euros.

(thousand Euros)	31/12/2013	31/12/2012	Change
Domestic clients	219,053	202,635	16,418
Foreign trade receivables	57,244	39,194	18,050
Credit notes to be issued	(150)	(131)	(18)
Total	**276,147**	**241,697**	**34,449**
Allowance for doubtful accounts	(4,980)	(3,998)	(982)
Total trade receivables	**271,166**	**237,700**	**33,467**

Trade receivables are shown net of allowances for doubtful accounts amounting to 4,980 thousand Euros on 31 December 2013 (3,998 thousand Euros at 31 December 2012).
The Allowance for doubtful accounts developed in 2013 as follows:

(thousand Euros)	31/12/2012	Accrual	Write-off	Utilized	31/12/2013
Allowance for doubtful accounts	3,998	1,470	(14)	(473)	4,980

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2012, is summarized in the tables below:

Aging as at 31/12/2013 (thousand Euros)	Trade receivables	Current	0 – 90 days	91 – 180 days	181 – 360 days	Over 360 days	Total overdue
Trade receivables	276,147	227,857	35,750	5,777	2,464	4,299	48,290
Provisions for doubtful accounts	(4,980)	(4)	(270)	(189)	(1,169)	(3,347)	(4,976)
Total trade receivables	**271,166**	**227,852**	**35,480**	**5,588**	**1,295**	**952**	**43,314**

Aging as at 31/12/2012 (thousand Euros)	Trade receivables	Current	0 – 90 days	91 – 180 days	181 – 360 days	Over 360 days	Total overdue
Trade receivables	241,697	199,475	31,774	4,465	3,019	2,965	42,223
Provisions for doubtful accounts	(3,998)	(654)	(1,106)	(112)	(372)	(1,753)	(3,343)
Total trade receivables	**237,700**	**198,820**	**30,668**	**4,353**	**2,647**	**1,212**	**38,880**

Assignment of receivables

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

Consequently, all receivables assigned through factoring operations that do not satisfy the requirements for elimination provided by IAS 39 continue to be recognised in the Group's financial statements, even though they have been legally assigned and a financial liability for the same amount is recognized in the consolidated financial statements as Liabilities for advance payments on assignments of receivables. Gains and losses related to the assignment of these assets are only recognised when the assets are derecognised from the Group's financial-economic position.
As at 31 December 2013 the receivables transferred via Factoring operations with recourse amounted to 5,439 thousand Euros.
The book value of the assets assigned without recourse as at 31 December 2013 amounted to 12,660 thousand Euros, with an increase of available liquidity of 9,386 thousand Euros.
The carrying amount of Trade receivables is in line with its fair value.
Trade receivables are all collectible within one year.

NOTE 22 – Other receivables and current assets

Detail is as follows:

(thousand Euros)	**31/12/2013**	**31/12/2012**	**Change**
Tax receivables	8,243	7,527	716
Advances to employees	273	127	146
Accrued income and prepaid expenses	4,014	6,286	(2,272)
Other receivables	12,923	13,383	(460)
Total	**25,454**	**27,323**	**(1,869)**

The item Tax receivables mainly includes:

- credits to the Treasury for VAT (5,971 thousand Euros);
- credits and down payments for income tax net of the allocated liability (1,380 thousand Euros);
- receivables for withholding tax (389 thousand Euros).

The item Other receivables includes the contribution to research as regards projects financed for 10,904 thousand Euros (8,308 thousand Euros at 31 December 2012).

NOTE 23 – Cash and cash equivalents

The balance of 66,145 thousand Euros, with an increase of 12,153 thousand Euros compared with 31 December 2012, represents cash and cash equivalents and the existence of cash on hand and valuables as at the end of the year. Changes in cash and cash equivalents are fully detailed in the Consolidated statement of cash flow.

NOTE 24 – Shareholders' equity

Share capital

On 31 December 2013 the company capital of Reply S.p.A, wholly undersigned and paid up, was amounting to 4,840,086 Euros and is composed of n. 9,307,857 ordinary shares with nominal value of 0.52 Euros each.
The increase during the period refers to the exercise of stock options, in the amount of 85,000 option rights for a total value of 1,787,045 Euros, of which 44,200 Euros is by way of increase in share capital and 1,742,845 Euros by way of share premiums.

Treasury shares

The value of the Treasury shares, amounting to 9 thousand Euros, refers to the shares of Reply S.p.A. held by the parent company, that at 31 December 2012 were equal to n. 597. During 2013 the Parent Company used n. 235,216 treasury shares for the merger operation assigned in share swap with the shareholders of Reply Deutschland AG.
The accounting effects of these operations were entirely recorded in equity.

Capital reserves

On 31 December 2013 Capital reserves, amounting to 51,889 thousand Euros, were mainly comprised as follows:

- Share premium reserve amounting to 22,366 thousand Euros;
- Treasury share reserve amounting to 9 thousand Euros, relating to the shares of Reply S.p.A held by the Parent Company;
- Reserve for the purchase of treasury shares amounting to 29,991 thousand Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 27 April 2012 Reply S.p.A re-authorised it, in accordance with and for the purposes of Article 2357 of the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

Earning reserves

Earnings reserves amounted to 155,850 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 961 thousand Euros;
- Retained earnings amounted to 118,208 thousand Euros (retained earnings amounted to 98,252 thousand Euros on 31 December 2012);
- Profits/losses attributable to shareholders of the Parent Company amounted to 34,450 thousand Euros (27,094 thousand Euros as on 31 December 2012).

Other comprehensive income

Other comprehensive income can be analysed as follows:

(thousand Euros)	31/12/2013	31/12/2012
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Actuarial gains/(losses) from employee benefit plans	850	(1,502)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**850**	**(1,502)**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(51)	(73)
Gains/(losses) from the translation of financial statements	404	115
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	**353**	**42**
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B) = (B1) +(B2)	**1,203**	**(1,460)**

Non-controlling interests

Non controlling interest amounting to 799 thousand Euros on 31 December 2013 (2,704 thousand Euros on 31 December 2012), refer to the following companies consolidated on a line-by-line basis:

(thousand Euros)	31/12/2013	31/12/2012
Italian companies		
Bitmama S.r.l.	(22)	170
Bridge Reply	52	37
Open Reply S.r.l.	-	110
Portaltech Reply S.r.l.	2	5
Ringmaster Reply S.r.l.	678	818
Storm Reply S.r.l.	54	18
Twice Reply S.r.l.	64	209
Foreign companies		
Reply Deutschland AG	-	265
is4 GmbH & Co. KG	32	30
Riverland Reply GmbH	-	1,042
Inessence Reply GmbH	(56)	-
Portaltech Reply GmbH	(5)	-
Total	**799**	**2,704**

Share based payment plans

The Reply Group has share based payment plans for its employees.

The stock option plans have the following aims:

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, no costs were incurred for Reply S.p.A. share-based payments in 2013.

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

The Board of Directors' of Reply S.p.A. in charge of the stock option plan, has assigned stock options to employees and Directors of the Group companies.

On 31 December 2013 there were 45,000 remaining stock options and can be summarized as follows:

Plan	Resolution of the AGM	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	12/05/2006	3	21.339	12/05/2009 – 12/05/2014	45,000

During 2013, 85,000 options were exercised in reference to the existing plans, 15,000 options ceased the right to be exercised and no stock options expired.

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

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

NOTE 25 – Payables to minority shareholders and for operations

Payables to minority shareholders and for company operations (earn out) owed on 31 December 2013 amount to 35,364 thousand Euros (40,190 thousand Euros on 31 December 2012).

(thousand Euros)	31/12/2012	Reclassification	Other changes	Increases	Fair value adjustment	Payments	Exchange difference	31/12/2013
avantage Reply Ltd.	11,898	-	-	-	(720)	-	(246)	10,932
Reply Deutschland AG	7,280	-	(7,280)	-	-	-	-	-
Riverland Reply GmbH	2,496	(2,496)	-	-	-	-	-	-
4brands GmbH & Co. KG	2,800	-	-	-	750	-	-	3,550
Mind Services Informatica Ltda	-	-	-	2,307	-	-	-	2,307
Other Germany	81	-	-	-	-	(81)	-	-
Other Italy	650	-	-	-	-	-	-	650
Total payables to minority shareholders	**25,205**	**(2,496)**	**(7,280)**	**2,307**	**30**	**(81)**	**(246)**	**17,439**
Arlanis AG	2,030	-	-	-	(1,554)	(100)	-	376
Avvio Ltd	4,222	-	-	-	-	(586)	(89)	3,547
Portaltech Ltd	8,733	-	-	-	1,054	(6,116)	(191)	3,480
Riverland Reply GmbH	-	2,496	-	-	950	(2,496)	-	950
Solidsoft Reply Ltd	-	-	-	8,089	-	-	-	8,089
Triplesense Reply GmbH	-	-	-	1,752	-	(269)	-	1,483
Total payables for Earn out	**14,984**	**2,496**	**-**	**9,841**	**450**	**(9,567)**	**(280)**	**17,925**
Total payables to minority shareholders and earn out	**40,190**	**-**	**(7,280)**	**12,148**	**480**	**(9,648)**	**(526)**	**35,364**

Payables to minority shareholders of avantage Ltd, amounting to 10,932 thousand Euros refers to the amount to be paid in the first quarter 2014, as an additional corresponding amount, for the acquisition of the remaining 49% of the company's company capital as well as payment of the second instalment of the initial acquisition. The variation is due to the result of the adjustment of the debt on the amount to be paid.

Following the merger incorporation of Reply Deutschland AG to form part of Reply S.p.A.'s parent company, the payable to the minority shareholders, amounting to 7,280 thousand Euros, was cancelled based on the share swap of Reply S.p.A treasury shares.

Payables to the minority shareholders of 4 brands GmbH & Co. KG. amounting to 3,550 thousand Euros expresses the fair value of minority shares equal to 49% of the company. Such a representation satisfies the IAS 31 in as much as a put option agreement exists that allows minority partners to exercise the same shares with a notice of at least 12 months.

Payables for the acquisition of Mind Services Informatica Ltd., amounting to 2,307 thousand Euros referred to the earn-out which reflects the best estimate of the amount to be paid in three years as an additional consideration, subordinated to the achievement of determined economic parameters, for the acquisition of 76% of the company's share capital and the option relating to the acquisition of the remaining 24% of company capital.

Payables Other Germany, relating to earn out originating from the acquisition of some subsidiaries of Reply GmbH & CO. KG amounting to 81 thousand was wholly paid up during the financial year.
Payables Other Italy for 650 thousand Euros is referred to liabilities to some minority shareholders in relation to options held and that will expire in the future years.
Payables for the acquisition of Arlanis AG, amounting to 376 thousand Euros refers to the deferred amount to be paid by 31 December 2014 for the acquisition of 100% of the company's share capital which occurred in the financial year 2012.
Payables for the acquisition of Avvio Ltd. refers to the best estimate for the amount to be paid in three years as an additional consideration, subordinated to the achievement of determined economic parameters, for the acquisition of 100% of the company's share capital. The change reflects the payment in the amount of 490 thousand pounds and the exchange rate adjustment of the liability at the period end.
Payables for the acquisition of Portaltech Ltd, amounting to 3,480 thousand Euros, relates to earn out which reflects the amount to be paid in two years as an additional consideration, subordinated to the achievement of determined economic parameters, for the acquisition of 100% of the company's capital which occurred in financial year 2011.
Payables to Riverland Reply GmbH minority shareholders, amounting to 950 thousand Euros, refers to the deferred amount to be paid for the acquisition of 25% of the company's share capital which occurred in January 2013.
Payables for the acquisition of Solidsoft Ltd., amounting to 8,089 thousand Euros relates to earn out which reflects the best estimate of the amount to be paid in three years as additional consideration, subordinated to the achievement of determined economic parameters, for the acquisition of 100% of the share capital.
Payables for the acquisition of Triplesense GmbH, amounting to 1,483 thousand Euros relates to earn out which reflects the best estimate of the amount to be paid in three years as additional consideration, subordinated to the achievement of determined economic parameters, for the acquisition of 100% of the share capital.

NOTE 26 – Financial liabilities

Detail is as follows:

		31/12/2013			**31/12/2012**	
(thousand Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	27,284	-	27,284	35,382	-	35,382
Bank loans	14,099	20,755	34,855	9,325	12,778	22,103
Total due to banks	**41,383**	**20,755**	**62,138**	**44,707**	**12,778**	**57,485**
Other financial borrowings	319	964	1,283	397	649	1,046
Total financial liabilities	**41,702**	**21,719**	**63,421**	**45,104**	**13,427**	**58,531**

The following illustrates the distribution of financial liabilities by due date:

	31/12/2013				31/12/2012			
(thousand Euros)	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bank overdrafts	27,284	-	-	27,284	35,382	-	-	35,382
M&A loans	13,621	20,420	-	34,041	8,988	12,321	-	21,309
Carispe Bank	19	-	-	19	29	19	-	48
Mortgage loans	112	487	173	772	133	478	288	899
Other financial borrowings	319	964	-	1,283	394	649	-	1,043
Other	347	(325)	-	22	175	(325)	-	(150)
Total	**41,702**	**21,547**	**173**	**63,421**	**45,101**	**13,142**	**288**	**58,531**

M&A financing refers to credit lines to be used for acquisition operations carried directly by Reply S.p.A. or via companies controlled directly or indirectly by the same.

Following a summary of the contracts entered into for such a purpose:

- On 31 March 2009 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for a line of credit amounting to 50,000,000 Euros. The loan is reimbursed on a half-year basis commencing 30 June 2012 and expires on 31 December 2014.
  Such a credit line was used for cash for an amount amounting to 22,963 thousand Euros and the residual debt on 31 December 2013 was amounting to 7,654 thousand Euros all short term.
- On 15 September 2012 Reply S.p.A signed a line of credit with Unicredit S.p.A for a total amount of 15,000,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2014 and expires on 31 December 2016. Such credit line was used for 13,900,000 Euros at 31 December 2013.
- On 25 September 2012 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for 2,500,000 Euros. Instalments are paid on a half-year basis and expire on 25 September 2015. The residual debt amounted to 1,667 thousand Euros at 31 December 2013.
- On 24 December 2012 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for 1,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2013 and expiring 31 December 2015. At 31 December 2013 the residual liability amounted to 1,000 thousand Euros.
- On 13 November 2013 Reply S.p.A undersigned a line of credit with Intesa Sanpaolo S.p.A for a total amount of 20,000,000 Euros to be used by 31 December 2015.The loan will be reimbursed on a half-year basis deferred to commence on 30 June 2016 and will expire on 31 December 2018. On 31 December such a line of credit was used for 1,813,429 Euros.
- On 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan will be reimbursed on a half-year basis deferred to commence on 31 May 2016 and will expire on 30 November 2018. On 31 December such a line was used for 8,038,840 Euros.

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

As contractually defined, such ratios are as follows:

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

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

The financial loan with Carispe Bank was stipulated in September 2008 by Lem Reply S.r.l. for an initial line of credit amounting to 150 thousand Euros. Reimbursement will take place via six monthly instalments at a variable rate (Euribor 6 months with a spread of 1.2%) with expiry on 31 January 2014.

Financing of Commerzbank refers to financing distributed to Tool Reply GmbH, for the acquisition of the building where the German company has its registered office.

Reimbursement takes place via six monthly instalments (at 4.28%) with expiry on 30 September 2019.

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

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

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

Net Financial Position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's Recommendations for the consistent implementation of the European's regulation on Prospectuses issued on 10 February 2005, the Net financial position of the Reply Group at 31 December 2013 was as follows:

(thousand Euros)	31/12/2013	31/12/2012	Change
Cash and cash equivalents	66,145	53,992	12,153
Current financial assets	1,010	1,315	(305)
Non current financial assets	1,278	2,851	(1,573)
Total financial assets	**68,432**	**58,158**	**10,274**
Current financial liabilities	(41,702)	(45,104)	3,402
Non current financial liabilities	(21,719)	(13,427)	(8,292)
Total financial liabilities	**(63,421)**	**(58,531)**	**(4,890)**
Total net financial position	**5,011**	**(373)**	**5,384**

For further details with regards to the above table see Notes 18 and 23 as well as Note 26.

NOTE 27 – Employee benefits

(thousand Euros)	31/12/2013	31/12/2012	Change
Employee severance indemnities	14,574	13,986	588
Employee pension funds	4,164	4,300	(137)
Directors severance indemnities	1,336	1,217	119
Other	16	43	(28)
Total	**20,089**	**19,547**	**542**

Employee severance indemnities

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

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations. In order to allow for the changes introduced by Law 296/06, the re-proportioning was only carried out for employees of companies with fewer than 50 employees that do not pay Employee severance indemnities into supplementary pension schemes.

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2013: 2.50% frequency of turnover in 2013: 10%

Economic and financial assumptions

Annual discount rate	Average annual rate of 2.0%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. An annual constant rate equal to 3.17% was used for the year 2013.
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, Employment severance indemnities at 31 December 2013 are summarized in the table below:

(thousand Euros)	
Balance at 31/12/2012	**13,986**
Cost relating to current (*service cost*) work	2,185
Actuarial gain/loss	(676)
Interest cost	393
Indemnities paid during the year	(1,314)
Balance at 31/12/2013	**14,574**

Employee pension funds

The Pension fund item relates to liability as regards the defined benefit pensions of some German companies and is detailed as follows:

(thousand Euros)	**31/12/2013**	**31/12/2012**
Present value of liability	5,134	5,310
Fair value of plan assets	(970)	(1,010)
Net liability	**4,164**	**4,300**

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

(thousand Euros)	**31/12/2013**
Present value at beginning of 2012	5,310
Service cost	-
Interest cost	164
Actuarial gains/(losses)	(250)
Indemnities paid during the year	(90)
Present value at year end	**5,134**

Directors severance indemnities

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 119 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2013.

NOTE 28 – Deferred tax liabilities

Deferred tax liabilities at 31 December 2013 amount to a total of 12,458 thousand Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(thousand Euros)	31/12/2013	31/12/2012
Deductible items off the books	1,074	1,069
Other	11,384	8,876
Total	**12,458**	**9,945**

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

NOTE 29 - Provisions

Provisions amount to a total of 12,420 thousand Euros (of which 11,436 thousand Euros are not current).
Change in 2013 is summarized in the table below:

(thousand Euros)	Balance at 31/12/2012	Other (*)	Accruals	Utilization	Write-offs	Balance at 31/12/2013
Fidelity fund	923	-	258	(399)	(17)	765
Other provisions	3,182	118	3,046	(816)	(831)	4,698
Motorola research centre fund	6,957	-	-	-		6,957
Total	**11,062**	**118**	**3,304**	**(1,215)**	**(848)**	**12,420**

(*) Changes in the consolidation

Employee fidelity provisions refer mainly to provisions made for the employees of some German companies in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.
The provision for other risks represents the amounts set aside by the individual companies of the Group principally in connection with contractual commercial risks and disputes.
The Provision for Motorola Research centre originates from the acquisition of the business branch Motorola Electronics S.p.A. in 2009 and reflects the best estimate of the residual costs to incur in relation to the agreements reached with the parties involved in the transaction to implement research and development projects, in accordance

with IAS 37. This provision is used on the basis of the progression of the abovementioned research activities.
Acquisition of the Motorola Research Centre was carried out as a consequence of agreements reached with Motorola Electronics S.p.A, Trade Unions and the region of Piedmont and the commitment to carry out research activities on agreed upon themes.
The residual provision will be written off to profit and loss on the basis of the progress of the research activities, in part financed by the public administrations, for which the Group has committed to carry out to several parties in view of the undersigning of the aforesaid agreements.
In 2013 the provision remained unchanged as Reply is still waiting for the Public authorities, with whom Reply had undersigned the original agreements, to give instructions as to which other research projects to undertake on agreed contents.

NOTE 30 – Trade payables

Trade payables at 31 December 2013 amounted to 68,124 thousand Euros and are detailed as follows:

(thousand Euros)	31/12/2013	31/12/2012	Change
Domestic suppliers	57,854	50,981	6,874
Foreign suppliers	11,102	8,360	2,742
Advances to suppliers	(833)	(2,427)	1,594
Total	**68,124**	**56,914**	**11,210**

The increase of Trade payables amounting to 11,210 thousand Euros is mainly owing to the overall increase of the Group's business.

NOTE 31 – Other current liabilities

Other current liabilities at 31 December 2013 amounted to 125,048 thousand Euros with an increase of 22,888 thousand Euros with respect to the previous financial year.
Detail is as follows:

(thousand Euros)	**31/12/2013**	**31/12/2012**	**Change**
Income tax payable	6,264	3,464	2,800
VAT payable	5,288	5,678	(390)
Withholding tax and other	5,733	4,709	1,024
Total due to tax authorities	**17,285**	**13,851**	**3,434**
National social insurance payable	16,686	14,657	2,029
Other	1,285	1,237	48
Total due to social securities	**17,972**	**15,895**	**2,077**
Employee accruals	32,375	26,209	6,166
Other payables	46,400	35,906	10,494
Accrued expenses and deferred income	11,017	10,299	719
Total other payables	**89,792**	**72,414**	**17,378**
Other current liabilities	**125,048**	**102,160**	**22,888**

Due to tax authorities amounting to 17,285 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.
Due to social security authorities amounting to 17,972 thousand Euros, is related to both Company and employees contribution payables.
Other payables at 31 December 2013 amount to 89,792 thousand Euros and mainly include:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Remuneration of directors recognised as participation in the profits of the subsidiary companies;
- Advances received from customers exceeding the value of the work in progress amounting to 23,882 thousand Euros.

Accrued Expenses and Deferred Income mainly relate to advance invoicing in relation to T&M consultancy activities to be delivered in the subsequent financial year.

NOTE 32 – Segment Reporting

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

(thousand Euros)	Italy	%	Germany	%	United Kingdom	%	Intersegment	Total 2013	%
Revenues	**424,752**	**100**	**85,719**	**100**	**68,642**	**100**	**(18,961)**	**560,151**	**100**
Operating costs	(370,731)	(87.3)	(78,515)	(91.6)	(57,267)	(83.4)	18,961	(487,551)	(87.0)
Gross operating income	**54,022**	**12.7**	**7,203**	**8.4**	**11,375**	**16.6**	**-**	**72,600**	**13.0**
Amortization, depreciation and write-downs	(6,217)	(1.5)	(1,201)	(1.4)	(531)	(0.8)		(7,949)	(1.4)
Other unusual income/(expenses)	1,306	-	(750)	(0.9)	(1,036)	(1.5)		(480)	(0.1)
EBIT	**49,111**	**11.6**	**5,252**	**6.1**	**9,808**	**14.3**		**64,171**	**11.5**

(thousand Euros)	Italy	%	Germany	%	United Kingdom	%	Intersegment	Total 2012	%
Revenues	**382,748**	**100**	**80,019**	**100**	**44,953**	**100**	**(12,890)**	**494,831**	**100**
Operating costs	(331,529)	(86.6)	(74,206)	(92.7)	(39,554)	(88.0)	12,890	(445,289)	(90.0)
Gross operating income	**51,219**	**13.4**	**5,813**	**7.3**	**5,399**	**12.0**	**-**	**49,541**	**10.0**
Amortization, depreciation and write-downs	(5,391)	(1.4)	(1,121)	(1.4)	(343)	(0.8)		(6,855)	(1.4)
Other unusual income/(expenses)	-	-	-	-	(3,319)	(7.4)		(3,319)	(0.7)
EBIT	**45,828**	**12.0**	**4,692**	**5.9**	**1,737**	**3.9**		**52,249**	**10.6**

(thousand Euros)	Italy	Germany	United Kingdom	Interseg	Total 2013	Italy	Germany	United Kingdom	Interseg	Total 2012
Current operating assets	280,930	29,805	25,057	(17,263)	318,530	251,953	20,265	19,182	(10,949)	280,451
Current operating liabilities	(177,473)	(17,676)	(16,269)	17,263	(194,155)	(141,609)	(15,274)	(14,021)	10,949	(159,974)
Net working capital (A)	**103,457**	**12,130**	**8,788**	**-**	**124,374**	**110,343**	**4,991**	**5,161**	**-**	**120,476**
Non current assets	117,726	17,224	27,620		162,570	103,586	17,185	15,918		136,689
Non current financial liabilities	(55,673)	(8,534)	(15,139)		(79,347)	(58,991)	(6,363)	(12,969)		(78,332)
Fixed capital (B)	**62,052**	**8,689**	**12,481**		**83,222**	**44,595**	**10,822**	**2,949**		**58,358**
Net invested capital (A+B)	**165,509**	**20,819**	**21,269**		**207,597**	**154,938**	**15,813**	**8,110**		**178,834**

Breakdown of employees by country is as follows:

(number)	31/12/2013	31/12/2012	Change
Italy	3,319	2,950	369
Germany	619	543	76
United Kingdom	315	232	83
Total	**4,253**	**3,725**	**528**

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

Types of financial risks and corresponding hedging activities

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

Credit risk

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

Liquidity risk

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

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

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

Currency risk

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

Interest rate risk

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

Sensitivity analysis

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of fair value)) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavourable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2013 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 270 thousand Euros.
This analysis is based on the assumption that there is a general and instantaneous change of 50 basis points in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

Fair value assessment hierarchy levels

The IFRS 13 establishes a fair value hierarchy which classifies the input of evaluation techniques on three levels adopted for the measurement of fair value. Fair value hierarchy attributes maximum priority to prices quoted (not rectified) in active markets for identical assets and liabilities (Level 1 data) and the non observable minimum input priority (Level 3 data). In some cases, the data used to assess the fair value of assets or liabilities could be classified on three different levels of the fair value hierarchy. In such cases, the evaluation of fair value is wholly classified on the same level of the hierarchy in which input on the lowest level is classified, taking account its importance for the assessment.
The levels used in the hierarchy are:

- Level 1 inputs are prices quoted (not rectified) in markets active for identical assets and liabilities which the entity can access on the date of assessment;
- Level 2 inputs are variable and different from the prices quoted included in Level 1 observable directly or indirectly for assets or liabilities;
- Level 3 inputs are variable and not observable for assets or liabilities.

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2013, according to the *fair value* hierarchical assessment level.

(thousand Euros)	**Note**	**Level 1**	**Level 2**	**Level 3**
Financial securities	18	643	-	-
Other assets		-	-	-
Total Assets		**643**	**-**	**-**
Derivative financial liabilities (IRS)	26	-	124	-
Liabilities to minority shareholders and earn out	25	-	-	35,364
Total Liabilities		**-**	**124**	**35,364**

The item Financial securities is related to securities listed on the active stock markets and therefore falls under the fair value hierarchical level 1.
To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes). The lastly mentioned, in the calculation of their estimates made use of data observed on the market directly (interest rates) or indirectly (interest rate interpolation curves observed directly): consequently for the purposes of IFRS7 the *fair value* used by the Group for the exploitation of hedging derivatives contracts in existence at the end of the financial year re-enters under the hierarchy profile in level 2.
The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
As at 31 December 2013, there have not been any transfers within the hierarchy levels.

NOTE 34 – Transactions with Related parties

In accordance with IAS 24 Related parties are Group companies and persons that are able to exercise control, joint control or have significant influence on the Group and on its subsidiaries.
Transactions carried out by the group companies with related parties that as of the reporting date are considered ordinary business and are carried out at normal market conditions.
As described in the Report on Operations, during 2013, an agreement between Reply Services S.r.l. and Alika S.r.l. was signed for the transfer of the business branch related to the management of the office services for the Reply Group companies through the provision of equipped office spaces and related services in the Turin and Milan offices. The transfer price amounted to 1.6 million Euros and was based on an evaluation carried out by an independent third party. The operation, that had effect as of July 1, 2013, was subject to the examination of the Committee of operation with Related parties, as it was executed by Alika S.r.l., the holding company of Reply S.p.A. and thus a related party; in this respect the Committee of operation with Related parties issued a positive opinion on the convenience and correctness of the conditions of the aforesaid operation.

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

(thousand Euros)

Financial transactions	**31/12/2013**	**31/12/2012**	**Nature of transactions**
Trade receivables and other	46	414	Receivables from professional services
Financial receivables	-	1,675	Financial receivables for guarantee deposits
Trade payables and other	466	2,221	Payables for professional services and office rentals offices
Other payables	4,342	4,215	Payables for emoluments s to Directors and Managers with strategic responsibilities and Board of Statutory Auditors
Economic transactions	**2013**	**2012**	**Nature of transactions**
Revenues from professional services	96	207	Receivables from professional services
Services from Parent company and related parties	4,950	6,958	Service contracts relating to office rental, and administration office
Personnel	8,424	7,658	Emoluments to Directors and Key Management with strategic responsibilities
Services and other costs	142	115	Emoluments to Statutory Auditors

Reply Group Main economic and financial transactions

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

NOTE 35 – Emoluments to Directors, Statutory Auditors and Key Management

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

(thousand Euros)	**2013**	**2012**
Executive Directors	5,430	4,940
Statutory auditors	142	115
Total	**5,572**	**5,055**

Emoluments to Key management amounted to approximately 2,994 thousand Euros (2,718 thousand Euros at 31 December 2012).

NOTE 36 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

With reference to variations seen in the year 2013, it is reported that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euro). Currently it is not possible to foresee the outcome of the said judgment but Management believes that any future economic-financial effects on the Group are not significant.
- With regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122 of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.
  Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure.
  On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
  In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.
  On today's date, some minority shareholders have commenced the aforementioned procedures.
  With specific reference to the request to obtain the corresponding amount in cash, the time limit for exerting such an authority shall expire starting from the shortest time limit between the day following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

Contingent liabilities

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

NOTE 37 – Events subsequent to 31 December 2013

No significant events have occurred subsequent to 31 December 2013.

Annexed tables

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

(thousand Euros)	2013	Of which related parties	%	2012	Of which related parties	%
Revenues	560,151	96	0.0%	494,831	207	0.0%
Other income	14,307	-	-	11,563	-	-
Purchases	(10,644)	-	-	(10,894)	-	-
Personnel	(269,893)	(5,092)	1.9%	(239,258)	(7,658)	3.2%
Services and other costs	(214,726)	(8,424)	3.9%	(191,803)	(7,073)	3.7%
Amortization, depreciation and write-downs	(7,949)	-	-	(6,855)	-	-
Other unusual (cost)/income	(7,075)	-	-	(5,334)	-	-
Operating income	**64,171**	**-**	**-**	**52,249**	**-**	**-**
Financial income/(expenses)	(2,439)	-	-	(1,984)	-	-
Income before taxes	**61,732**	**-**	**-**	**50,265**	**-**	**-**
Income taxes	(26,652)	-	-	(22,006)	-	-
Net income	**35,080**	**-**	**-**	**28,259**	**-**	**-**
Non controlling interest	(630)	-	-	(1,164)	-	-
Group net result	**34,450**	**-**	**-**	**27,094**	**-**	**-**
Earnings per share	*3.81*			*3.01*		
Diluted earnings per share	*3.79*			*2.97*		

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

(thousand Euros)	31/12/2013	Of which related parties	%	31/12/2012	Of which related parties	%
Tangible assets	13,553	-	-	11,562	-	-
Goodwill	125,637	-	-	105,195	-	-
Other intangible assets	6,363	-	-	5,960	-	-
Equity investments	23	-	-	23	-	-
Financial assets	4,275	-	0.0%	5,724	1,675	29.3%
Deferred tax assets	13,997	-	-	11,530	-	-
Non current assets	**163,847**	**-**	**-**	**139,994**	**-**	**-**
Work in progress	21,910	-	-	15,428	-	-
Trade receivables	271,166	46	0.0%	237,700	414	0.2%
Other current assets	25,454	-	-	27,323	-	-
Financial assets	1,010	-	-	1,315	-	-
Cash and cash equivalents	66,145	-	-	53,992	-	-
Current assets	**385,684**	**-**	**-**	**335,757**	**-**	**-**
TOTAL ASSETS	**549,531**	**-**	**-**	**475,751**	**-**	**-**
Share capital	4,840	-	-	4,796	-	-
Other reserves	172,519	-	-	142,808	-	-
Group net income	34,450	-	-	27,094	-	-
Group shareholders' equity	**211,809**	**-**	**-**	**174,698**	**-**	**-**
Non controlling interest	799	-	-	2,704	-	-
SHAREHOLDERS' EQUITY	**212,608**	**-**	**-**	**177,402**	**-**	**-**
Payables to minority shareholders and corporate transactions	35,364	-	-	40,190	-	-
Financial liabilities	21,719	-	-	13,427	-	-
Employee benefits	20,089	-	-	19,547	-	-
Deferred tax liabilities	12,458	-	-	9,945	-	-
Provisions	11,436	-	-	10,162	-	-
Non current liabilities	**101,067**	**-**	**-**	**93,271**	**-**	**-**
Financial liabilities	41,702	-	-	45,104	-	-
Trade payables	68,124	466	0.7%	56,656	2,221	3.9%
Other current liabilities	125,047	4,342	3.5%	102,160	4,215	4.1%
Provisions	984	-	-	1,159	-	-
Current liabilities	**235,857**	**-**	**-**	**205,078**	**-**	**-**
TOTAL LIABILITIES	**336,924**	**-**	**-**	**298,349**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**549,531**	**-**	**-**	**475,751**	**-**	**-**

REPLY Companies included in consolidation and subsidiaries carried at cost at 31 December 2013

Company name	Headquarter	Group interest
Parent Company		
Reply S.p.A.	Turin - Corso Francia, 110	-
Subsidiaries consolidated on a line-by-line basis		
@logistics Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Arlanis Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Arlanis Reply GmbH	Munich - Germany	100.00%
Arlanis Reply AG	Potsdam - Germany	100.00%
Aktive Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Atlas Reply S.r.l.	Turin - Corso Francia, 110	100.00%
avantage Reply Ltd. (*)	London – United Kingdom	51.00%
Avvio Reply Ltd	London – United Kingdom	100.00%
Bitmama S.r.l.	Turin - Corso Francia, 110	51.00%
Blue Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Bridge Reply S.r.l.	Turin - Corso Francia, 110	60.00%
Business Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Cluster Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Concept Reply GmbH	Munich - Germany	100.00%
Consorzio Reply Public Sector	Turin - Corso Francia, 110	100.00%
Discovery Reply S.r.l.	Turin - Corso Francia, 110	100.00%
e*finance consulting Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Ekip Reply S.r.l.	Turin - Corso Francia, 110	100.00%
EOS Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Forge Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Hermes Reply Polska zo.o.	Katowice - Poland	100.00%
Hermes Reply S.r.l.	Turin - Corso Francia, 110	100.00%
InEssence Reply GmbH	Düsseldorf, Germany	70.00%
IrisCube Reply S.p.A.	Turin - Corso Francia, 110	100.00%
Iriscube Reply SA	Savosa - Switzerland	100.00%
Juice Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Lem Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Live Reply GmbH	Düsseldorf, Germany	100.00%
Mind Services Ltda. (*)	Sao Paolo - Brazil	76.00%
Open Reply S.r.l.(*)	Turin - Corso Francia, 110	92.50%
Pay Reply S.r.l	Turin - Corso Francia, 110	100.00%
Portaltech Reply Ltd.	London – United Kingdom	100.00%

Portaltech Reply S.r.l.(*)	Turin - Corso Francia, 110	85.00%
Portaltech Reply GmbH	Gutersloh, Germany	68.00%
Power Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Reply Consulting S.r.l.	Turin - Corso Francia, 110	100,00%
Reply GmbH & CO. KG. (**)	Gutersloh, Germany	100.00%
4brands Reply GmbH & CO. KG (**)	Minden, Germany	51.00%
Cluster Reply GmbH & CO. KG (**)	Monaco, Germany	100.00%
Xpress Reply GmbH & CO. KG (**)	Gutersloh, Germany	100.00%
Power Reply GmbH & CO. KG (**)	Monaco, Germany	100.00%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte - Brazil	100.00%
Reply Inc.	Michigan - USA	100.00%
Reply Ltd.	London – United Kingdom	100.00%
Reply Services S.r.l.	Turin - Corso Francia, 110	100.00%
Ringmaster S.r.l.	Turin - Corso Francia, 110	50.00%
Riverland Reply GmbH	Munich - Germany	100.00%
Santer Reply S.p.A.	Milan - Via Koch, 1	100.00%
Security Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Solidsoft Reply Ltd.	London – United Kingdom	100.00%
Square Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Storm Reply S.r.l. (*)	Turin - Corso Francia, 110	80.00%
Syskoplan Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Sytel Reply Roma S.r.l.	Turin - Corso Francia, 110	100.00%
Sytel Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Target Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Technology Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Tool Reply Gmbh	Gutersloh, Germany	100.00%
Triplesense Reply GmbH	Frankfurt, Germany	100.00%
Twice Reply S.r.l.	Turin - Corso Francia, 110	98.00%
Whitehall Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Companies carried at cost		
Engage Reply S.r.l.	Turin - Corso Francia, 110	85.00%
Solidsoft Reply S.r.l.	Turin - Corso Francia, 110	85.00%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting reflects Management's best estimate as at the closing date of the 2013 Annual Financial Report.

(**) These companies are exempt from filing statutory financial statements in Germany under the German law § 264b HGB.

Information in accordance with Article 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof Consob's Regulations for Issuers reports the amount of fees charged in 2013 for the audit and audit related services provided by the Independent Auditors and by entities that are part of the Independent Auditors' network.

(thousand Euros)	Service provider	Group entity	Fee 2013
Audit	Reconta Ernst & Young S.p.A.	Parent company - Reply S.p.A.	28
	Reconta Ernst & Young S.p.A.	Subsidiaries	162
	Ernst & Young GmbH	Subsidiaries	185
	Ernst & Young LLP	Subsidiaries	63
	Total		**438**
Audit related services	Reconta Ernst & Young S.p.A.	Parent company - Reply S.p.A.(1)	1
	Reconta Ernst & Young S.p.A.	Subsidiaries (1)	9
	Total		**10**
Other services	Reconta Ernst & Young S.p.A.	Parent company - Reply S.p.A. (2)	10
	Ernst & Young GmbH	Subsidiaries (3)	87
	Total		97
Total			**545**

(1) Signed tax forms (Modello Unico, IRAP and Form 770)
(2) Limited voluntary review of the financial situation as at 31 March 2013 of Reply S.p.A.
(3) Limited voluntary review of interim situations for some German subsidiaries.

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

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

- suitability with respect to the Company's structure and
- the effective application

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2013.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2013 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Consolidated Financial Statement

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

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

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

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

Turin, 14 March 2014

Chairman and Chief Executive Officer
Mario Rizzante

Director responsible of drawing
up the accounting documents
Giuseppe Veneziano

Report of the Statutory Auditors to the Shareholders' Meeting related to the Consolidated Financial Statements as at 31 December 2013

Dear Shareholders,

The Board of Directors is submitting the Consolidated Financial Statements as at 31 December 2013 to you prepared in conformity with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Changes in Shareholders' Equity, Consolidated Cash Flow Statement, and the Notes to the Financial Statements.

The Consolidated Financial Statements as at 31 December 2013 present a consolidated Shareholders' equity amounting to 211.809 million Euros, including a consolidated profit of 34.45 million Euros.
The Report on operations adequately illustrates the financial, economic and earnings position, the trend, including at a consolidated level, of Reply S.p.A. and its subsidiaries during the financial year and following year ended, as well as the sub-division of the volumes of assets of the principal business lines and the consolidated results.
The consolidation area is determined in such context, which included as at 31 December 2013, in addition to the Parent Company, sixty companies and a consortium, all consolidated on a line-by-line basis.

The controls made by the Independent Auditor Reconta Ernst & Young S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2013 are supported by the Parent Company's accounting records, in the financial statements for the reporting period of the subsidiaries, and in the information that they have formally communicated.

Such financial statements transmitted by the subsidiaries to the Parent Company, for purposes of the preparation of the Consolidated Financial Statements, prepared by the respective competent corporate bodies, have been reviewed by the bodies and/or persons in charge of the audit of the individual companies, according to their respective legal systems, and by the Independent Auditor in the context of the procedures followed for the audit of the Consolidated Financial Statements.

The Board of Statutory Auditors did not audit the financial statements of such companies.
Reconta Ernst & Young S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements, has issued its report on March 24, 2014, in which it confirms that, in its opinion, the Consolidated Financial Statements of the Reply Group as at 31 December 2013 conform to the International Financial Reporting Standards (IFRS) endorsed by the European Union, as well as to the measures issued to implement Article 9 of Legislative Decree 38/2005 and, therefore, they were prepared with clarity and represent a true and fair view of the financial and economic position, the economic result and the cash flows of the Reply Group as at such date, and further, the Report on operations and the information pursuant to Article 123-bis(1)(c)(d)(f)(l)(m) and (2)(b) of Legislative Decree 58/1998 presented in the Report on Corporate Governance and Ownership Structure are consistent with the Consolidated Financial Statements.

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

- The consolidation area has been determined in a correct manner;
- The consolidation procedures adopted conform to legal requirements and have been properly applied;
- The review of the Report on Management demonstrated that it is consistent with the Consolidated Financial Statements;
- All of the information used for the consolidation refers to the entire administrative period represented by financial year 2013;
- The measurement criteria are homogeneous with those used for the previous reporting period;

Change in the consolidation compared to 31 December 2012 consists of the inclusion of the following companies:

- InEssenceReply GmbH;
- Juice Reply S.r.l. (in 2012 carried at cost);
- Mind Services Ltda;
- Pay Reply S.r.l. (in 2012 carried at cost);
- Portaltech Reply GmbH;
- Reply GmbH & Co. KG. (company benefiting from the hive down of Reply Deutchland AG);
- Solidsoft Reply Ltd.;
- Tool Reply GmbH;
- Triplesense Reply GmbH,

as well as the change in consolidation of Reply Deutschland AG, company incorporated in Reply S.p.A. e and the liquidation of Tender Reply S.r.l.

Turin 24 March 2014.

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

Building a better working world

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

To the Shareholders
of Reply S.p.A.

1. We have audited the consolidated financial statements of Reply S.p.A. and its subsidiaries, (the "Reply Group") as of 31 December 2013 and for the year then ended, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   With respect to the comparative data related to the consolidated financial statements of the prior year and the statement of financial position at January 1, 2012, derived from the consolidated financial statements at December 31, 2011, all restated as a result of the retrospective application of the amendments to IAS 19, as described in the related notes, reference should be made to our reports issued on March 22, 2013 and March 26, 2012, respectively. We have examined the methods used to restate the comparative financial data and the information presented in the notes in this respect for the purposes of issuing this report.

3. In our opinion, the consolidated financial statements of the Reply Group at December 31, 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Reply Group for the year then ended.

4. The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Proprietary Assets in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) in the Report on Corporate Governance and Proprietary Assets, are consistent with the consolidated financial statements of the Reply Group at December 31, 2013.

Turin, March 24, 2014

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

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

Financial Statements as at 31 December 2013

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

(In Euros)	**Note**	**2013**	**2012**
Revenues	5	274,691,960	250,329,322
Other revenues	6	8,825,156	7,454,118
Purchases	7	(3,636,912)	(4,278,827)
Personnel	8	(16,080,630)	(15,832,927)
Services and other costs	9	(270,032,805)	(242,675,111)
Amortization, depreciation and write-downs	10	(697,944)	(799,716)
Other unusual operating income/(expenses)	11	249,563	(550,000)
Operating Income		**(6,681,611)**	**(6,353,141)**
Profit/(loss) on equity investments	12	20,421,456	21,016,288
Financial income/(expenses)	13	442,727	474,492
Income before taxes		**14,182,571**	**15,137,639**
Income tax	14	624,358	1,088,471
Result		**14,806,929**	**16,226,110**
Net result per share	*15*	*1.63*	*1.81*
Diluted net result per share	*15*	*1.62*	*1.78*

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

Reply S.p.A. Statement of comprehensive income

(in Euros)	Note	31/12/2013	31/12/2012
Profit of the period (A)		**14,806,929**	**16,226,110**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) from employee benefit plans, net of tax effect		25,988	(47,878)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		25,988	(47,878)
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges, net of tax effect		(50,362)	(73,224)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2)		**(50,362)**	**(73,224)**
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B) = (B1) +(B2)		**(24,374)**	**(121,102)**
Total comprehensive income (A)+(B)		**14,782,555**	**16,105,008**

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

(in Euros)	**Note**	**31/12/2013**	**31/12/2012**
Tangible assets	16	446,674	200,975
Goodwill	17	86,765	86,765
Other intangible assets	18	1,053,650	1,262,493
Equity investments	19	130,196,800	125,267,416
Other financial assets	20	36,251,023	14,090,681
Deferred tax assets	21	1,669,848	1,678,711
Non current assets		**169,704,758**	**142,587,041**
Trade receivables	22	196,904,149	175,828,354
Other receivables and current assets	23	28,958,870	24,057,670
Other financial assets	24	43,543,322	51,157,655
Cash and cash equivalents	25	28,321,938	27,741,728
Current assets		**297,728,279**	**278,785,406**
TOTAL ASSETS		**467,433,037**	**421,372,447**
Share capital		4,840,086	4,795,886
Other reserves		125,856,496	103,098,978
Result		14,806,929	16,226,110
SHAREHOLDERS' EQUITY	**26**	**145,503,511**	**124,120,973**
Payables to minority shareholders and corporate transactions	27	14,391,089	24,354,156
Financial liabilities	28	20,162,569	14,496,500
Employee benefits	29	405,582	454,594
Deferred tax liabilities	30	469,153	498,956
Provisions	33	1,745,000	1,500,000
Non current liabilities		**37,173,393**	**41,304,207**
Financial liabilities	28	67,954,479	60,367,491
Trade payables	31	195,102,211	181,900,543
Other current liabilities	32	21,189,442	13,679,233
Provisions	33	510,000	-
Current liabilities		**284,756,133**	**255,947,267**
TOTAL LIABILITIES		**321,929,526**	**297,251,474**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**467,433,037**	**421,372,447**

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

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

(in Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for *cash flow hedges*	Reserve for actuarial gains/(losses)	Total
Balance at 1 January 2012	**4,795,886**	**(3,182,950)**	**50,155,937**	**61,119,476**	**-**	**43,445**	**112,931,793**
Share capital increases	-	-	-	-	-	-	-
Dividends distributed	-	-	-	(4,493,522)	-	-	(4,493,522)
Change in treasury shares	-	(422,305)	-	-	-	-	(422,305)
Total profit (loss)	-	-	-	16,226,110	(73,224)	(47,878)	16,105,008
Other changes	-	-	-	-	-	-	-
Balance at 31 December 2012	**4,795,886**	**(3,605,255)**	**50,155,937**	**72,852,064**	**(73,224)**	**(4,433)**	**124,120,974**

(in Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for *cash flow hedges*	Reserve for actuarial gains/(losses)	Total
Balance at 1 January 2013	**4,795,886**	**(3,605,255)**	**50,155,937**	**72,852,064**	**(73,224)**	**(4,433)**	**124,120,974**
Share capital increases	44,200	-	1,742,845	-	-	-	1,787,045
Dividends distributed	-	-	-	(5,131,165)	-	-	(5,131,165)
Change in treasury shares	-	3,596,127	-	-	-	-	3,596,127
Total profit (loss)	-	-	-	14,806,929	(50,362)	25,988	14,782,555
Other changes	-	-	6,347,964	10	-	-	6,347,974
Balance at 31 December 2013	**4,840,086**	**(9,127)**	**58,246,746**	**82,527,838**	**(123,586)**	**21,555**	**145,503,511**

Reply S.p.A. Statement of cash flows

(in Euros)	**31/12/2013**	**31/12/2012**
Result	14,806,929	16,226,110
Income tax	(624,358)	(1,088,471)
Depreciation and amortization	697,944	799,716
Impairment of intangible assets	5,743,207	5,669,500
Change in trade receivables	(21,075,795)	(25,722,139)
Change in trade payables	13,201,668	31,556,927
Change in other assets and liabilities	2,001,535	370,831
Income tax paid	1,088,471	871,805
Interest paid	(1,242,590)	(1,411,188)
Net Cash flows from operating activities (A)	**14,597,010**	**27,273,091**
Payments for tangible and intangible assets	(734,799)	(888,783)
Payments for financial assets	(22,160,342)	(3,101,691)
Payments for the acquisition of subsidiaries	(8,620,567)	(2,116,753)
Net cash flows from investment activities (B)	**(31,515,708)**	**(6,107,227)**
Shares issued	1,787,045	-
Dividends paid	(5,131,165)	(4,493,522)
Payments for acquisition of treasury shares	-	(422,305)
In payments from financial loans	21,720,010	6,000,000
Payment of instalments	(11,261,249)	(7,654,478)
Other changes	(24,362)	(192,273)
Net Cash flows from financing activities (C)	**7,090,279**	**(6,762,578)**
Net cash flows (D) = (A+B+C)	**(9,828,419)**	**14,403,286**
Cash and cash equivalents at beginning of year	30,195,025	15,791,738
Cash and cash equivalents at year end	20,366,606	30,195,024
Total change in cash and cash equivalents (D)	**(9,828,419)**	**14,403,286**

Detail of net cash and cash equivalents

(in Euros)	31/12/2013	31/12/2012
Cash and cash equivalents at the beginning of the year:	**30,195,025**	**15,791,739**
Cash and cash equivalents	27,741,728	16,316,401
Other	833,521	-
Transaction accounts - surplus	50,324,134	45,632,329
Transaction accounts - overdraft	(14,552,863)	(12,108,006)
Bank overdrafts	(34,151,495)	(34,048,984)
Cash and cash equivalents at the end of the year:	**20,366,606**	**30,195,025**
Cash and cash equivalents	28,321,938	27,741,728
Other	669,342	833,521
Transaction accounts - surplus	42,873,980	50,324,134
Transaction accounts - overdraft	(19,562,205)	(14,552,863)
Bank overdrafts	(31,936,449)	(34,151,495)

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	NOTE 35 - Additional disclosures to financial instruments and risk management policies
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	NOTE 37 - Transactions resulting from unusual and/or abnormal operations
	NOTE 38 - Guarantees, commitments and contingent liabilities
Other information	NOTE 39 - Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities
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NOTE 1 – General information

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

NOTE 2 – Accounting principles and basis of consolidation

Compliance with International accounting principles

The 2013 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"). In compliance with European Regulation No. 1606 of 19 July 2002, beginning in 2005, the Reply Group adopted the International Financial Reporting Standards ("IFRS") for the preparation of its Consolidated Financial Statements. On the basis of national legislation implementing the aforementioned Regulation, those accounting standards were also used to prepare the separate Financial Statements of the Parent Company, Reply S.p.A., for the first time for the year ended 31 December 2006.
It is hereby specified that the accounting standards applied conform to those adopted for the preparation of the initial Statement of Assets and Liabilities as at 1 January 2005 according to the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

General principles

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

Financial statements

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

Tangible assets

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

Equipment	30%
Plant and machinery	40%
Hardware	40%
Furniture and fittings	24%

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

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Company's interest at the time of acquisition of the fair value of the assets, liabilities and identifiable contingent liabilities attributable to the subsidiary.
Goodwill is not amortized, but is tested for impairment annually or more frequently if specific events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Impairment losses are recognized immediately as expenses that cannot be recovered in the future.
Goodwill deriving from acquisitions made prior to the transition date to IFRS are maintained at amounts recognized under Italian GAAP at the time of application of such standards and are subject to impairment tests at such date.

Other intangible assets

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

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

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization is determined on a straight line basis over the relevant useful lives.
When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognized to the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful life

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

Impairment

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

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

The recoverable amount of an asset is the higher of *fair value* less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, (the so-called Cash generating unit). With reference to goodwill, Management assesses return on investment with reference to the smallest *cash generating unit* including goodwill.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately. When the recognition value of the *Cash generating unit*, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the *Cash generating unit.*

Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognized for the asset. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity investments

Investments in subsidiaries and associated companies are valued using the cost method. As implementation of such method, they are subject to an *impairment test* if there is any objective evidence that these investments have been impaired, due to one or more events that occurred after the initial measurement if such events have had an impact on future cash flows, thus inhibiting the distribution of dividends. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly negative. If such is the case, impairment is recognized as the difference between the carrying value and the recoverable value, normally determined on the basis of *fair value* less disposal costs.
At each reporting period, the Company assesses whether there is objective evidence that a write-down due to *impairment* of an equity investment recognized in previous periods may be reduced or derecognized. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly positive. In this case, the recoverable value is re-measured and eventually the investment is restated at initial cost.
Equity investments in other companies, comprising non current financial assets not held for trading, are measured at *fair value*, if it can be determined. Any subsequent gains and losses resulting from changes in *fair value* are recognized directly in Shareholders' equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized in the Income Statement for the period.
Minor investments in other companies for which *fair value* is not available are measured at cost, and adjusted for any impairment losses.
Dividends are recognized as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution. If such dividends arise from the distribution of reserves prior to the acquisition, these dividends reduce the initial acquisition cost.

Current and non current financial assets

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

Transfer of financial assets

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

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

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

Trade payables and receivables and other current assets and liabilities

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

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity investments

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

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

→ Bank borrowings

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

→ Equity instruments

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

→ Non current financial liabilities

Liabilities are stated according to the amortization cost.

Derivative financial instruments and other hedging transactions

The Company's activities are primarily subject to financial risks associated with fluctuations in interest rates. Such interest rate risks arise from bank borrowings; In order to hedge such risks the Company's policy consists of converting fluctuating rate liabilities in constant rate liabilities and treating them as *cash flow hedges*. The use of such instruments is disciplined by written procedures in line with the Company risk strategies that do not contemplate derivative financial instruments for trading purposes.
In accordance with IAS 39, derivative financial instruments qualify for *hedge accounting* only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.
All derivative financial instruments are measured in accordance with IAS 39 at fair value.
Changes in the *fair value* of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.
For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For effective hedging against a change in *fair value*, the hedged item is adjusted by the changes in *fair value* attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.
Changes in the *fair value* of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.
Embedded derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not closely related to those of the financial instrument that houses them and the latter are not measured at *fair value* with recognition of the relative gains and losses in the Income Statement.

Employee benefits

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Financial Statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.
Employee termination indemnities ("TFR") are classified as a "*post-employment benefit*", falling under the category of a "*defined benefit plan*"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "*projected unit credit method*", an actuarial method based on demographic and finance data that allows the reasonable estimate of the extent of benefits that each employee has matured in relation to the time worked. Through actuarial measurement, *interest cost* is recognized as financial gains or losses and represents the figurative expenditure that the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR"). Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity.

Share-based payment plans ("Stock options")

The Company has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after 7 November 2002 and that have not yet vested as at 1 January 2005. The Company stock option plans foresee only the physical delivery of the share when exercised.
Share-based payments are measured at *fair value* at granting date. Such amount is recognized in the Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis and over the (*vesting period*). The *fair value* of the option, measured at the granting date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted.

Provisions and reserves for risks

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

Revenue recognition

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably.
Revenue from sales and services is recognized when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.
Revenues from services include the activities the Company carries out directly with respect to some of its major clients in relation to their businesses. These activities are also carried out in exchange for services provided by other Group companies, and the costs for such services are recognized as *Services and other costs*.
Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognized.
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable that represents the discounted interest rate of the future estimated proceeds estimated over the expected life of the financial asset in order to bring them to the accounting value of the same asset.
Dividends from investments is recognized when the shareholders' rights to receive payment has been established.

Financial income and expenses

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

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

Earnings per share

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

Use of estimations

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

Changes in estimations and reclassifications

There were no changes of estimates or reclassifications during the 2013 reporting period.

Accounting principles, amendments and interpretations adopted from 1 January 2013

On May 12, 2011, the IASB issued IFRS 13 – Fair Value Measurement, which clarifies the determination of fair value for the purpose of the financial statements and is applicable to all IFRSs permitting or requiring a fair value measurement or the presentation of disclosures based on fair value. The Company has prospectively adopted this standard from January 1, 2013. The adoption of the new standard had no material effect on the 2013 financial statements.
On June 16, 2011, the IASB issued an amendment to IAS 1 – Presentation of Financial Statements requiring companies to group items presented in comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendment is applicable for periods beginning on or after July 1, 2012; the Company has adopted this amendment since January 1, 2013. The application of this amendment had no effect on the measurement of items and had a limited effect on the disclosures provided in the 2013 annual financial statements.
On December 16, 2011, the IASB issued certain amendments to IFRS 7 – Financial Instruments: Disclosures. The

amendments require information about the effect or potential effect of netting arrangements for financial assets and liabilities on an entity's financial position. The required disclosures should be provided retrospectively. The Company adopted these amendments retrospectively from January 1, 2013 and adoption had no impact on the disclosures presented in these annual financial statements.

On May 17, 2012, the IASB issued a set of amendments to IFRSs ("Annual Improvements to IFRSs 2009-2011 Cycle"), to be applied retrospectively from January 1, 2013; set out below are those applicable to the company that lead to changes in the presentation, recognition or measurement of financial statement items, excluding those that only regard changes in terminology having a limited accounting effect:

- IAS 1 – Presentation of Financial Statements: the amendment clarifies the way in which comparative information should be presented when an entity changes accounting policies and when an entity provides comparative information in addition to the minimum comparative financial statements;
- IAS 16 – Property, Plant and Equipment: the amendment clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment, otherwise such items shall be classified as inventory.
- IAS 32 – Financial instruments: Presentation: the amendment eliminates an inconsistency between IAS 12 – Income Taxes and IAS 32 concerning the recognition of taxation arising from distributions to shareholders, establishing that this shall be recognized in profit or loss to the extent the distribution refers to income generated by transactions originally recognized in profit or loss;
- IAS 34 – Interim Financial Reporting: the amendment clarifies that the disclosures for total assets and total liabilities for a particular reportable segment shall be provided if and only if:
  - a) a measure of total assets and liabilities, or both, is regularly provided to the chief operating decision maker, and
  - b) there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The Company adopted such amendments from 1 January 2013. The adoption of such amendments has not had any effect on the evaluation of the entries and has had limited effects on the information provided in this Annual report. The Company has not early adopted other principles, amendments and interpretations issued but not yet effective.

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

On 12 May 2011 IASB issued "IFRS 10 – Consolidated Financial Statements", which will replace "SIC-12 Consolidation– Special Purpose Entities and parts of "IAS 27 – Consolidated and separate Financial Statements ", which has been renamed Separate Financial Statements and addresses the accounting treatment of investments in separate financial statements. The new standard builds on existing principles by identifying a single control model applicable to all entities, including "structured entities". The standard must be applied prospectively from 1 January 2014.

On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangements, which superseded IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-monetary Contributions by Venturers. The new standard provides the criteria for identifying joint arrangements by focusing on the rights and obligations of the arrangement rather than on its legal form, and requires a single method to account for interests in jointly controlled entities, the equity method. The standard must be applied retrospectively commencing on 1 January 2013. Following the issue of the standard, IAS 28 – Investments in Associates, has been amended to include investments in jointly controlled entities in its scope of application, commencing on the effect date of the standard.

On 12 May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities, which is a new and complete standard on the additional disclosures to be made for all forms of interests, including subsidiaries, joint arrangements, affiliates, special purpose entities and other vehicle companies not included in the consolidation. The standard must be applied retrospectively commencing on 1 January 2014.

On 16 December 2011 the IASB issued certain amendments to "IAS 32 – Financial instruments: Presenetation", to clarify the application of certain offsetting criteria for financial assets and financial liabilities in IAS 32. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

On 29 May 2013, the IASB issued an amendment to "IAS 36 –Recoverable Amount Disclosures for Non-Financial Assets", addressing the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014.

On 27 June 2013, the IASB issued minor amendments to "IAS 39 – Financial Instruments: Recognition and Measurement" entitled "Novation of Derivatives and Continuation of Hedge Accounting". The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Similar relief will be included in IFFRS 9 – Financial Instruments. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014.

No significant effect is expected from the first time adoption of these amendments.

NOTE 3 – Risk management

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

Credit Risk

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

Liquidity risk

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time. The cash flows, funding requirements and liquidity of Group companies are monitored and managed on a centralized basis through the Group Treasury. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of the Group's current and future capital resources (maintaining an adequate level of cash and cash equivalents and the availability of reserves of liquidity that are readily convertible to cash and *committed* credit).
The difficulties both in the markets and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Risks associated with fluctuations in currency and interest rates

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

NOTE 4 – Other information

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

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

Fiscal consolidation

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

NOTE 5 - Revenue

Revenues amounted to 274,691,960 Euros and are detailed as follows:

(in Euros)	2013	2012	Change
Revenues from services	239,159,847	219,125,800	20,034,048
Royalties on "Reply" trademark	13,275,839	11,730,836	1,545,003
Intercompany services	15,408,671	13,709,720	1,698,951
Other intercompany revenues	6,847,603	5,762,966	1,084,638
Total	**274,691,960**	**250,329,322**	**24,362,639**

Reply manages business relationships on behalf of some of its major clients. Such activities were recorded in the item Revenues from services to third parties which increased in 2013 by 19,987,386 Euros.
Revenues from Royalties on the “Reply” trademark refer to charges to subsidiaries, corresponding to 3% of the subsidiaries’ turnover with respect to third parties.
Revenues from Intercompany services and Other intercompany charges refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

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

NOTE 6 - Other revenues

Other revenues that as at 31 December 2013 amounted to 8,825,156 Euros (7,454,118 Euros at 31 December 2012) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, telephone and training courses.

NOTE 7 - Purchases

Detail is as follows:

(in Euros)	2013	2012	Change
Software licenses for resale	2,099,411	3,047,954	(948,543)
Hardware for resale	1,060,466	694,499	365,967
Other	477,035	536,373	(59,338)
Total	**3,636,912**	**4,278,827**	**(641,915)**

The items Software and Hardware licenses for resale refer to the costs incurred for software licenses for resale to third parties carried out for the Group companies.
The item Other includes the purchase of supplies, stationary, and printed materials (260 thousand Euros) and fuel (217 thousand Euros).

NOTE 8 - Personnel

Personnel costs amounted to 16,080,630 Euros, an increase of 247,703 Euros and are detailed in the following table:

(in Euros)	2013	2012	Change
Payroll employees	11,412,782	11,483,302	(70,520)
Executive Directors	4,607,536	4,283,510	324,026
Project collaborators	60,313	66,115	(5,803)
Total	**16,080,630**	**15,832,927**	**247,703**

Detail of personnel by category is provided below:

(number)	31/12/2013	31/12/2012	Change
Directors	45	43	2
Managers	10	9	1
Staff	34	43	(9)
Total	**89**	**95**	**(6)**

The average number of employees in 2013 was 92 (no. 97 in 2012).

NOTE 9 – Services and other costs

Service and other costs comprised the following:

(in Euros)	2013	2012	Change
Commercial and technical consulting	3,825,394	5,844,969	(2,019,575)
Travelling and professional training expenses	881,795	894,581	(12,786)
Professional services from group companies	246,257,738	221,451,265	24,806,473
Marketing expenses	1,557,200	1,160,856	396,344
Administrative and legal services	2,001,819	1,292,346	709,473
Statutory Auditors and Independent Auditors	143,240	142,357	883
Lease and rentals	866,961	721,738	145,222
Office expenses	2,860,513	2,608,572	251,941
Services to be recharged to group companies	4,216,642	3,636,283	580,359
Other	7,421,503	4,922,145	2,499,359
Total	**270,032,805**	**242,675,111**	**27,357,693**

Professional Services from Group companies, which changed during the year by 24,806,473 Euros, relate to revenues from services to third parties.
Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.
Office expenses include services rendered by related parties in connection with service contracts for the use of premises, legal domicile and secretarial services, as well as utility costs.
Increase in Administrative and legal services owes to costs held for the incorporation of Reply Deutschland AG in Reply S.p.A.

NOTE 10 – Amortization, depreciation and write downs

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2013 to an overall cost of 154,671 Euros. Details of depreciation are provided at the notes to tangible assets.
Amortization of intangible assets amounted in 2013 to an overall cost of 543,273 Euros. Details of depreciation are provided at the notes to intangible assets.

NOTE 11 – Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounted to 249,563 Euros and refer to accruals to risk and expense provisions (1,057 thousand Euros), and to the fair value adjustment of liabilities to minority shareholders (1,306 thousand Euros).

NOTE 12 – Gains/(losses) on equity investments

Detail is a follows:

(in Euros)	2013	2012	Change
Dividends	28,814,456	26,685,788	2,128,667
Loss on equity investments	(8,393,000)	(5,669,500)	(2,723,500)
Total	**20,421,456**	**21,016,288**	**(594,833)**

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

(in Euros)	31/12/2013
@logistics Reply S.r.l.	1,485,000
Arlanis Reply S.r.l.	55,000
Aktive Reply S.r.l.	515,000
Atlas Reply S.r.l.	525,000
Blue Reply S.r.l.	3,230,000
Bridge Reply S.r.l.	45,000
Business Reply S.r.l.	620,000
Cluster Reply S.r.l.	4,390,000
Discovery Reply S.r.l.	365,000
Eos Reply S.r.l.	165,456
E*finance Consulting S.r.l.	115,000
Hermes Reply S.r.l.	875,000
Iriscube Reply S.p.A.	595,000
Lem Reply S.r.l.	225,000
Power Reply S.r.l.	1,665,000
Ringmaster S.r.l.	800,000
Santer Reply S.p.A.	920,000
Square Reply S.r.l.	39,000
Syskopan Reply S.r.l.	425,000
Sytel Reply Roma S.r.l.	3,745,000
Sytel Reply S.r.l	3,940,000
Target Reply S.r.l.	1,420,000
Technology Reply S.r.l.	1,655,000
Twice Reply S.r.l.	705,000
Whitehall Reply S.r.l.	295,000
Total	**28,814,456**

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

NOTE 13 – Financial income/(expenses)

Detail is as follows:

(in Euros)	2013	2012	Change
Interest income from subsidiaries	1,791,820	1,944,920	(153,100)
Interest income on bank accounts	31,652	37,639	(5,987)
Interest expenses	(1,325,442)	(1,514,268)	188,826
Other	(55,303)	6,202	(61,504)
Total	**442,727**	**474,492**	**(31,765)**

Interest income from subsidiaries refers to the interest yielding cash pooling accounts of the Group companies included in the centralized pooling system.
Interest expenses refer to the interest expenses on the use of credit facilities with Intesa Sanpaolo and Unicredit.
The item Other includes a loss on exchange rate differences amounting to 208 Euros and a gain on exchange rate differences amounting to 325 Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 – Income taxes

The details are provided below:

(in Euros)	2013	2012	Change
IRES and other taxes	329,733	562,520	(232,787)
IRAP	425,000	317,000	108,000
Current taxes	**754,733**	**879,520**	**(124,787)**
Deferred tax liabilities	(29,803)	146,062	(175,865)
Deferred tax assets	(1,349,288)	(2,114,053)	764,765
Deferred taxes	**(1,379,091)**	**(1,967,991)**	**588,900**
Income tax	**(624,358)**	**(1,088,471)**	**464,113**

The item IRES and other taxes includes the positive tax effect deriving from the domestic tax consolidation scheme for 91 thousand Euros and the German tax (Kst) arising from the profits in the subsidiary company Reply GmbH & Co. KG. owed by Reply S.p.A. as shareholder of the company in compliance to the fiscal transparency system applicable in Germany.

IRES theoretical rate

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

(in Euros)	Amount	Taxation
Result before taxes	14,182,571	
Theoretical tax rate	**27.5%**	**3,900,207**
Temporary differences, net	(18,446,664)	
Taxable income	**(4,238,104)**	
Total IRES		**-**

- Temporary differences, net refer to:
- Deductible differences amounting to 33,069 thousand Euros arising mainly from the non taxable share of the dividends received in the financial year (27,374 thousand Euros);
- Non deductible differences amounting to 14,648 thousand Euros owing mainly to the write-down of equity investments (8,435 thousand Euros) and Directors' fees to be paid (2,600 thousand Euros) and non deductible interest expenses (701 thousand Euros).

Calculation of taxable IRAP

(in Euros)	Amount	Taxation
Difference between value and cost of production	(6,681,611)	
Temporary differences, net	16,610,224	
Taxable IRAP	**9,928,613**	
Total IRAP		**425,000**

- Temporary differences, net refer to:
- Non deductible differences amounting to 22,477 thousand Euros mainly due to personnel expenses;
- Deductible differences amounting to 1,950 thousand Euros due to income components not relevant for tax purposes;
- Deductions amounting to 3,917 thousand Euros mainly related to tax wedge and extra deductions

NOTE 15 – Earnings per share

Basic earnings per share

Basic earnings per share as at 31 December 2013 was calculated with reference to the net profit which amounted to 14,806,929 Euros (16,226,110 Euros at 31 December 2012) divided by the weighted average number of shares outstanding as at 31 December 2013 which amounted to 9,092,021 (8,987,175 at 31 December 2012).

(in Euros)	2013	2012
Net profit for the year	14,806,929	16,226,110
Weighted average number of shares	9,092,021	8,987,175
Basic earnings per share	1.63	1.81

Diluted earnings per share

Diluted earnings per share as at 31 December 2013 were calculated with reference to the net profit which amounted to 14,806,929 Euros divided by the weighted average number of shares outstanding as at 31 December 2013, considering the future diluting effect which could derive from the hypothetical exercising of financial instruments potentially convertible in shares (*stock options*).

(in Euros)	2013	2012
Net profit for the year	14,806,929	16,226,110
Weighted average number of shares	9,092,021	8,987,175
Diluting effect	45,000	145,000
Weighted number of diluted shares	9,137,021	9,132,175
Diluted earnings per share	1.62	1.78

NOTE 16 – Tangible assets

Tangible assets as at 31 December 2013 amounted to 446,674 Euros and are detailed as follows:

(in Euros)	31/12/2013	31/12/2012	Change
Plant and machinery	128,375	40,487	87,888
Hardware	66,985	56,507	10,478
Other	251,314	103,981	147,333
Total	**446,674**	**200,975**	**245,699**

The item Other mainly includes office equipment, furniture, and costs for improvements to leased assets.
Change in Tangible assets during 2013 is summarized below:

(in Euros)	Plant and machinery	Hardware	Other	Total
Historical cost	1,202,954	1,317,090	1,677,973	4,198,017
Accumulated depreciation	(1,162,467)	(1,260,583)	(1,573,992)	(3,997,042)
31/12/2012	**40,487**	**56,507**	**103,981**	**200,975**
Historical cost				
Purchases	109,597	69,975	275,519	455,091
Disposals	(705)	(9,940)	(41,865)	(52,510)
Accumulated depreciation				
Depreciation	(21,145)	(47,868)	(85,658)	(154,671)
Disposals	141	2,260	-	2,401
Other	-	(3,949)	(663)	(4,612)
Historical cost	1,311,846	1,377,125	1,911,627	4,600,598
Accumulated depreciation	(1,183,471)	(1,310,140)	(1,660,313)	(4,153,924)
31/12/2013	**128,375**	**66,985**	**251,314**	**446,674**

In 2013 the Company made investments amounting to 455,091 Euros, which mainly refer to improvements to third party assets, to office furniture and plants for the new office located in Via del Giorgione 59 in Rome.

NOTE 17 - Goodwill

Goodwill as at 31 December 2013 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000.
Goodwill recognized is deemed adequately supported in terms of expected financial results and related cash flows.

NOTE 18 – Other intangible assets

Intangible assets as at 31 December 2013 amounted to 1,053,650 Euros (1,262,493 Euros at 31 December 2012) and are detailed as follows:

(in Euros)	Original cost	Cumulative depreciation and amortization	Net book value as at 31/12/2013
Software	4,455,824	(3,938,238)	517,586
Trademark	536,064	-	536,064
Total	**4,991,888**	**(3,938,238)**	**1,053,650**

Change in intangible assets in 2013 is summarised in the table below:

(in Euros)	Net book value as at 31/12/2012	Increase	Depreciation	Amortization	Net book value as at 31/12/2013
Software	726,429	387,901	(53,471)	(543,273)	517,586
Trademark	536,064	-	-	-	536,064
Total	**1,262,493**	**387,901**	**(53,471)**	**(543,273)**	**1,053,650**

The item Software is related mainly to software licenses purchased and used internally by the company.
The item Trademarks expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortisation, and the expected future cash flows are deemed adequate.

NOTE 19 – Equity investments

The item Equity investments at 31 December 2013 amounted to 130,196,800 Euros, with an increase of 4,929,384 Euros compared to 31 December 2012.

(in Euros)	Balance at 31/12/2012	Acquisitions and subscriptions	Disposals.	Write-downs	Other	Balance at 31/12/2013	Interest
@logistics Reply S.r.l.	1,049,167					1,049,167	100.00%
Aktive Reply S.r.l.	512,696					512,696	100.00%
Arlanis Reply AG	4,030,000			(1,595,000)		2,435,000	100.00%
Arlanis Reply GmbH	25,000					25,000	100.00%
Arlanis Reply S.r.l.	588,000					588,000	100.00%
Atlas Reply S.r.l.	356,575					356,575	100.00%
Avantage Ltd. (*)	16,611,484			(3,985,000)		12,626,484	51.00%
Bitmama S.r.l.	217,019					217,019	51.00%
Blue Reply S.r.l.	527,892					527,892	100.00%
Bridge Reply S.r.l.	6,000					6,000	60.00%
Business Reply S.r.l.	268,602					268,602	100.00%
Cluster Reply S.r.l.	2,610,032					2,610,032	100.00%
Concept Reply GMBH	25,000					25,000	100.00%
Consorzio Reply Public Sector	32,500					32,500	80.00%
Discovery Reply S.r.l.	1,311,669					1,311,669	100.00%
e*finance Consulting Reply S.r.l.	3,076,385					3,076,385	100.00%
Engage Reply S.r.l.		8,500				8,500	85.00%
Ekip Reply S.r.l.	30,000		70,000	(70,000)		30,000	100.00%
EOS Reply S.r.l.	155,369					155,369	80.71%
Forge Reply S.r.l.	470,000		930,000	(1,388,000)		12,000	100.00%
Hermes Reply Polska zoo	10,217					10,217	100.00%
Hermes Reply S.r.l.	199,500					199,500	100.00%
Inessence Reply GmbH		17,500				17,500	75.00%
IrisCube Reply S.p.A.	6,724,952					6,724,952	100.00%
Juice Reply S.r.l	10,000		130,000			140,000	100.00%
Lem Reply S.r.l.	400,012		60,000	(60,000)		400,012	100.00%
Live Reply GmbH	27,500					27,500	100.00%
Open Reply S.r.l.(*)	1,417,750					1,417,750	92.50%
Pay Reply S.r.l	10,000					10,000	100.00%
Portaltech Reply S.r.l.	8,500		96,000			104,500	85.00%
Portaltech Reply GmbH		17,000				17,000	68.00%
Power Reply S.r.l.	2,500,850					2,500,850	100.00%
Reply Consulting S.r.l.	3,518,434					3,518,434	100.00%
Reply Deutschland AG	38,059,385				(38,059,385)	-	0.00%
Reply GmbH & CO. KG					41,302,722	41,302,722	100.00%
Reply do Brasil Sistemas de Informatica Ltda	17,542	189,274				206,816	98.50%
Reply Inc	40,596					40,596	100.00%
Reply Ltd	11,657,767					11,657,767	100.00%
Reply Services S.r.l.	10,000		360,000	(360,000)		10,000	100.00%
Ringmaster S.r.l.	5,000					5,000	50.00%
Riverland Reply GmbH	8,269,989	2,000,000				10,269,989	100.00%
Santer Reply S.p.A.	11,386,966					11,386,966	100.00%
Security Reply S.r.l.	392,866					392,866	100.00%
Solidsoft Reply S.r.l.		8,500				8,500	85.00%
Square Reply S.r.l.	100,000		425,000	(425,000)		100,000	100.00%

(in Euros)	Balance at 31/12/2012	Acquisitions and subscriptions	Disposals.	Write-downs	Other	Balance at 31/12/2013	Interest
Storm Reply S.r.l.	188,000					188,000	80.00%
Syskoplan Reply S.r.l.	949,571					949,571	100.00%
Sytel Reply Roma S.r.l.	894,931					894,931	100.00%
Sytel Reply S.r.l.	4,991,829					4,991,829	100.00%
Target Reply S.r.l.	778,000					778,000	100.00%
Technology Reply S.r.l.	216,658					216,658	100.00%
Tender Reply S.r.l.	10,000				(10,000)	-	0.00%
Triplesense Reply GmbH		3,400,000			1,753,070	5,153,070	100.00%
Twice Reply S.r.l.	407,000	114,202				521,202	98.00%
Whitehall Reply S.r.l.	160,211					160,211	100.00%
Total	**125,267,416**	**5,754,976**	**2,071,000**	**(7,883,000)**	**4,986,407**	**130,196,800**	

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

Acquisitions and subscriptions

Engage Reply S.r.l.

In December 2013 Engage Reply Srl. was constituted, a company in which Reply S.p.A. holds 85% of the share capital. The company specialises in contextual information delivery consultancy.

InEssence Reply GmbH

In June 2013 InEssence Reply GmbH, a German company was constituted, company in which Reply S.p.A. holds 75% of the share capital. The company specialises in cloud computing services on SAP technology.

Portaltech Reply GmbH

In November 2013 Portaltech Reply GmbH, a German company was constituted, company in which Reply S.p.A. holds 68% of the share capital. The company specialises in consultancy services for multichannel e-commerce strategies and solutions.

Reply do Brasil Sistemas de Informatica Ltda

The increase of 189,274 Euros is related to the increase of the share capital that has been fully subscribed by Reply S.p.A.

Riverland Reply GmbH

In January 2013 the option to further acquire 24% of the company's share capital of was exercised.

Solidsoft Reply S.r.l.

In December 2013 Solidsoft Reply Srl. was constituted, a company in which Reply S.p.A. holds 85% of the share capital. The company is specialised in the consultancy and development of Microsoft cloud architectures and solutions.

Triplesense Reply GmbH

In July 2013 Reply S.p.A acquired 100% of Triplesense Reply GmbH's share capital. The company specialises in consultancy and the development of strategies and solutions for digital communication on mobile and social channels.

Twice Reply S.r.l.
The increase refers to the acquisition of a further 4% of the share capital.

Financial loan remission

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

Write-downs

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

Other

Reply Deutschland AG/Reply GmbH & CO. KG
During the financial year, the merger project for the incorporation of Reply Deutschland AG in Reply S.p.A. has been completed.
The operation was completed on 6 December 2013, date in which the merger deed for the incorporation of Reply Deutschland AG into Reply SA was registered in the Companies Register of Turin. (effective legal date of the operation). In compliance with the merger project, legal effectiveness elapsed from the same date of 6 December 2013, whilst accounting and fiscal effectiveness were retro-dated to 1 April 2013.
The amounts are referred to the accounting entries posted in Reply S.p.A.'s financial statements.

Triplesense Reply GmbH
The amount reflects the recognition of the estimated variable compensation to be paid in three years, subordinated to achieving pre-defined economic parameters, for the acquisition of 100% of the share capital.

Tender Reply S.r.l.
The change reflects the liquidation of the company following the ceasing of the assets and liabilities.

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The list of equity investments in accordance with Consob communication no. 6064293 of 28 July 2006 is included in the attachments.

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

NOTE 20 – Non current financial assets

Detail is as follows:

(in Euros)	**2013**	**2012**	**Change**
Guarantee deposits	356,566	357,147	(581)
Loans to non consolidated companies	35,894,456	13,733,534	22,160,922
Total	**36,251,023**	**14,090,681**	**22,160,342**

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

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

Company	**Amount**
Open Reply S.r.l.	250,000
InEssence Reply	350,000
Hermes Reply Polska Sp Zoo	524,429
Reply Ltd	28,707,375
Reply do Brazil Sist. De Inf Ltda	1,724,156
Avantage Ltd	904,686
Arlanis Reply GmbH	700,000
Arlanis Reply AG	300,000
Live Reply GmbH	600,000
Concept Reply GmbH	100,000
Reply Inc.	398,811
Storm Reply S.r.l	120,000
Mind Services Informàtica LTDA	1,215,000
Total	**35,894,456**

NOTE 21 – Deferred tax assets

This item amounted to 1,669,848 Euros at 31 December 2013 (1,678,711 Euros at 31 December 2012), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductibility items.

(in Euros)	
Temporary deductible differences	**Taxation**
Total deferred tax assets at 31/12/2012	**1,678,711**
- accrued	2,320,679
- utilization	(2,329,543)
Total deferred tax assets at 31/12/2013	**1,669,848**
Of which:	
- Directors fees and employee bonuses accrued but not paid at year end	895,746
- unrealised foreign exchange losses	198,811
- depreciation and amortization deductible in future years	37,146
- other residual (promotion and entertainment expenses, etc.)	538,145
Total	**1,669,848**

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

NOTE 22 – Trade receivables

Trade receivables at 31 December 2013 amounted to 196,904,149 Euros and are all collectible within 12 months. Detail is as follows:

(in Euros)	**31/12/2013**	**31/12/2012**	**Change**
Third party trade receivables	145,219,320	131,758,159	13,461,162
Credit notes to be issued	(85,870)	(103,943)	18,073
Allowance for doubtful accounts	(428,375)	(511,349)	82,974
Third party trade receivables	**144,705,076**	**131,142,867**	**13,562,209**
Receivables from subsidiaries	52,193,547	44,416,899	7,776,648
Receivables from Parent Company	5,526	268,588	(263,062)
Trade receivables from subsidiaries and Parent Company	**52,199,073**	**44,685,487**	**7,513,586**
Total trade receivables	**196,904,149**	**175,828,354**	**21,075,795**

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third Party Receivables which increased by 13,562,209 Euros.
Receivables from subsidiaries are related to services that the Parent Company Reply S.p.A. carries out in favour of the subsidiary companies at normal market conditions.

Trade receivables are all due within 12 months and do not include significant overdue balances.
In 2013 the provision for doubtful accounts was written off by 82,974 Euros following a specific risk analysis of all the trade receivables.

Assignment of receivables

The Company assigns part of its trade receivables through factoring operations.
The assignments of receivables can be with or without recourse; Some assignments without recourse can include deferred payment clauses (for example, payment by the factor of a minor part of the purchase price is subordinated on the collection of the total amount of the receivables), require a deductible from the assignor, or require maintaining significant exposure to the cash flow trend deriving from the assigned receivables. This type of operation does not comply with the requirements of IAS 39 for the elimination of the assets from the Financial Statements, since the risks and benefits related to their collection have not been substantially transferred.
Consequently, all receivables assigned through factoring operations that do not satisfy the requirements for elimination provided by IAS 39 continue to be recognized in the Company's Financial Statements, even though they have been legally assigned and a financial liability for the same amount is recognized in the consolidated Financial Statements as Liabilities for advance payments on assignments of receivables. Gains and losses related to the assignment of these assets are only recognized when the assets are derecognized from the Company's financial-economic position.
As at 31 December 2013 the assignment of receivables through factoring operations with recourse amounted to 5,439 thousand Euros.
The book value of the assets assigned without recourse as at 31 December 2013 amounted to 12,660 thousand Euros, with an increase of available liquidity of 9,386 thousand Euros.
The carrying amount of *Trade receivables* in line with its *fair value*.

NOTE 23 – Other receivables and current assets

Detail is as follows:

(in Euros)	**31/12/2013**	**31/12/2012**	**Change**
Tax receivables	5,041,342	4,429,498	611,844
Other receivables from subsidiary companies	17,596,577	12,716,000	4,880,577
Other receivables	250,886	2,998,059	(2,747,173)
Accrued income and prepaid expenses	6,070,065	3,914,113	2,155,952
Total	**28,958,870**	**24,057,670**	**4,901,201**

The item Tax receivables includes VAT receivables net (3,883,288 Euros), withholding tax and also includes receivables from German tax authorities following the merger of Reply A.G. (659,213 Euros) and IRAP tax prepayments (412,320 Euros).
Other receivables from subsidiary companies refer to IRES receivables which are calculated on taxable income, and transferred by the Italian subsidiaries under national fiscal consolidation.
Accrued income and prepaid expenses refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.
The carrying value of Other receivables and current assets is deemed to be in line with its *fair value.*

NOTE 24 – Current financial assets

This item amounted to 43,543,322 Euros (51,157,655 Euros at 31 December 2012) and refers to:

- The total of interest yielding cash pooling accounts of subsidiaries included in the centralised pooling system of the Parent Company Reply S.p.A for 42,873,980 Euros; the interest yield on these accounts is in line with current market conditions;
- Receivables from factoring companies for 669,342 Euros, referring to credit for the sale of invoices without recourse net of advances received.

NOTE 25 – Cash and cash equivalents

This item amounted to 28,321,938 Euros, with an increase of 580,209 Euros compared to 31 December 2012, and is referred to cash at banks and on hand at year-end.

NOTE 26 – Shareholders' equity

Share capital

As at 31 December 2013 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,840,086 Euros and is made up of no. 9,307,857 ordinary shares having a nominal value of euro 0.52 each.
The increase during the period refers to the exercise of stock options, in the amount of 85,000 option rights for a total value of 1,787,045 Euros, of which 44,200 Euros is by way of increase in share capital and 1,742,845 Euros by way of share premium.

Treasury shares

The value of the Treasury shares, amounting to 9,127 Euros, refers to the shares of Reply S.p.A. that at 31 December 2013 were equal to no. 597. During 2013 the company used no. 235,216 treasury shares for the merger operation assigned in share swap with the shareholders of Reply Deutschland AG.

Capital reserve

At 31 December 2013 the capital reserve, amounted to 58,246,746 Euros, and included the following:

- Share premium reserve amounting to 22,365,837 Euros.
- Treasury share reserve amounting to 9,127 Euros, relating to the shares of Reply S.p.A which at 31 December 2013 were equal to no. 597.
- Reserve for the purchase of treasury shares amounting to 29,990,873 Euros that was constituted through withdrawal from the Reserve for treasury shares on hand, following the resolution made by the General Shareholders' meeting of Reply S.p.A. on 27 April 2012 which re-authorised, pursuant to the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
  - Share swap surplus reserve amounting to 3,445,484 Euros
  - Surplus annulment reserve amounting to 2,902,479 Euros

Earning reserves

Earning reserves amounted to 82,527,838 Euros and were comprised as follows:

- The Legal reserve amounting to 960,737 Euros (960,737 Euros at 31 December 2012);
- Extraordinary reserve amounting to 63,937,470 Euros (52,844,085 Euros at 31 December 2012);
- Retained earnings amounting to 2,882,701 Euros (2,898,365 Euros at 31 December 2012);
- Net result totaling 14,806,929 Euros (16,226,110 Euros at 31 December 2012).

Other comprehensive income

Other comprehensive income can be analysed as follows:

(in Euros)	31/12/2013	31/12/2012
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Actuarial gains/(losses) from employee benefit plans	25,988	(47,878)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**25,988**	**(47,878)**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(50,362)	(73,224)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	**(50,362)**	**(73,224)**
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B) = (B1) +(B2)	**(24,374)**	**(121,102)**

Share based payment plans

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

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after 7 November 2002 and that have not yet vested as at 1 January 2005 and are related to the *stock option* plans of 2004 and 2006. No costs were incurred for Reply S.p.A. share-based payments in 2013.
The Extraordinary Shareholders' meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of

stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code. The Board of Directors of Reply S.p.A. in charge of the stock option plan, has assigned stock options to employees and Directors of the Group companies.

At 31 December 2013 the number of stock options were 45,000 and can be summarised as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	12/05/2006	3	21.339	12/05/2009 – 12/05/2014	45,000

During 2013, 85,000 options were exercised in reference to the existing plans, 15,000 options ceased the right to be exercised and no stock options expired.

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

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

NOTE 27 – Payables to minority shareholders

Payables to Minority shareholders and for operations (earn-out) at 31 December 2013 amounted to 14,391,089 Euros (24,354,156 Euros at 31 December 2012) and are detailed as follows:

(in Euros)	31/12/2012	Reclassification	Other changes	Increases	Fair value adjustment	Payments	Exchange difference	31/12/2013
Avantage Reply Ltd.	11,899,015				(720,209)		(245,584)	10,933,221
Reply Deutschland AG	7,280,088		(7,280,088)					-
Riverland Reply GmbH	2,496,296	(2,496,296)						-
Other Italy	648,758							648,758
Total payables to minority shareholders	**22,324,156**	**(2,496,296)**	**(7,280,088)**	**-**	**(720,209)**	**-**	**(245,584)**	**11,581,979**
Arlanis AG	2,030,000				(1,554,000)	(100,000)		376,000
Riverland Reply GmbH		2,496,296			950,000	(2,496,296)		950,000
Triplesense Reply GmbH				1,752,070		(268,960)		1,483,110
Total payables for Earn out	**2,030,000**	**2,496,296**	**-**	**1,752,070**	**(604,000)**	**(2,865,256)**	**-**	**2,809,110**
Total payables to minority shareholders and earn out	**24,354,156**	**-**	**(7,280,088)**	**1,752,070**	**(1,324,209)**	**(2,865,256)**	**(245,584)**	**14,391,089**

Payables to minority shareholders of avantage Ltd, amounting to 10,933 thousand Euros refers to the amount to be paid in the first quarter 2014, as an additional consideration, for the acquisition of the remaining 49% of the company's share capital as well as payment of the second instalment of the initial acquisition. The change is due to the result of the adjustment of the liability to the amount to be paid.

Following the merger incorporation of Reply Deutschland AG to form part of Reply S.p.A., the payable to the minority shareholders, amounting to 7,280,088 Euros was cancelled based on the share swap of Reply S.p.A treasury shares.
Payables to Riverland Reply GmbH minority shareholders, amounting to 950 thousand Euros, refers to the deferred amount to be paid for the acquisition of 25% of the company's share capital which occurred in January 2013.
Payables Other Italy for 648,758 Euros is referred to liabilities to some minority shareholders in relation to options held and that will expire in the future years.
Payables for the acquisition of Arlanis AG, amounting to 376,000 Euros refers to the deferred amount to be paid by 31 December 2014 for the acquisition of 100% of the company's share capital which occurred in the financial year 2012.
Payables for the acquisition of Triplesense GmbH, amounting to 1,483,110 Euros, relates to earn out which reflects the best estimate of the amount to be paid in three years as additional consideration, subordinated to the achievement of determined economic parameters, for the acquisition of 100% of the share capital.

NOTE 28 – Financial liabilities

Detail is as follows:

	31/12/2013			31/12/2012		
(in Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	31,936,449	-	31,936,449	34,151,495	-	34,151,495
Bank loans	13,621,144	20,420,010	34,041,154	8,987,811	12,321,144	21,308,955
Liabilities to minority shareholders	26,145	67,203	93,348	-	-	-
Loan from subsidiaries	2,500,000	-	2,500,000	2,500,000	2,500,000	5,000,000
Transaction accounts	19,562,205	-	19,562,205	14,552,863	-	14,552,863
Other	308,535	(324,644)	(16,109)	175,322	(324,644)	(149,322)
Total financial liabilities	**67,954,479**	**20,162,569**	**88,117,048**	**60,367,491**	**14,496,500**	**74,863,991**

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

	31/12/2013			31/12/2012		
(in Euros)	**Due in 12 months**	**From 1 to 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Total**
Bank overdrafts	31,936,449	-	31,936,449	34,151,495	-	34,151,495
M&A loans	13,621,144	20,420,010	34,041,154	8,987,811	12,321,144	21,308,955
Loan from subsidiaries	2,500,000	-	2,500,000	2,500,000	2,500,000	5,000,000
Transaction accounts	19,562,205	-	19,562,205	14,552,863	-	14,552,863
Other	334,681	(257,441)	77,240	175,322	(324,644)	(149,322)
Total	**67,954,479**	**20,162,569**	**88,117,048**	**60,367,491**	**14,496,500**	**74,863,991**

M&A loans refers to credit lines to be used for acquisition operations carried directly by Reply S.p.A. or via companies controlled directly or indirectly by the same.

Following a summary of the contracts entered into for such a purpose:

- On 31 March 2009 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for a line of credit amounting to 50,000,000 Euros. The loan is reimbursed on a half-year basis since 30 June 2012 and expires on 31 December 2014. The total amount utilised was 22,963 thousand Euros. The debt outstanding at 31 December 2013 amounted to 7,654 thousand Euros of which short-term.
- On 15 September 2012 Reply S.p.A. signed a line of credit with Unicredit SpA for a total amount of 15,000,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2014 and expires 31 December 2016. A total of 13,900,000 Euros of this line of credit was used at 31 December 2013.
- On 25 September 2012 Reply S.p.A. signed a contract with Intesa Sanpaolo S.p.A. for 2,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 25 March 2013 and expiring 25 September 2015. The residual debt as at 31 December 2013 amounted to 1,667 thousand Euros.
- On 24 December 2012 Reply S.p.A signed a contract with Intesa Sanpaolo S.p.A for 1,500,000 Euros. The loan will be reimbursed on a half-year basis commencing 30 June 2013 and expiring 31 December 2013. The residual debt at 31 December 2013 amounted to 1,000 thousand Euros.
- On 13 November 2013 Reply S.p.A. signed a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 20,000,000 Euros to be used by 31 December 2015. The loan will be reimbursed on a half-year basis commencing 30 June 2016 and expiring 31 December 2018. A total of 1,813,429 Euros of this line of credit was used at 31 December 2013.
- On 25 November 2013 Reply S.p.A. signed a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros. The loan will be reimbursed on a half-year basis commencing 31 May 2016 and expiring 30 November 2018. A total of 8,038,840 Euros of this line of credit was used at 31 December 2013.

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

As contractually defined, such ratios are as follows:

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

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

The Loan from subsidiaries is related to an interest bearing loan from Reply GmbH & CO. KG the conditions and interest rate are in line with those of the market.

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

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

Net financial position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's "*Recommendations for the consistent implementation of the European's regulation on Prospectuses*" issued on 10 February 2005 the Net financial position at 31 December 2013 was as follows.

(in Euros)	31/12/2013	31/12/2012	Change
Cash and cash equivalents	28,321,938	27,741,728	580,209
Transaction accounts	42,873,980	50,324,134	(7,450,154)
Receivables from factoring companies	669,342	833,521	(164,179)
Current financial assets	**71,865,260**	**78,899,383**	**(7,034,123)**
Deposits	356,566	357,147	(581)
Financial receivables from subsidiaries	35,894,456	13,733,534	22,160,922
Non current financial assets	**36,251,023**	**14,090,681**	**22,160,342**
Total financial assets	**108,116,282**	**92,990,064**	**15,126,219**
Due to banks	(45,892,274)	(43,314,628)	(2,577,646)
Transaction accounts	(19,562,205)	(14,552,863)	(5,009,342)
Loan from subsidiaries	(2,500,000)	(2,500,000)	-
Current financial liabilities	**(67,954,479)**	**(60,367,491)**	**(7,586,988)**
Due to banks	(20,162,569)	(11,996,500)	(8,166,069)
Loan from subsidiaries	-	(2,500,000)	2,500,000
Non current financial liabilities	**(20,162,569)**	**(14,496,500)**	**(5,666,069)**
Total financial liabilities	**(88,117,048)**	**(74,863,991)**	**(13,253,057)**
NET FINANCIAL POSITION	**19,999,235**	**18,126,073**	**1,873,162**
Of which related parties	*56,706,231*	*44,504,805*	*12,201,427*

For further details with regards to the above table see Notes 20, 24 and 25 as well as Note 28.

NOTE 29 – Employee benefits

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

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

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

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2013: 2.50% frequency of turnover in 2013: 10%

Economic and financial assumptions

Annual discount rate	Constant average annual rate equal to 2.00%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2013 was 3.17%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, *Employment severance indemnities* at 31 December 2013 is summarised in the table below:

Balance at 31/12/2012	**454,594**
Actuarial gain/loss	(25,989)
Interest cost	12,108
Indemnities paid during the year	(35,131)
Balance at 31/12/2013	**405,582**

NOTE 30 – Deferred tax liabilities

Deferred tax liabilities at 31 December 2013 amounted to 469,153 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

(in Euros)	
Balance at 31/12/2012	**498,956**
- accruals	17,033
- utilization	(46,836)
Total at 31/12/2013	**469,153**
- On deductible items off the books	197,671
- Different goodwill measurements	195,569
- Gains on unrecognised differences	75,913
Total at 31/12/2013	**469,153**

NOTE 31 – Trade payables

Trade payables at 31 December 2013 amounted to 195,102,211 Euros with an increase of 13,201,668 Euros. Detail is as follows:

(in Euros)	31/12/2013	31/12/2012	Change
Due to suppliers	10,470,906	6,378,866	4,092,039
Due to subsidiary companies	149,067,953	148,145,758	922,195
Advance payments from customers	35,563,352	27,375,918	8,187,434
Total	**195,102,211**	**181,900,543**	**13,201,668**

Due to suppliers mainly refers to services from domestic suppliers (10,471 thousand Euros).
Due to subsidiary companies recorded a change of 922,195 Euros, and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. carries out commercial *fronting* activities for some of its major clients, whereas *delivery* is carried out by the operational companies.
Advance payments from customers includes advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.
The carrying amount of Trade payables is deemed to be in line with its *fair value.*

NOTE 32 – Other current liabilities

Detail is as follows:

(in Euros)	31/12/2013	31/12/2012	Change
Income tax payable	2,508,100	135,118	2,372,982
Withholding tax and other	1,618,336	580,800	1,037,536
Total due to tax authorities	**4,126,436**	**715,917**	**3,410,518**
INPS	755,414	751,836	3,577
Other	212,402	191,206	21,196
Total due to social securities	**967,816**	**943,043**	**24,773**
Employee accruals	1,182,968	1,055,902	127,066
Due to subsidiary companies	5,452,596	3,824,325	1,628,270
Other payables	3,845,312	3,360,467	484,845
Accrued expenses and deferred income	5,614,314	3,779,578	1,834,736
Total other payables	**16,095,191**	**12,020,273**	**4,074,918**
Other current liabilities	**21,189,442**	**13,679,233**	**7,510,209**

Due to tax authorities mainly refers to payables due for withholding tax on employees and free lancers' compensation.Due to social security authorities is related to both Company and employees contribution payables.
Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.
Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2013 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.
The carrying amount of the item Other current liabilities is deemed to be in line with its *fair value.*

NOTE 33 – Provisions

The item Provisions is related to an accrual amounting to 1,056,906 Euros and reflects the best estimate in relation to some ongoing disputes.

NOTE 34 – Transactions with related parties

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2013 Financial Statements related to such transactions are summarised below.
In relation to the incorporation of Reply Deutschland AG in Reply S.p.A., this transaction was not subjected to the formalities foreseen by the Procedures concerning transactions with related parties pursuant to Art. 4.3 as the transaction was carried out with a subsidiary company. Information related to the transaction has been disclosed in the various notes of the present financial statements.
Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions. Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiaries and associate companies are carried out at normal market conditions.

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

(thousand Euros)	With subsidiary and associate companies	With related parties	With subsidiary and associate companies	With related parties	Nature of transactions
Financial transactions	**31/12/2013**		**31/12/2012**		
Financial receivables	35,894	-	13,734	-	Financial loans
Miscellaneous financial charges for deposits	-	177	-	256	Guarantee deposits
Transaction accounts	23,312	-	35,771	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	69,790	6	57,133	269	Royalties, administration services, marketing and quality management, management services and office rental receivables under fiscal consolidation
Financial liabilities	2,500	-	5,000	-	Financial borrowings
Trade payables and other	154,521		151,970	105	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Other payables	-	3	-	2,610	Compensation paid to Directors, Key Management and Statutory Auditors
Economic transactions	**2013**		**2012**		
Revenues from royalties	13,276		11,731	-	Licensing of the “Reply” trademark consisting of a 3% fee on third party revenues
Revenues from services	21,822		20,403	138	Administration services, marketing and quality management and office rental
Revenues from management services	6,790		4,805	-	Strategic management services
Costs for professional services	249,391	76	225,650	102	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Services from Parent company and related parties	604	704	255	1,102	Services related to office rental and office of the secretary
Personnel	-	5,340	-	4,452	Emoluments to Directors and Key Management
Interest income on loans, net	1,792	-	1,945	-	Interest on financial loans: 3 monthEuribor with a spread of 3 percentage points

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, in the annexed tables herein, the Statement of income and the Statement of financial position reporting transactions with related parties separately, together with the percentage incidence with respect to each account caption has been provided. Pursuant to art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

NOTE 35 – Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

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

Credit risk

The maximum credit risk to which the company is theoretically exposed at 31 December 2013 is represented by the carrying amounts stated for financial assets in the balance sheet.
Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the fair value of any guarantees received.
General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience.
Refer to the note on trade receivables for a quantative analysis.

Liquidity risk

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

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

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

Currency risk

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

Interest rate risk

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

Sensitivity analysis

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of *fair value*) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavourable and instantaneous change of 50 *basis points* in short-term interest rates at 31 December 2013 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 260 thousand Euros.
This analysis is based on the assumption that there is a general and instantaneous change of 50 *basis points* in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

Fair value hierarchy levels

Evaluation techniques on three levels adopted for the measurement of fair value. Fair value hierarchy attributes maximum priority to prices quoted (not rectified) in active markets for identical assets and liabilities (Level 1 data) and the non observable minimum input priority (Level 3 data). In some cases, the data used to assess the fair value of assets or liabilities could be classified on three different levels of the fair value hierarchy. In such cases, the evaluation of fair value is wholly classified on the same level of the hierarchy in which input on the lowest level is classified, taking account its importance for the assessment.
The levels used in the hierarchy are:

- Level 1 inputs are prices quoted (not rectified) in markets active for identical assets and liabilities which the entity can access on the date of assessment;
- Level 2 inputs are variable and different from the prices quoted included in Level 1 observable directly or indirectly for assets or liabilities;
- Level 3 inputs are variable and not observable for assets or liabilities.

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2013, according to the fair value hierarchical assessment level .

(thousand Euros)	Note	Level 1	Level 2	Level 3
Financial securities		-	-	-
Other assets		-	-	-
Total Assets		**-**	**-**	**-**
Derivative financial liabilities (IRS)	28	-	124	-
Liabilities to minority shareholders and earn out	27	-	-	14,391
Total Liabilities		**-**	**124**	**14,391**

To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes). The lastly mentioned, in the calculation of their estimates made use of data observed on the market directly (interest rates) or indirectly (interest rate interpolation curves observed directly): consequently for the purposes of IFRS7 the fair value used by the Group for the exploitation of hedging derivatives contracts in existence at the end of the financial year re-enters under the hierarchy profile in level 2.
The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
As at 31 December 2013, there have not been any transfers within the hierarchy levels.

NOTE 36 – Significant non-recurring transactions

Pursuant to Consob communication no. 6064293 of 28 July 2006, there was one significant non-recurring transaction during 2013. The significant non recurring transaction was the merger project for the incorporation of Reply Deutschland AG in Reply S.p.A., in which the economic-financial effects have been fully explained in the present notes to the Annual Report.

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

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

NOTE 38 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

With reference to changes in the year 2013, it is reported that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euro). Currently it is not possible to foresee the outcome of the said judgment but Management believes that any future economic-financial effects on the Company are not significant.
- with regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122 of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.
  Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure. On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
  In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.
  At present, some minority shareholders have commenced the aforementioned procedures.
  With specific reference to the request to obtain the corresponding amount in cash, the time limit for exerting such an authority shall expire starting from the shortest time limit between the day following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the

parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

Contingent liabilities

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

NOTE 39 – Emoluments to Directors, Statutory Auditors and Key Management

The fees of the Directors and Statutory Auditors of Reply S.p.A. for carrying out their respective functions, including those in other consolidated companies, are fully explained in the Annual Report on Remuneration annexed herein.

Stock Option granted to members of the Board of Directors and Key Managment

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

NOTE 40 – Events subsequent to 31 December 2013

No significant events have occurred subsequent to 31 December 2013.

Annexed Tables

REPLY S.p.A. Statement of income
pursuant to Consob Resolution no. 15519 of 27 July 2006

(in Euros)	2013	Of which related parties	%	2012	Of which related parties	%
Revenues	274,691,960	37,626,105	13.7%	250,329,322	33,373,807	13.3%
Other revenues	8,825,156	4,176,731	47.3%	7,454,118	3,702,773	49.7%
Purchases	(3,636,912)	(3,069,877)	84.4%	(4,278,827)	(3,717,564)	86.9%
Personnel	(16,080,630)	(5,340,000)	33.2%	(15,832,927)	(4,552,000)	28.8%
Services and other costs	(270,032,805)	(250,774,886)	92.9%	(242,675,111)	(223,390,935)	92.1%
Amortization, depreciation and write-downs	(697,944)	-	-	(799,716)	-	-
Other unusual operating income/(expenses)	249,563	-	-	(550,000)	-	-
Operating income	**(6,681,611)**	**-**	**-**	**(6,353,141)**	**-**	**-**
Profit/(loss) on equity investments	20,421,456	-	-	21,016,288	-	-
Financial income/(expenses)	442,727	1,791,820	404.7%	474,492	1,944,920	409.9%
Income before taxes	**14,182,571**	**-**	**-**	**15,137,639**	**-**	**-**
Income tax	624,358	-	-	1,088,471	-	-
Result	**14,806,929**	**-**	**-**	**16,226,110**	**-**	**-**
Earnings per share	*1.63*			*1.81*		
Diluted Earnings per share	*1.62*			*1.78*		

REPLY S.p.A. Statement of financial position
pursuant to Consob Resolution no. 15519 of 27 July 2006

(in Euros)	31/12/2013	Of which related parties	%	31/12/2012	Of which related parties	%
Tangible assets	446,674	-		200,975	-	
Goodwill	86,765	-		86,765	-	
Other intangible assets	1,053,650	-		1,262,493	-	
Equity investments	130,196,800	-		125,267,416	-	
Other financial assets	36,251,023	36,071,456	99.5%	14,090,681	13,990,034	99.3%
Deferred tax assets	1,669,848	-		1,678,711	-	
Non current assets	**169,704,758**	**-**		**142,587,041**	**-**	
Trade receivables	196,904,149	52,199,547	26.5%	175,828,354	44,865,487	25.5%
Other receivables and current assets	28,958,870	17,596,577	60.8%	24,057,670	12,716,000	52.9%
Other financial assets	43,543,322	42,873,980	98.5%	51,157,655	50,324,134	98.4%
Cash and cash equivalents	28,321,938	-		27,741,728	-	
Current assets	**297,728,279**	**-**		**278,785,406**	**-**	
TOTAL ASSETS	**467,433,037**	**-**		**421,372,447**	**-**	
Share capital	4,840,086	-		4,795,886	-	
Other reserves	125,856,496	-		103,098,978	-	
Result	14,806,929	-		16,226,110	-	
SHAREHOLDERS' EQUITY	**145,503,511**	**-**		**124,120,973**	**-**	
Payables to minority shareholders	14,391,089	-		24,354,156	-	
Financial liabilities	20,162,569	-		14,496,500	2,500,000	17.2%
Employee benefits	405,582	-		454,594	-	
Deferred tax liabilities	469,153	-		498,956	-	
Provisions	1,745,000	-		1,500,000	-	
Non current liabilities	**37,173,393**	**-**		**41,304,207**	**-**	
Financial liabilities	67,954,479	22,062,205	32.5%	60,367,491	17,052,863	28.2%
Trade payables	195,102,211	149,067,953	76.4%	181,900,543	175,626,888	96.6%
Other current liabilities	21,189,442	5,455,311	25.7%	13,679,233	3,824,325	28.0%
Provisions	510,000	-		-	-	
Current liabilities	**284,756,133**	**-**		**255,947,267**	**-**	
TOTAL LIABILITIES	**321,929,526**	**-**		**297,251,474**	**-**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**467,433,037**	**-**		**421,372,447**	**-**	

REPLY S.p.A. Equity investments

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

Company	Registered office	Currency	Share capital	Total shareholders' equity	Result 2013	Interest	Carrying value at 31/12/2013
@logistics Reply S.r.l.	Turin	EUR	78,000	2,146,177	1,573,111	100.00%	1,049,167
Arlanis Reply S.r.l.	Turin	EUR	10,000	261,343	124,110	100.00%	588,000
Arlanis Reply AG	Potsdam - Germany	EUR	70,000	159,584	(267,199)	100.00%	2,435,000
Arlanis Reply GmbH	Munich	EUR	25,000	(484,949)	(236,569)	100.00%	25,000
Aktive Reply S.r.l.	Turin	EUR	10,000	2,010,755	1,256,829	100.00%	512,696
Atlas Reply S.r.l.	Turin	EUR	10,000	1,686,888	974,614	100.00%	356,575
Avantage Reply Ltd.	London	GBP	5,085	5,404,571	1,707,047	51.00%	12,626,484
Bitmama S.r.l.	Turin	EUR	29,407	(47,195)	(103,187)	51.00%	217,019
Blue Reply S.r.l.	Turin	EUR	10,000	5,222,947	4,084,217	100.00%	527,892
Bridge Reply S.r.l.	Turin	EUR	10,000	127,906	110,291	60.00%	6,000
Business Reply S.r.l.	Turin	EUR	78,000	963,319	379,926	100.00%	268,602
Cluster Reply S.r.l.	Turin	EUR	139,116	6,877,237	5,804,198	100.00%	2,610,032
Concept Reply GmbH	Munich	EUR	25,000	87,219	48,674	100.00%	25,000
Consorzio Reply Public Sector	Turin	EUR	73,500	6,396	1,076	44.20%	32,500
Discovery Reply S.r.l.	Turin	EUR	10,000	535,378	519,133	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	EUR	34,000	1,585,021	893,448	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	EUR	10,400	11,709	(69,689)	100.00%	30,000
Engage Reply S.r.l. (*)	Turin	EUR	10,000	-	-	85.00%	8,500
Eos Reply S.r.l.	Turin	EUR	14,000	647,858	246,336	80.71%	155,369
Forge Reply S.r.l.	Turin	EUR	10,000	11,896	(928,842)	100.00%	12,000
Hermes Reply Polska Zo.o	Katowice- Poland	ZTY	40,000	1,208,835	(286,335)	100.00%	10,217
Hermes Reply S.r.l.	Turin	EUR	10,000	1,866,124	1,128,525	100.00%	199,500
Inessence Reply GmbH	Dusseldorf	EUR	25,000	(202,080)	(227,080)	70.00%	17,500
IrisCube Reply S.p.A,	Turin	EUR	651,735	2,315,506	1,410,129	100.00%	6,724,952
Juice Reply S.r.l.	Turin	EUR	10,000	10,334	(129,666)	100.00%	140,000
Lem Reply S.r.l.	Turin	EUR	47,370	47,915	(113,287)	100.00%	400,012
Live Reply GmbH	Dusseldorf	EUR	25,000	1,674,699	562,747	100.00%	27,500
Open Reply S.r.l.	Turin	EUR	10,000	3,132,871	1,768,169	92.50%	1,417,750
Pay Reply S.r.l.	Turin	EUR	10,000	71,764	61,764	100.00%	10,000
Portaltech Reply GmbH	Gütersloh	EUR	25,000	(19,403)	(44,403)	68.00%	17,000
Portaltech Reply S.r.l.	Turin	EUR	10,000	10,800	(115,422)	85.00%	104,500
Power Reply S.r.l.	Turin	EUR	10,000	5,014,754	2,501,717	100.00%	2,500,850
Reply Consulting S.r.l.	Turin	EUR	10,000	1,318,997	497,285	100.00%	3,518,434
Reply GmbH & CO. KG.	Gütersloh	EUR	25,200	34,330,190	4,029,825	100.00%	41,302,721

Company	Registered office	Currency	Share capital	Total shareholders' equity	Result 2013	Interest	Carrying value at 31/12/2013
Reply Services S.r.l.	Turin	EUR	10,000	11,654	(359,022)	100.00%	10,000
Reply Inc.	Michigan-USA	US	50,000	19,322	78,968	100.00%	40,596
Reply Ltd.	London	GBP	54,175	(1,610,181)	1,975,058	100.00%	11,656,556
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte-Brazil	BRL	650,000	1,172,856	(135,190)	98.50%	206,816
Ringmaster S.r.l.	Turin	EUR	10,000	1,355,635	1,318,537	50.00%	5,000
Riverland Reply GmbH	Munich	EUR	25,000	5,164,160	977,280	100.00%	10,269,989
Santer Reply S.p.A.	Milan	EUR	2,209,500	13,835,934	3,244,449	100.00%	11,386,966
Security Reply S.r.l.	Turin	EUR	50,000	130,147	79,630	100.00%	392,866
Square Reply S.r.l.	Turin	EUR	10,000	12,734	(425,290)	100.00%	100,000
Solidsoft Reply S.r.l. (*)	Turin	EUR	10,000	-	-	85.00%	8,500
Storm Reply S.r.l.	Turin	EUR	10,000	283,536	254,159	80.00%	188,000
Syskoplan Reply S.r.l.	Turin	EUR	32,942	924,418	817,789	100.00%	949,571
Sytel Reply S.r.l.	Turin	EUR	115,046	6,331,493	4,000,184	100.00%	4,991,829
Sytel Reply Roma S.r.l.	Turin	EUR	10,000	6,399,186	4,606,268	100.00%	894,931
Target Reply S.r.l.	Turin	EUR	10,000	1,870,033	1,054,177	100.00%	778,000
Technology Reply S.r.l.	Turin	EUR	79,743	3,955,949	3,073,257	100.00%	216,658
Triplesense Reply GmbH	Frankfurt	EUR	51,000	1,086,396	(38,910)	100.00%	5,153,070
Twice Reply S.r.l.	Turin	EUR	10,000	3,170,559	615,424	98.00%	521,202
Whitehall Reply S.r.l.	Turin	EUR	21,224	1,154,083	1,049,514	100.00%	160,211

(*) company that closes its fiscal year ending at 31 December 2014

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

(in Euros) Nature/description	Amount	Possibility of utilization	Available amount	Summary of the amounts used in the prior three fiscal years: For coverage of losses	Other
Capital	**4,840,086**				
Capital reserve					
Reserve for treasury shares	9,127				
Share premium reserve	22,365,837	A, B, C	22,365,837		
Reserve for purchase of treasury shares	29,990,873	A, B, C	29,990,873		
Income reserves					
Legal reserve	960,737	B			
Extraordinary reserve	63,937,470	A, B, C	63,937,470		
Surplus merger reserve	6,347,963	A, B, C	6,347,963		
Retained earnings	674,74	A, B, C	674,74		
Total			**123,316,883**		
Non available amount			7,28		
Residual available amount			**123,309,603**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,327,634				
Reserve for cash flow hedge	(123,586)				
Treasury shares	(9,127)				
IAS reserve	(158,118)				
Accounting of expenses according to IAS 32	(770,448)				
	1,569,748				

Legend

A: for share capital increase

B: for coverage of losses

C: distribution to shareholders

Disclosures pursuant to Article 149-duodecies by Consob

The following table, prepared in accordance with Art. 149-*duodecies* of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2013 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

(in Euros)	**Service provider**	**2013 fees**
Audit	Reconta Ernst & Young S.p.A.	27,785
Audit related services	Reconta Ernst & Young S.p.A. (1)	1,000
Other services	Reconta Ernst & Young S.p.A. (2)	10,000
Total		**38,785**

(1) Attestation of tax forms (tax return, IRAP and Form 770)
(2) Limited voluntary review of the financial situation as at 31 March 2013 of Reply S.p.A.

Attestation of the Financial Statements in accordance with Article 154-bis of Legislative Decree 58/98

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

- suitability with respect to the Company's structure and
- the effective application

of the administration and accounting procedures applied in the preparation of the financial statements for the year ended 2013.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2013 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Financial Statement

- have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, dated 19 July 2002 as well as the measures issued to implement Article 9 of Legislative Decree no. 38/2005;
- correspond to the amounts shown in the Company's accounts, books and records; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

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

Turin, 14 March 2014

Chairman and Chief Executive Officer
Mario Rizzante

Director responsible
of drawing up the accounting documents
Giuseppe Veneziano

Report of the Board of Statutory Auditors To the Shareholders' meeting pursuant to Article 153 of Legislative Decree 58/1998 on the Financial Statements ended as at 31 December 2013

Dear Shareholders,

pursuant to Article 153 of Legislative Decree No. 58/1998, and in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activities performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.

During the course of the financial year ended 31 December 2013, we complied with the duties set forth in Article 149 of Legislative Decree No. 58/1998 and we are providing the following information with reference to the recommendations contained in the Consob communications issued up to the present day concerning the Regulations for Issuers:

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

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2013 or subsequent to the end of the financial year, among which we note:

- The acquisition in January 2013 of the minority shareholding of 24.9% of the share capital of Riverland Reply GmbH which is presently entirely held by Reply S.p.A.;
- The acquisition in January 2013 of the minority shareholding of 4% of the share capital of Twice Reply S.r.l. in which Reply S.p.A. holds 98%;
- In the month of June 2013, an agreement between Reply Services S.r.l. and Alika S.r.l., effective as of July 1, 2013, was signed for the transfer of the business branch related to the management of the office services for the Reply Group companies that provides equipped third party office spaces and related services in the Turin and Milan offices respectively in Via Cardinal Massaia, 71 in Turin Via Castellanza 11 and Via Koch 1 in Milan.
- the acquisition in July 2013 of the 100% share capital of the German company Triplesense GmbH;
- the acquisition in November 2013, by the Brazilian subsidiary Reply do Brasil Sistemas de Informatica Ltda, of 76% of the share capital of the Brazilian company Mind Services Informatica Ltda;
- the acquisition in December 2013, by the English subsidiary Reply Ltd, of 100% of the share capital of the English company Solidsoft Ltd.;
- the conclusion of the corporate reorganization project in December 2013 with the merger of Reply Deutschland AG in Reply S.p.A., project which began in 2012.
- the operation was completed on 6 December 2013, date in which the merger deed for the incorporation of Reply Deutschland AG into Reply SA was registered in the Companies Register of Turin. (effective legal date of the operation). In compliance with the merger project, legal effectiveness elapsed from the same date of 6 December 2013, whilst accounting and fiscal effectiveness were retro-dated to 1 April 2013.
- The acquisition in March 2014 of 49% of the share capital of the English company Avantage Reply Ltd, in which Reply S.p.A. holds 100%.
- We can reasonably state that such operations occurred in compliance with law and the Company's by-laws.

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

- On the basis of meetings with the Directors and with representatives of the Independent Auditor, it did not appear that any atypical or unusual transactions occurred during the financial year, nor after it ended.
- With reference to intra-group transactions, we advise that:
- In 2012 the contract known as the "Domination Agreement", stipulated in 2010 by Reply S.p.A. with its subsidiary Reply Deutschland AG, was duly carried out.
- Moreover, the above mentioned contract is no longer effective as at 06/12/2013 and the corporate reorganization of the merger of Reply Deutschland AG in Reply S.p.A has been completed;
- Reply S.p.A. obtained professional services from Group companies related to revenues connected to contracts stipulated with major clients;
- Reply S.p.A. gave bank guarantees, payable on first request, to subsidiaries;
- Reply S.p.A. granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:
- Open Reply S.r.l., Tender Reply S.r.l. in liquidation (activities had already ceased by 31 December 2013) and Storm Reply S.r.l. – non-interest bearing loans;
- Reply Ltd., Hermes Reply Polska Sp Zoo, Avantage Reply Ltd., Reply do Brasil Sistemas de Informatica Ltda, Live Reply Gmbh, Arlanis Reply GmbH, Concept Reply GmbH, Arlanis AG, InEssence Reply Gmbh, Reply Inc. and Mind Services Informatica Ltda – interest bearing loans;
- Reply S.p.A. has an interest bearing loan with Reply & Co. KG (company that benefited from the hive down of Reply Deutschland AG);
- Reply S.p.A. provided subsidiaries with management, administrative, commercial and marketing services, the lease of premises as well as services to manage the corporate internet network, electronic mail and web;
- Reply S.p.A. centrally managed the Group's treasury by means of correspondence bank accounts held by the individual subsidiaries;
- Reply S.p.A. granted Group companies the use of the "REPLY" trademark that it owns.;
- Reply S.p.A. on July 1, 2013 acquired "office services" (general services and the availability of office space) from Reply Services S.r.l..
- Such situations also exist as at the date of this report.

Transactions with other related parties in 2013, which took place in accordance with market conditions and are related to:

- "office services" (general services and the availability of office space) provided by Alika S.r.l., Reply S.p.A.'s direct parent company, has ceased from 30 June 2013 as already mentioned.
- the corporate reorganization of Reply Deutschland AG in Reply S.p.A..

The above operations were subject to the review of the Committee for Transactions with Related Parties and expressed favorable opinion.

3. **Information provided in the Report on operations on atypical and/or unusual transactions, including intra-group transactions and those with related parties.**
The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2013 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2013 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.

4. **Comments and proposals on the notes and requests for information contained in the Report of the Independent Auditor.**
Reconta Ernst & Young S.p.A., the company entrusted with the audit of the Financial Statements and Consolidated Financial Statements as at 31 December 2013, issued its Report on today's date, in which it confirms that the Financial Statements as at 31 December 2013 of Reply S.p.A. conform to the International Financial Reporting Standards endorsed by the European Union, as well as to the measures issued in implementation of Article 9 of Legislative Decree 38/2005, and were therefore prepared with clarity and represent in a true and fair manner the economic and financial situation, economic result and cash flows of Reply S.p.A. for the financial year ended on such date, and further the Report on Operations and the information set forth in paragraph 1, sections (c)(d)(f)(l)(m) and (2)(b) of Article 123-bis of Legislative Decree 58/1998 presented in the Report on Corporate Governance and the Ownership Structure are consistent with the Financial Statements.

5. **Complaints pursuant to Article 2408 of the Italian Civil Code.**
On July 22, 2013 the Board of Statutory Auditors has become aware of a complaint made by a minority shareholder regarding an alleged irregularity in the distribution of the 2012 dividends, a resolution made on the April 23, 2013. The resolution was related to: Dividends to the shareholders', in the amount of 0.57 Euros per ordinary share- excluding treasury shares in which the dividend will be assigned to Extraordinary reserve - having the right and that are in circulation at the record date…'.
According to the shareholder, the wording of the resolution seems to have given rise to the distribution of 0.57 Euros also to the treasury shares
In this respect the Board of Statutory Auditors, after having carried out the necessary controls, confirms what was already referred during the Shareholders' meeting of April 23, 2013 and July 22, 2013 that is, that the above mentioned resolution complies with all the laws and regulations. More specifically the Board of Statutory Auditors acknowledging that the resolution fixed the dividend in the amount of 0.57 Euros for each ordinary share in circulation with the exclusion, therefore, of the treasury shares, ascertains that there has not been any violation of the laws or regulations.

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

7. The granting of any further appointments to the Independent Auditor and relative costs.

- During the course of 2013, in addition to the appointment to audit the Financial Statements as at 31 December 2013, Reconta Ernst & Young S.p.A. received the following appointments:
- The signing of Reply S.p.A.'s various tax forms (Modelli Unico, IRAP, 770). The consideration for such appointment was agreed upon as 1 thousand Euros;
- The signing of the various tax forms of Reply S.p.A.'s Italian subsidiaries (Modelli Unico, IRAP, 770) The consideration for such appointment was agreed upon as 9 thousand Euros.
- Limited voluntary audit of the financial situation of Reply S.p.A. as at 31 March 2013. The consideration for such appointment was agreed upon as 10 thousand Euros.

8. Any appointments of parties connected to the Independent Auditor by ongoing relationships, and the relative costs.

- Reconta Ernst & Young S.p.A. notified us that in 2013 professional appointments were granted to parties connected to Reconta Ernst & Young S.p.A. by ongoing relationships and/or by parties belonging to its network and in particular:
- Reply GmbH & Co. KG appointed Ernst & Young GmbH to conduct the voluntary audit of the financial situation of the first and third quarters of 2013. The consideration for such appointment was agreed upon as 16 thousand Euros;
- Reply Deutschland AG appointed Ernst & Young GmbH to conduct the voluntary audit of the financial situation of the first quarter of 2013. The consideration for such appointment was agreed upon as 30 thousand Euros;
- Macros GmbH and Xuccess GmbH, subsidiaries of Reply Deutschland AG, appointed Ernst & Young GmbH to conduct the voluntary audit of the financial situation as at 28 February 2013. The considerations for such appointment was agreed upon as 8 thousand Euros for each company;
- Arlanis AG and Triplesense Reply GmbH appointed Ernst & Young GmbH to conduct the voluntary audit for the statutory financial statements at 31 December 2013. The considerations for each appointment was agreed upon as 10 thousand euros and 15 thousand Euros.

9. Indication of whether opinions were issued in accordance with law during the financial year.

During the financial year the opinions requested by the Board of Statutory Auditors were issued as provided by law.

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

During the financial year, the Board of Directors met 5 times, and the Board of Statutory Auditors held 7 meetings. The Internal Control and Risk Management Committee met 3 times, the Remuneration Committee met once and the Committee for Related Party Transactions met 3 times.

The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

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

The instructions given by Reply S.p.A. to subsidiaries, pursuant to the second paragraph of Article 114 of Legislative Decree 58/1998 appear to be adequate; similarly, the subsidiaries provided the Parent Company with the necessary information for its timely knowledge of the business situation.

We advise you that in order to guarantee the timely communication of the information requested, Mr. Daniele Angelucci, Executive Director and Finance and Control Manager of Reply S.p.A., also acted as advisor within all of the administrative bodies of the Italian subsidiaries, with the exclusion of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries.

We further advise you that the Chairman of Reply S.p.A.'s Board of Directors, Mr. Mario Rizzante, is the Director of the English subsidiaries of Reply Ltd., Portaltech Reply Ltd. and Avantage Reply Ltd.

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

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

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

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A. and revised in December 2011.

On 14 March 2014, the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

On the same date, the Board of Directors within the periodic evaluation process in compliance with art. 4.c.2. of the Corporate Governance code for public companies, resolved to empower the Board the role of Nominating Committee.

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

The Board's supervisory activity was carried out through:

- → Activities aimed at controlling compliance with laws and the by-laws;
- → Participation at the meetings of the Company's governing bodies;
- → Acquiring information during periodic meetings with the Independent Auditor concerning both the activity it performed as well as any risks related to its independence;
- → acquiring information during with members of the Board of Statutory Auditors of the subsidiaries to exchange information on the Group's activities and coordinate control and supervisory activities;
- → Gathering additional information during meetings with the Chairman of the Company, the Director responsible for drawing up the Company's Financial Statements, the Person in charge of internal control and the Supervisory Body;
- → Participation at the meetings of the Internal Control and Risk Management Committee and the Remuneration and Nominating Committee (from March 2014 Remuneration Committee);
- → The analysis of any new provisions of law or Consob communications of interest to the Company.
- → The Board confirmed that the organizational requirements were met to comply with the relevant Company by-laws, laws and regulations, in the constant evolution and search for improvement.

In particular, we advise the Shareholders that:

- → We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and which entered into force on 1 January 2011, according to the standards indicated in the Regulations approved by Consob by means of Resolution No. 17221 of 12 March

2010 and subsequent modifications, as well as compliance with it;

- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "*Market abuse*" and *"Protection of savings"* in matters of corporate disclosures of information and "*Internal Dealings*".

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

1) ADMINISTRATION

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

2) ORGANISATIONAL STRUCTURE

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

3) INTERNAL CONTROL SYSTEM

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

4) ADMINISTRATIVE – ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive, and they also appear to be imposed on the companies belonging to the Group.

We therefore deem that the administrative-accounting system is suitable to represent and monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.

The Chairman and the Director in charge of drawing up the Company's Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements the attestation required by Article 154-bis (3 and 4)) of TUF (Legislative Decree 58/1998).

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

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

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

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

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

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

Turin, 24 March 2014

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

Building a better working world

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

To the Shareholders
of Reply S.p.A.

1. We have audited the financial statements of Reply S.p.A. as of 31 December 2013 and for the year then ended, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 22, 2013.

3. In our opinion, the financial statements of Reply S.p.A. at December 31, 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Reply S.p.A. for the year then ended.

Reconta Ernst & Young S.p.A.
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4. The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Proprietary Assets in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) in the Report on Corporate Governance and Proprietary Assets, are consistent with the financial statements of Reply S.p.A. at December 31, 2013.

Turin, March 24, 2014

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

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

Reply S.p.A.

Report on Corporate Governance and Ownership Structure 2013

Approved by the Board of Directors on 14 March 2014

www.reply.eu

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

Report on Corporate Governance and Ownership Structure 2013

Contents

1. The Corporate governance system

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

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

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

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

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

The Board of Statutory Auditors is responsible for the supervision of compliance with the law and by-laws and more specifically:

- Supervision of proper management by verifying:
- The respect of good management principles;
- The adequate structure of the company;
- The implementation of the rules of corporate governance;
- The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.
- Role of committee for internal control and audit responsible for overseeing:
- The financial reporting process;
- The effectiveness of the internal control, internal audit and risk management systems;
- The audit of the annual separate and consolidated accounts;
- The independence of the independent auditors.

The Board of Statutory Auditors is not responsible for the legal audit which is a function preformed by an independent company appointed by the Shareholders' meeting.

The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records. The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement

Governance also includes the Internal Control System, the Organizational and management Model pursuant to Article 6 of Legislative Decree no. 231/2011 and the structure of the powers and proxies, as presented herein.

The following Report includes the governance structure examined by the Board of Directors on 14 March 2014 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations.

The Report on Corporate Governance, that is an integral part of the Report on Operations, along with the company's by-laws, are available on the company's website (www.reply.eu – Investors – Corporate Governance).

2. Ownership structure (ex Art. 123-bis, paragraph 1, of Italian Legislative Decree 58/1998) at 14 March 2014

A. Capital structure

The share capital structure of Reply S.p.A. is summarized below.

The share capital fully paid and subscribed at 14 March 2014, amounts to 4,863,485.64 Euros, divided in 9,352,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.

At present, the stock option plans, which had options expiring on May 12, 2014 and 8 August 2014, no longer exist as the stock options have been entirely exercised.

B. Restrictions on the transfer of shares

The by-laws do not foresee restrictions on the transfer of shares.

C. Significant shareholders

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 14 March 2014, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Shareholder	Direct Shareholder	Ownership % over share capital	Ownership % over voting capital
Rizzante Mario	Alika S.r.l.	52.7775	52.7775
	Rizzante Mario	0.1080	0.1080
	Total 52.8855	**52.8855**	
BNY Mellon Service Kapitalanlage	BNY Mellon Service Kapitalanlage	7.5929	7.5929
JP Morgan Asset Management UK Ltd	JP Morgan Asset Management UK Ltd	2.0474	2.0474

D. Shares granting special rights

No shares have been issued that grant special rights of control.

E. Employee shareholdings: mechanism exercising voting rights

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F. Restrictions on voting rights

The company by-laws have not established restrictions on voting rights.

G. Agreement with shareholders

At present, the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree n. 58/1998, in which shareholders have more than 2% of the share capital:

1. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, and tacitly renewed for a further three-year period until 9 November 2013, by which the shareholders of Alika S.r.l., with headquarters in Torino Corso Francia no. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, for a stake of 46,206.00 Euros equivalent to 51% (fifty-one percent) of the share capital and more specifically:

- → Mr. Mario Rizzante holder of 5,706.00 Euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
- → Mrs. Maria Graziella Paglia holder of 17,100.00 Euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
- → Mrs. Tatiana Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
- → Mr. Filippo Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

have signed a lock up agreement according to ex Article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice, having the right to vote in the company Alika S.r.l., holding of Reply S.p.A.

H. Change of control clause and statutory rulings in public tender offers

With reference to agreements that could be cancelled in relation to a change of control in Reply S.p.A., the following is noted:

Financing contracts

- → Reply S.p.A., has entered into the following loan agreements with Intesa San Paolo:
- → On 31 March 2009 a contract was signed for 50 million Euros.
- → On 25 September 2012 a contract was signed for 2,500,000 Euros.
- → On 24 December 2012 a contract was signed for 1,500,000 million Euros.
- → On 13 November 2013 a contract was signed for 20 million Euros.

Reply S.p.A., has entered into the following loan agreements with Unicredit SpA:

- → On 15 September 2012 a contract was signed for 15 million Euros;
- → On 25 November 2013 a contract was signed for 25 million Euros.

These contracts, having the scope of financing the Group for acquisitions on the Italian or European market, allow the funding banks the faculty to call off the contract in case of a change of control directly or indirectly in Reply S.p.A., in accordance with Art. 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control: the Company has also undersigned contracts in which the clause “Change of control” implies immediate cancellation of the contract.

Such agreements, which are not very significant when compared to the whole of Group activities, are subject to confidentiality clauses.

Public Offers

Reply's by-laws does not provide any regulations in relation to the passivity rule provided for by art. 104, paragraph 1 and 2 of TUF nor does it foresee the application of the neutralization rules contemplated in art. 104-bis, paragraphs 2 and 3 of the TUF.

I. Proxies to increase the share capital and authorization to buy treasury shares

The General Shareholders' meeting has given proxy to the Board of Directors to increase the share capital, pursuant to Article 2443 of the civil code.

The information regarding the current proxies is detailed in the table below:

Resolution			Amount Proxy		Proxy executed	
The General Shareholders' meeting	Proxy	Expiry date	Euros	Shares	Euros	Shares
28/04/2011	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, payable in different forms and to be executed separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	28/04/2016	312,000	600,000	-	-

The Shareholder's, following resolution passed on 23 April 2013, have authorized the acquisition of treasury shares in accordance with art. 2357 of the Italian Civil Code as follows:

number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 1,611,758 ordinary shares at 0.52 Euros, corresponding to 17.4473% of the existing share capital within the maximum spending limit of 30,000,000 Euros;

duration: for a period of 18 months, that is from 23 April 2013 to 23 October 2014, in substitution of the previous authorization resolved by the Shareholders' meeting of 27 April 2012;

minimum purchase price: nominal value of the ordinary shares (presently 0.52 Euros);

maximum purchase price: not greater than the official trade price on the MTA Market the day prior to the purchase applying a spread of 15%, and a disbursement of maximum 30,000,000 Euros;

authorisation to sell: (i)on the market or in blocks, through a public bid; (ii) sale, transfer, or trade of shares for investment acquisitions or negotiations with strategic *partners* (iii) following agreements made with individual Directors, employees and or collaborators of the Company or with directly or indirectly controlled companies, that do not meet the requirements of Stock granting pursuant to ex. Art. 114 bis of the TUF (iv) against payment in kind pursuant to the regulations of the Stock Granting plans.

At the reporting date the company held 597 treasury shares.

On 28 April 2011 the Company resolved to grant the Board of Directors, pursuant to Article 2443 of the Civil Code, the powers to increase the share capital in one or more tranches for a period of five years pursuant to art. 2441 paragraph 4, for a maximum nominal value of 312,000 Euros through the issue of 600,000 Reply S.p.A ordinary shares with a par value of 0.52 Euros each, to be executed in one or more tranches and therefore separable, for a maximum five year period;

The new shares will be issued separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.

The Board of Directors pursuant to Article 2441, paragraph 6 of the Civil Law, shall determine the price of the shares with reference to the trend of the stock market for the operation in the increase of share capital, and subordinated to the best practice methods of evaluation at an international level that take into consideration the market multipliers of comparable companies and to financial economic models commonly recognized and used in the respect of the minimum share price calculated as the single value of the share of the consolidated net equity resulting in the most recently approved Financial Statements by the Board of Directors prior to the resolution of the increase in share capital.

It is to be noted that:

- The information requested by art.123-bis, first paragraph letter i) of TUF is disclosed in the Directors' report at the paragraph disclosing Director's remuneration;
- The information requested by art.123-bis, first paragraph letter l) of TUF is disclosed in the Directors' report at the paragraph disclosing information on the Board of Directors.

3. Management and coordination activities

Reply S.p.A. is not subject to management and coordination activities pursuant to Article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. in as much as it qualifies as a holding, lacking an autonomous organizational structure and consequently does not carry out management activities for Reply S.p.A.

All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately disclosed the control and coordination to which they are subject by Reply S.p.A. in accordance with art. 2497 – bis of the Italian Civil Code.

4. Compliance (ex Art. 123-bis, para 2, letter a, TUF)

The Report herein reflects and illustrates the corporate governance structure that the Company has adopted in compliance to the requirements of the Code, available on Borsa Italiana's website www.borsaitaliana.it and to which the Company has adhered.

The Board of Directors is always inclined at evaluating any new views and orientations that the Corporate Governance Code could consider and eventually integrate and amend the Company's Corporate Governance only if, and compatible with the company's reality, and that such integration enables the Company to further strengthen its reliability with investors.

Reply S.p.A. and its key strategic subsidiaries, to the Board of Directors knowledge, are not subject to foreign laws that have an influence on the corporate governance structure of the Issuer.

5. Board Of Directors

A. Nomination and substitution of Directors

The nomination and substitution of Directors is disciplined by art. 16 (Nomination of Directors) of the by-laws, and is available on the Company's website (www.reply.eu under – Investors – Corporate Governance).

Art. 16 of the Company's by-laws has been revised under the General Meeting's resolution of 14 June 2007, in order to comply with the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the Directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate. The same Article has been further amended by the Board of Directors resolution passed on 26 October 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies).

Art. 16 of the Company by-laws, regulates that:

- The list of candidates running for Director, shall be deposited at the company's registered office twenty-five days prior to the date of the first call for the Annual General Shareholders' meeting; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance with binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the Directors to be elected;
- The voting mechanism appoints the Directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one candidate has been voted by the minority list that has received the most number of votes and that is not connected in any way, not even indirectly, to the shareholders that presented or voted the list that reached the greatest number of votes;
- In the case where the minimum number of Independent Directors have not been nominated according to the procedure mentioned above, the last candidate elected from each list which has been nominated by at least one Director and who has received the most votes will be substituted by the candidate immediately following until the minimum number of Independent Directors have been elected.
- The company by-laws regulate that Independent Directors not only must meet the requirements established for Statutory Auditors in accordance with art. 148, paragraph 3, of Legislative Decree 24 February 1998 no. 58, but must also meet requirements established by the Corporate governance code adopted by the Company.

The Board of Directors have not adopted a succession plan for Executive Directors.

B. Members

The Company's Board of Directors is made up of a variable number of members from a minimum of 3 to a maximum of 11. The number of members is resolved by the Annual General Shareholders' meeting.
As required by the Corporate Governance Code, the Board of Directors is made up of Executive and Non-Executive Directors, the number, competence, authority and time availability of Non-Executive Directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.
At present the Board of Directors is made up of nine (9) Directors of which six (6) Executive:

→ Mr. Mario Rizzante	Chairman and Chief Executive Officer
→ Ms. Tatiana Rizzante	Chief Executive Officer
→ Mr. Oscar Pepino	Executive Director
→ Mr. Claudio Bombonato	Executive Director
→ Mr. Daniele Angelucci	Executive Director
→ Mr. Filippo Rizzante	Executive Director
→ Dott. Filippo Rizzante	Executive Director

and three (3) Non-Executive and Independent Directors:

→ Mr. Fausto Forti	(Lead Independent Director)
→ Mr. Marco Mezzalama	
→ Mr. Carlo Alberto Carnevale Maffè	

The Non-Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.
The above mentioned Directors have been appointed under shareholders' resolution of the 27 April 2012 based on the list presented by the major shareholder, Alika S.r.l.
The above mentioned Directors will hold office until approval of the year end 31 December 2014 Financial Statements.
The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the shareholders. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.
The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner with the exception of urgent and confidential matters.
The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.
With regard to the application of the criterion of apportionment in relation to the election of Directors, pursuant to Art. 147 ter, paragraph 1 ter of the TUF, the law no. 120 of 2011 established that the above provisions shall apply from the first renewal of the Board one year from the date of entry into force of the above-mentioned law; such rules will apply to Reply to S.p.A. as from the renewal of the corporate bodies on the approval of the Financial Statements at 31 December 2014, upon the adoption of the necessary statutory changes which shall be presented to the Shareholders meeting of 16 April 2014 for approval.

The table below discloses the main information related to the Board of Directors in compliance with Article 144-duodecies issued by Consob

Name	Office	Board of Directors								Internal control and risks committee		Remuneration and Nomination committee	
		In office	L(**)	E	N.E	I.code	I. TUF	%	Other offices	Attendance	%	Attendance	%
Mario Rizzante	Chairman and Chief Executive Officer	From 1/1/12 to 31/12/14(*)	M	X	-	-	-	100%	-	-	-	-	-
Tatiana Rizzante	Chief Executive Officer	From 1/1/12 to 31/12/14(*)	M	X	-	-	-	100%	1	-	-	-	-
Oscar Pepino	Executive Director	From 1/1/12 to 31/12/14(*)	M	X	-	-	-	100%	-	-	-	-	-
Claudio Bombonato	Executive Director	From 1/1/12 to 31/12/14(*)	M	X	-	-	-	100%	-	-	-	-	-
Daniele Angelucci	Executive Director	From 27/04/12 to 31/12/14(*)	M	X	-	-	-	100%	-	-	-	-	-
Filippo Rizzante	Executive Director	From 1/1/12 to 31/12/14(*)	M	X	-	-	-	100%	-	-	-	-	-
Fausto Forti	Lead Independent Director	From 1/1/12 to 31/12/14(*)	M		X	X	X	100%	1	X	100%	X	100%
Marco Mezzalama	Non-Executive independent Director	From 1/1/12 to 31/12/14(*)	M		X	X	X	100%	1	X	100%	X	100%
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 1/1/12 to 31/12/14(*)	M		X	X	X	100%	1	X	100%	X	100%
Number of meetings held in 2013				Board meetings: 5						Meetings of the Risk and Control Committee: 3		Meeting of Remuneration Committee: 1	

(*) in office until the Shareholders' meeting for the approval of 31 December 2014 Financial Statements
(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous with votes in favour amounting to 52.21% of share capital.

Key:
Legend:
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: Non-Executive
I: independent
I.TUF independent pursuant to art. 148 of TUF

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselt. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence centre related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante was appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out Sales & Marketing activities in Italy for the entire Group. April 2011 she has held the position as Independent Director at Ansaldo Sts S.p.A. (Finmeccanica Group company). Moreover she is a member of the Board of Directors of Confindustria Digitale, an industrial federation of representation, which has the aim to promote the development of the digital economy on behalf of competition and the innovation of the country.

Oscar Pepino (Executive Director and founder of Reply S.p.A.)

Mr. Pepino graduated in Science Informatics at the University of Turin in 1977. In 1981 he founded Mesarteam S.p.A., a System Integration company fulfilling his management role from the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and fulfils the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino is currently is in charge of the Reply Group Operations Office which runs the informatics system, quality management, the management of operational quarters, PM Academy and Cmmi; Safety at work and Privacy, supervision of the Internal Control System and tasks associated to this role in accordance with the Procedures for Operations with Related Parties.

Claudio Bombonato (Executive Director of Reply S.p.A.)

Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds a Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also a Masters degree in Business

Administration from Università Commerciale Luigi Bocconi. After a 10 year professional experience in Fiat Aviation Division and IBM Italy, he started working at McKinsey (in 1981) where he was mainly involved in the banking sector and ICT. In 1986 he became Partner and leader in financial institutional practices and ICT in Italy. In 1990, he was appointed Director of the company by McKinsey and was a member of the European leadership group on Financial Institutions. Mr. Claudio Bombonato was the European Supervisor overseeing Commercial Banking practices for a number of years. In 2006 he left Mckinsey and was appointed European Senior Advisor for Morgan Stanley (Financial Institution sector in Italy). He has published many articles on strategic thematic, organization and technology both for the financial and public sectors. He was Member of the Board at SI Holding and Banca Fonspa S.p.A. until November 2013 At present he is a Member of the Board at Whysol S.p.A. a financial holding company active in the energy sector.

Daniele Angelucci (Executive Director of Reply S.p.A.)

Daniele Angelucci worked from 1976 to 1986 at the Centre of Study & Laboratories of Telecommunications (CSELT, now Telecom Italy Lab) as a researcher; From 1986 to 1995 he worked in Mesarteam S.p.A. fulfilling various roles including Technical Director of the Rome office, Head of Technical Software and then Technical Director of Turin. He joined Reply as a Senior Partner in 1996. In 1996 he became President and founding member of Cluster Reply, a group company focused on e-business solutions using Microsoft technology. From 2000 to 2002 he was Director of operations in the Turin area. In 2003 he became CEO of Santer S.p.A., a company specialised in the health market and local government. From 2006 to 2010 he was Chief Financial Officer of Reply Deutschland AG. Since 2011 he has been Chief Financial Officer of Reply S.p.A.

Filippo Rizzante (Executive Director of Reply S.p.A.)

A computer engineering graduate from the Polytechnic University of Turin, whom has always been fascinated by new technologies. He began his career with Reply in 1999. In the early years, he worked within the Group mainly in consultancy and projects for the web division, focusing in particular on the development of B2B and B2C portals. In 2003 he held the position of Technical Manager of Technology Reply Rome, and then continued his career within YH Reply (now Whitehall Reply) as CEO. In 2006 Filippo became Executive Partner of the Reply Group, overseeing the Group companies that deal with Oracle technologies, Safety, Information Lifecycle Management, Web 2.0 and Open Source. Over the years his responsibilities within the Group grew and he assumed direct responsibility for various business lines, including Architecture and Technologies, Digital and Mobile Media – in addition to contributing to the success of the Reply offer in the context of Cloud Computing, Digital Media and Social Media for significant Italian and foreign clients. Since 2012, in the capacity of Reply CTO, he led the development of new offer elements associated with technological innovation and assumed Group responsibility for all partnerships.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.)

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. he held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica (Associazione Italiana delle Aziende di Logistica). Since April 2010 he is Chairman of Confetra (Confederazione italiana delle Associazioni di Trasporto e Logistica).

Marco Mezzalama (Independent Director of Reply S.p.A.)

Mr. Mezzalama graduate cum laude in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for informatics systems. He is a member of the Turin Science Academy and Vice-president of Fondazione Bancaria Compagnia di San Paolo. He is the author of more than 150 scientific publications. He also holds various positions at research institutions and/or organisations in the ICT sector.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)

Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University and was the founder and coordinator of Master in Business Strategy (MISA). He teaches the Business Strategy course for the BA in International Economics and Management and the MAFED M.A.. He has taught the Media MBA course at Steinbeis University of Berlin and the Master in Intelligence at the University of Malta. He has also worked as professor at the Graduate School of Business of Columbia University and Stern School of Business of New York University. He collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and Bloomberg. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of "Harvard Business Review Italy". He is a member of the Steering Committee "E-business Policies" of the European Commission DG Enterprise. He is independent Director of listed companies in the Technology, Media and Telecommunications segments, as well as industrial companies, for which he is Director of US and India branches. He is a strategic advisor for leading Italian and international companies He is economic advisor for the Marisa Bellisario Foundation and scientific Director at ABI Lab of the Innovation Award for Banking Services. He has published many articles, books and business cases and often has released interviews and comments for the most important international economic- financial newspapers.

The criteria in evaluating the requisites of independence of the Board of Directors has not been integrated or modified.

The Board of Directors has verified, at the date of approval of the Report herein, the offices of Directors and Statutory Auditors, held by the Directors in other listed companies, finance, bank, and insurance companies or big enterprises.

The following arose:

- Mrs. Tatiana Rizzante is independent Director of Ansaldo Sts S.p.a (Finmeccanic group company);
- Mr. Claudio Bombonato is a Director of Whysol S.p.A., a financial holding company active in the energy sector;
- Professor Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in ICT and Consorzio Topix;
- Professor Carlo Alberto Carnevale Maffè is a member of the Board of Directors' of Poligrafica San Faustino S.p.A.,
- Dott. Fausto Forti is Chairman of DHL Express Italy S.r.l..

Although recommended by the Code, the Board of Directors has preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the Directors' role, as it believes that such assessment firstly should be made by the shareholders when appointing the Directors and secondly by the individual Director when accepting the office.

C. Role of the Board of Directors

The Board of Directors is the statutory managing body vested with the broadest powers for the ordinary and extraordinary management of the Company.

The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.¬

More specifically the Board of Directors, in compliance with the Code:

a) Examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads periodically monitoring its implementation; defines the corporate governance system and the structure of the group;
b) Defines the nature and level of risk compatible with the issuer's strategic objectives;
c) Evaluates the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing Directors, in particular with regard to the Internal Control System and risk management;
d) It shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;
e) Evaluates the general performance of the company, paying particular attention to the information received from the Executive committee (when established) and the managing Directors, and periodically comparing the results achieved with those planned;
f) Decides on operations carried out by the issuer and its subsidiaries when said operations have significant strategic, economic or financial relevance to such issuer; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
g) At least once a year, it performs an evaluation of the work of the Board itself as well as of its committees including their size and composition, also taking into account elements such as the professional characteristics, (managerial) experience and general qualities of its members, including their length of time in office;
h) Taking account of the outcome of the evaluation under point g), before a new Board is appointed, it advises shareholders with regard to the types of professionals it deems advisable to have represented on the Board;
i) Provides information in the report on corporate governance: (1) on its composition of the board, indicating for each member the qualification (Executive, Non-Executive, or independent) the role within the Board, his or her main professional features and seniority as a member of the Board; (2) the methods of application of Art. 1 of the Code and, on the number of meetings of the board and of the Executive committee, if any, held during the fiscal year plus the related percentage of attendance of each Director; (3) on the modalities of the evaluation process referred to under point g);
j) In order to ensure the proper management of corporate information, adopted, on the proposal of the Chief Executive Officer or Chairman of the Board of Directors, a procedure for the internal management and external communication of documents and information concerning the issuer, with particular reference to privileged information.

In accordance with the Corporate Governance Code (art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report in the section dedicated to the topic.

The Board of Directors meet on a regular basis, at least every three months, as established by the Company by-laws, or when deemed necessary.

The Directors report to the Statutory Auditors on a quarterly basis with regards to the activities carried out during the year, the significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.

During 2013 the Board of Directors met five (5) times and the average duration was approximately two hours (2). The Board of Directors are scheduled to meet at least four (4) times in 2013. The Board of Directors have held no meetings at the present date of this Report.
The participating members of the Board are also allowed to intervene through audiovisual connection.
In order to facilitate the participation of a greater number of Managers and Statutory Auditors, a calendar of the annual meetings scheduled is drafted.
Prior to the meetings, the Directors and Statutory Auditors are provided with the Agenda of the meeting.

D. Chairman of the Board of Directors, Chief Executive Officers and Executive Directors

The Board of Directors currently holding office comprises of two Chief Executive Officer, (who also fulfils the role of Chairman of the Board of Directors) four Executive Directors and has empowered the Chairman (who also fulfils the role of Chief Executive Officer) with the broadest operational delegations, in light of the resolutions passed on 27 April 2012.
Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties.*
The Chairman, is responsible for the management of the Company and is also major shareholder, as illustrated here within.
Mrs. Tatiana Rizzante, Chief Executive Officer, has the following main powers:

→ Ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
→ Undersign rent and lease contracts for no longer than a nine year period establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
→ Carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
→ To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
→ Request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
→ Hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
→ Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater

than 5,000,000.00 Euros; and can:
  - → Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - → Confer or receive the related mandate in the event of a temporary group enterprise participation;
  - → Negotiate and undersign contracts following the awarding of the bid;
  - → Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
  - → Represent the Company in relation to all such matters, issuing the relevant powers of attorney.
- → Sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
  - → Grant guarantees and sureties of up to a maximum of 1,000,000 Euros;
- → Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:
  - → Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - → Confer or receive the related mandate in the event of a temporary group enterprise participation;
  - → Negotiate and undersign contracts following the awarding of the bid;
  - → Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- → Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation from an asset side and 500,000.00 Euros for operations from a liability side;
- → To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- → Hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, Mr. Claudio Bombonato, with the scope of supporting the Company in the development of its activities, are the following:

- individual powers:

a) Represent the Company Reply S.p.A. with external contacts and business negotiations and authorize the issuing of the related business offer with a limit of 5,000,000 Euros per transaction;

b) Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation;

c) Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the necessary mandate in the case of temporary joint ventures;
  - undersign contracts following the awarding of the bid;
  - subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;

d) To carry out in the interest of the Company whatever is necessary or convenient within his powers;

- joint powers, with another Director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Executive Director, Mr. Claudio Bombonato in capacity of Executive Director, has been assigned further powers related to activities under Network Finance & Security within the Reply Group.
The main proxies empowered to the Executive Director, Mr. Daniele Angelucci:

- Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation from an asset side and 1,000,000.00 Euros for operations from a liability side;
- Sign rent and lease contracts for a maximum value of 1,000,000.00 Euros for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- Grant guarantees, sureties in the limit of 5,000,000 Euros;
- To sign insurance policies covering risks pertaining to its premises, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts all subject to a maximum limit of 500,000.00 Euros;
- Request, accept and use bank credit in the short, medium and long term to a maximum of 10,000,000 Euros;
- Sign factoring contracts, negotiating conditions, carry out any operation connected including the sale of receivables, the provision of guarantees, warrants for collection, discount operations and advance payments with commitment of shares all in the limit of 10,000,000 Euros;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference

to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;

- To employ, appoint and dismiss employees with annual gross salaries (including any supplemental compensation) of up to 100,000.00 Euros; to grant salary supplements to employees as a result of which the beneficiaries do not exceed a gross annual salary (including any supplemental compensation) of 100,000.00 Euros;
- Within the maximum spending limit of 300,000 Euros, retract from contracts with middle and senior managers, compromise the related controversies, representing the Company before the labour unions;
- Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:
  - Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - Confer or receive the related mandate in the event of a temporary group enterprise participation;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
  - Represent the Company in relation to all such matters, issuing the relevant powers of attorney.

The main proxies empowered to the Executive Director, Mr. Filippo Rizzante:

- Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 1,000,000.00 Euros for each operation from an asset side and for operations from a liability side with Reply Group subjects and a value not greater than 150,000 Euros for each operation and from a liability side for subjects outside the Reply Group;
- Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 1,000,000.00 Euros; and has the power to:
  - Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - Confer or receive the related mandate in the event of a temporary group enterprise participation;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- Undersign rent and lease contracts for no longer than a nine year period to a maximum of 150,000 Euros and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- Sign insurance policies covering risks pertaining to the premises where the company carries out its business, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts deemed to be necessary and expedient; all subject to a maximum limit of 50,000.00 Euros.
- Hire employees with annual salaries of up to 40,000 Euros, modify or retract from work contracts up to a maximum fee of 100,000 Euros and settle the related disputes, representing the Company in front of trades unions;

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

The Chairman, under the company's by-laws, has the power to convene the Board of Directors' meetings.

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

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

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

E. Independent Directors

As previously stated, the three Directors members of the Board of Directors qualifying as being independent are:

→ Mr. Fausto Forti *(Lead Independent Director)*
→ Professor Marco Mezzalama
→ Professor Carlo Alberto Carnevale Maffè

The independent Directors constitute as a whole the Remuneration and Nomination Committee and the Internal Control and Risks Committee.

The same Independent Directors also qualify as, in the capacity of members of the Internal Control and Risks Committee, members of the Related party transaction committee established by the related procedure.

The Independent Non-Executive Directors have the same characteristics as the Independent Directors, in compliance with paragraph 3.C.1. of the 2011 edition of the Corporate Governance Code that provides that a Director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

a) If he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;

b) If he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;

c) If he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
   → with the issuer, one of its subsidiaries, or any of its significant representatives;
   → with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or – in case of a company or an entity – with the relevant significant representatives;

   or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;

d) If he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer and compensation for participation in committees recommended by the Code, a significant additional remuneration compared to the "fixed" remuneration of Non-Executive Director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;

e) If he/she was a Director of the issuer for more than nine years in the last twelve years;
f) If he/she is vested with the Executive Director office in another company in which an Executive Director of the issuer holds the office of Director;
g) If he/she is shareholder or shareholder or Director of a legal entity belonging to the same network as the company appointed for the external audit of the issuer;
h) If he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held 27 April 2012, also being the first meeting following its renewal on 14 March 2013, and subsequently on an annual basis, with positive results, the independence of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code, resolving not to apply the criteria stated in point e) in view of the Directors' authority, reputation and moral statute. This was limitedly verified with regards to Prof. Marco Mezzalama accruing from September 2009 and Mr. Fausto Forti from April 2013.
The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.
In 2013 it was not necessary for the independent Directors to convene in specific individual meetings as they periodically meet when the Internal Control and Risks Committee and Remuneration and Nomination Committee meetings are convened representing as a whole such bodies.

F. Lead Independent Director

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a "Lead Independent Director", that represents a reference and coordination point of the motions of the Non-Executive Directors and more specifically the independent ones; and cooperate with the chairman of the Board of Directors in order to ensure that Directors receive adequate information in good time; for this scope, should these circumstances occur, in accordance with article 2.C.3 of the Code, the role of Lead Independent Director is head by the Non-Executive and Independent Director, Mr. Fausto Forti.

6. Processing of confidential information

The Chairman and Chief Executive Officer, Mr. Mario Rizzante and the *Investor Relator*, Mr. Riccardo Lodigiani, handle the *processing* of internal and external communication of confidential company information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the Chief Executive officer's directions are followed.
It is also acknowledges that, following the introduction in Italy of the so-called "*market abuse*" directive enacted by Community Law 2004 (Law 18, April 2005 no. 62) and endorsed by the corresponding Consob regulation a law was passed concerning the obligation to notify the public about any transactions carried out by "key persons" and people strictly associated to them in relation to financial instruments of the company.
Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. ever since 1 January 2003, was abolished as of 1 April 2006 date in which the new Consob Regulation no. 11971/99 was implemented.
In execution of the new regulation of 1 April 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Key persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.
The new Corporate Governance Code was enacted starting 1 April 2006 following the Board of Directors' resolution of 31 March 2006.
More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.
The new code comprises nine paragraphs that define the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons"; all in accordance with the regulations issued by Consob.
Executive Director, Mr. Daniel Angelucci, is the person responsible for the handling of confidential information.
The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu – Investors – Corporate Governance).

Aside from the above, the Board of Directors of the Company has not, for the moment, adopted additional resolutions of adoption of procedures for the internal management and external communication of documents and information concerning the issuer.

7. Committees within the Board of Directors

The Board of Directors has set up consulting committees, The Internal Control and Risks Committee and the Remuneration and Nomination Committee (previously Remuneration Committee).

During 2012, the Board of Directors decided to set up an internal committee to propose candidates for appointment to the position of Director, identified by the Remuneration Committee.
However, considering the current composition of the ownership structure, proven to be concentrated and the governance structure of Reply S.p.A. and within the periodic evaluation process pursuant to art. 4.C.2 of the Corporate Governance code for public companies, the Board of Directors resolved, at the current date, to carry out the role once carried out by the Remuneration and Nomination Committee, consequently the Remuneration and Nomination Committee has been renamed the Remuneration Committee.

8. Remuneration committee

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with Article 123-ter of TUF.
The Board of Directors has internally constituted a Remuneration and Nomination Committee composed of Professor Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, Non-Executive and Independent Directors and Mr. Fausto Forti, Lead Independent Director..
In 2013 the Remuneration and Nomination Committee, in order to carry out its duties, met once (1) with the presence of all members.
In 2014 one (1) meeting has been planned, and already held.
At present the Committee has not utilized external consultants. In accordance with art. 6.C.6 of the Corporate Governance Code, no Director shall participate in meetings of the Remuneration and Nomination Committee in which proposals are submitted to the Board of Directors relating to his/her remuneration; meetings will be attended by the Chairman of the Board of Statutory Auditors.

9. Remuneration of Directors

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with Article 123-ter of TUF.

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' meeting of 27 April 2012, upon nomination, and equal to 30,000.00 Euros gross of any withholding amounts foreseen by law.

Remuneration of Directors invested with special roles, was established by the Board of Directors in line with the Remuneration and Nomination Committee, upon proposal of the Committee, authorised by the Board of Statutory Auditors.

In compliance with article 20 of the Company by-laws, amended by the Shareholders' meeting of 28 April 2011, the total amount of remuneration to Directors, including those invested with strategic powers, can also be determined by the Annual General Shareholders' meeting.

In March 2012 the Company complied with the recommendations contained in Art. 7 of the Code of Conduct of March 2006, as amended in March 2010 (now categorised as art. 6, in the version of the Code of December 2011).

In compliance with Article 6.C.1 of the Code of the March 2006 release, article 22 of the Company by-laws provides the possibility to attribute a variable fee to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, which is resolved by the Annual General Shareholders' meeting approving the annual Financial Statements.

Such a possibility, that has already been adopted ever since allocation of the 2004 net result (with the exception of 2009), considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to 31 December 2013.

10. Control and Risks Committee

Under Article 8.P.4 of the Code, the Board of Directors has internally constituted a Remuneration and Nomination Committee composed of Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, Non-Executive and Independent Directors, and Mr. Fausto Forti, Lead Independent Director.

The Internal Control and Risks Committee:

- Evaluates together with the Director responsible for the preparation of the company's accounting documents, the auditor, and the Board of Statutory Auditors, the correct utilisation of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- Expresses opinion on specific aspects relating to the identification of the principal risks for the company;
- Examines the periodic reports relating to the evaluation of the system of internal control and risk management, and those of particular relevance prepared by the Internal Audit function;
- Monitors the independence, appropriateness, effectiveness and efficiency of the Internal Audit function;
- May ask the Internal Audit function to perform checks on specific operating areas, simultaneously notifying such request to the Chairman of the Board of Directors;
- Report to the board, at least on a half yearly basis, on the occasion of the approval of the balance sheet and the half yearly report, on the activity carried out, as well as on the adequacy of the internal control and risk management system.

The Chairman of the Board of Statutory Auditors or another auditor appointed by the aforementioned participates in the work of the Control and Risk Committee; a written report shall be prepared at the end of each meeting, which will include the Committee's proposals.

In order to carry out its duties, the Committee can request information and data from the head of the Internal Audit function, the Board of Statutory Auditors and the independent auditors.

During 2013 the Internal Control and Risks Committee met three times (3) and twice (2) in 2014. All members were present and examined the following:

- Revision of the Impairment Test policy – Impairment (IAS 36);
- The separate Financial Statements and the consolidated Financial Statements of 2012 and 2013, and half-year report of 2013;
- Update on activities in relation to Law no. 262/2005 (Legge sul Risparmio) and other related internal improvement projects;
- Update on the introduction of the Risk Management system.
- Internal audit's mandate and work;
- Updating of the Oraganizational Model ex Law Decree 231/2001 and the Code of Ethics.
- With reference to the examination of issues related to the Financial Statements, the Committee requested the participation, further to that of the Head of Internal Audit, but also the presence of Mr. Conti on behalf of the audit firm Ernst & Young S.p.A.
- The Committee reported two (2) times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the Internal Control and Risks System.

11. Internal Control and Risk Management

The internal control and risk management system is a set of rules, procedures and organizational structures that contribute to safeguarding the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information, the identification and monitoring of the main risks, and the compliance with laws and regulations.
The Board of Directors is responsible for the system of internal control and risk management, that, after receiving the opinion of the Control and Risks Committee, establishes guidelines and a work plan, evaluating its adequacy.
In this regard, during the year, the Board of Directors and the Control and Risks Committee expressed a favourable judgment regarding the adequacy of the Internal Control System for monitoring the level of risk consistent with the objectives of the Group.

Foreword

Reply has put in place a system of internal control and risk management for financial reporting based on the "*COSO Framework*", defined as a set of rules, procedures and tools designed to provide, through an adequate process of identification, the measurement, management and monitoring, of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.
The objective of the internal control and risk management system is also to ensure that the financial reporting disclosed within the required timeframe provides a fair and correct representation of operations, in order to guarantee the reliability, accuracy, truthfulness and timeliness of the financial information.
In relation to the Company's objectives, whether business or compliance, as well as reporting, the Company has adopted the following key instruments:

Instruments monitoring business objectives

→ Planning and management control – Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the Company's objectives/strategies and operational planning through a budget and monitoring them by means of a monthly review of performance.

→ Company operational procedure system - Reply S.p.A. has implemented a group of procedures that regulate internal processes, in order to properly apply the Company directives and to limit the risks connected with the achievement of the Company's objectives, regulating both the activities carried out within individual departments, as well as relations with other entities.

→ Risk Management System- Reply S.p.A. has implemented a Risk Management system, based on the Control Risk Self-Assessment model, a self-assessment methodology recognized by sector standards.
The objective of such procedure is to develop a corporate culture in view of raising risk awareness, through a continuous and pervasive process, implemented by the Board of Directors and by top management, aimed at identifying any potential events that might involve the Company as well as pursuing a risk level that is consistent with achieving the Company's objectives.
The methodology used is articulated in the following phases:

→ Identification of objectives, strategies, critical success factors and the specific related risks that conflict with the achievement of the objectives;

→ Self-assessment process based on indicators associated with the different risk categories (named the Key Risk Indicators).

Such system thus enables the identification, measurement, management and control of the Company's level of exposure to the different risk factors, considering (i) the probability that the risk occurs, (ii) the impact of the risk on the Company's objectives, (iii) the overall scope of the risk, (iv) the Company's ability to reduce the impact of the risk on business operations, and (v) possible relationships among the different risk factors.
The procedure provides for monitoring the adequacy and effective functioning of the internal control and risk management system, as well as its review, to be completed annually, in order to consider the trend of business operations and the context of reference. Such process, coordinated by the Internal Audit department, provides for the use of questionnaires so that risk belonging to each profile can be assessed by Top Management and the Directors of the Company's various departments as well as by the Partners of the Italian subsidiaries.

Instruments monitoring compliance objectives

- Law 262/2005 on financial and accounting reporting – Consistently with what is provided by Law 262/2005 on the protection of savings, Reply S.p.A. implemented accounting and administrative processes relevant for purposes of the reliability of the financial-economic reporting disclosed to the market, that provide for:
  - Mapping of the main sub-processes within the administration and relevant accounting procedures;
  - Assessment of the adequacy of the existing controls and ongoing implementation of further controls in view of *zzzzz* and increased reliability of the processes considered;
  - Drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
  - Creation of future control and monitoring instruments.
- Legislative Decree 231/2001 – see the relevant paragraph.
- Security, environment and quality – Reply has implemented a system of procedures and an organizational structure dedicated to the management of data security (also in view of the laws on *Privacy*), environmental protection, the safety of equipment and personnel and the quality of the services carried out (ISO certification 9001:2008).
- Other laws and regulations - Monitoring the evolution of laws and regulations and that relative compliance is carried out internally.

Instruments monitoring reporting objectives

- Accounting disclosures - the drafting of accounting disclosures and disclosures in the consolidated and separate Financial Statements is regulated by the procedures of an administrative-accounting system.
- Confidential Information: see the relevant paragraph.
- Internal Communications – Reply S.p.A. has implemented an internal communications system aimed at facilitating and promoting internal communications within the Company and the Group, including by means of a structured management and coordination Committee system.

Characteristics of the current internal control and risk management system in relation to the financial reporting period

The approach adopted by Reply in relation to the assessment, monitoring and continuous updating of the internal control and risk management system is based on a process that is consistent with the "*COSO Framework*" model, which allows making assessments focusing on areas of higher risk and/or materiality, that is, where there are risks of significant errors in elements of the Financial Statements and related documents.
The key components of the process are:

1. Identification and evaluation of the source and probability of significant errors in elements of financial reporting;
2. Identification of the key controls aimed at covering the risks;
3. Assessment of the adequacy of the above controls with respect to the above risks, enabling ex ante or ex post identification of potential misstatements in elements of financial-economic reporting;

4. Verification of the operating effectiveness of controls.

Identification of the risk of misstatements which could have material effects on *financial reporting* is carried out through an administrative-accounting *risk assessment* process, under the supervision of the Director in charge of drawing up the Financial Statements along with the Chief Executive Officer, that identify the organizational entities, processes and the related accounting items that are generated, in addition to specific activities which could potentially generate significant errors. According to the methodology adopted by Reply, risks and related controls are associated with the accounting and business processes upon which accounting information is based.
Significant risks, identified through the *risk assessment* process, require definition and evaluation of specific controls ("key controls") that guarantee "coverage", thereby mitigating the risk that financial reporting will contain any material misstatements.
According to international *best practice*, there are two principal types of existing controls:

→ Controls that operate at Group or subsidiary level, such as: the delegation of authorities and responsibilities, separation of duties and assignment of privileges and rights for access to IT systems;
→ Controls that operate at process level, such as authorizations, reconciliations, verifications of consistency, etc. This category includes controls referring to operational processes and controls of accounting closure processes. Such controls can be "*preventive*" aimed at preventing errors or fraud which could result in misstatements in financial reporting, or "*detective*", aimed at revealing errors or fraud which has already occurred. They may also be defined as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

The process of identifying the above risks and key controls has led to the elaboration of control matrixes (*RCM – "Risk Control Matrix"*) that identify, for each significant process, the potential impact on financial reporting:

→ Risks subsequent to not having fulfilled the "Financial Statement assertion" control objectives, (existence, occurrence, completeness, rights and obligations, evaluation and accounting, presentation and disclosures) and other control objectives (such as authorization, segregation of tasks, data security, documentation and traceability of operations, etc.);
→ The related "*best practice*" (i.e. *CoSO Framework*);
→ The standard control activities (key controls) over these processes/procedures, and their principal characteristics (preventive/detective manual/automatic) and the related process owners;
→ The assessment of the aforesaid controls in relation to the adequacy of mitigating the risks identified;
→ Suggestions to improve shortages identified in the assessment of control activities.

The control activities related to significant processes of financial reporting are fully detailed in the "Reply Group's Manual of administration and accounting procedures", recently updated/integrated pursuant to Law No. 262/2005, commented on below.
As Reply S.p.A.'s shares are listed and negotiated on the Italian stock market, it is mandatory for the Board of Directors to nominate a Director in charge of drawing up the Financial Statements (Nominated Director); The Director in charge of drawing up the Financial Statements is responsible for setting up adequate administrative and accounting procedures to prepare the financial information disclosed to the market, and to monitor the proper application of such procedures. The Administration and accounting procedures manual defines the guidelines that must be applied within Reply and more specifically with reference to obligations under art. 154-bis of legislative decree 58/1998 governing company's Financial Statements and related attestation obligations.

More specifically the Administrative Procedures Manual:

- Defines the roles and responsibilities of the Organizational Units involved in the general activities of drafting, communication and control of the financial reporting disclosed to the market;
- Defines the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- Introduces, in order to support the drafting of the legal attestations/statements required by law of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally attest, through the internal communication processes, the correct functioning of the Accounting Control System pursuant to Law 262/2005 related to the accounting processes/flows regulated by such law and which fall within their administrative responsibility, the completeness and reliability of the information flows, as well as the adequacy and effective application of the key controls summarized in the control matrixes.

The company processes, the administrative-accounting procedures and the related control matrixes, along with the list of persons in charge of the operational units enacting the control, are subject to periodic assessments and if the case are updated.
The administrative-accounting procedures and the related control matrixes are shared with the relative process-owners, who attest that the controls have been planned and are operational, Administrative Management, with the support of the Internal Audit department, agree upon the implementation of any corrective measures.

The Internal Audit department carries out periodic assessments of the adequacy and effective application of the key controls every six months at the time of the preparation of the Financial Statements and interim report through audit procedures performed on specific areas determined by the Director in charge of drawing up the Financial Statements.
The persons in charge of the relevant administrative and accounting processes pursuant to Law 265/2005 issue an attestation letter addressed to the Director in charge of drawing up the Financial Statements, confirming the effective application of the administrative-accounting procedures for which they are responsible.
The audit plan is aimed at identifying a number of processes to be tested in order to cover the major processes during the year. The audit is performed on several Group companies, selected according to quantative parameters, (material thresholds with respect to the consolidated Financial Statements) and qualitative ones.
In order to carry out the monitoring controls check lists are prepared according to the different processes being controlled which summarize the ways of testing the key controls included in the Procedures Manual and in the RCM, the sample to be tested and the outcome of the test.
Sample testing is the criteria used and the data and assessments included in the check lists are supported by the documentation gathered during the monitoring activities, that are an integral part of the same check lists.

The outcome of the tests performed and any suggestions made concerning the opportunity of implementing further controls where shortages were identified, are summarized by the Internal Audit Officer in a special report, object of an internal communications flow, and addressed to the Director in charge of drawing up the Financial Statements and to the Board of Directors.
By sharing this document, two flows are activated:

- The attestation process addressed externally based on the declarations made by the Director in charge in compliance with art. 154-bis of legislative decree 58/1998, in occasion of the drafting of the annual Financial Statements or the half-year financial report, as described above.
- The internal process of sharing with the related *process owners* the outcome of the control assessments, any

compensation controls, corrective measures or improvement plan proposals.
The Head of the Internal Audit department periodically refers to the Internal Control and Risk Management Committee, the Board of Statutory Auditors and to the Supervisory Body with reference to the activities carried out within the assessment process of the Internal Control System.

A. Director in charge of the Internal control and Risk Management System

The Board of Directors, at its meeting of 27 April 2012, confirmed Mr. Oscar Pepino as the Director in charge of the Internal Control and Risk Management system, responsible for maintaining the internal control and risk management system in an efficient manner and in conformity with what is required by the Corporate Governance Code, and allows the Head of the Internal Audit department to carry out his role in accordance with the cited provisions of the Code.

B. Head of the Internal Audit department

The Board of Directors, at its meeting of 27 April 2012, appointed Mr. Edoardo Dezani – already tied to the Company as an employee – as the Head of the Internal Audit department, upon a proposal of the Director responsible for the Internal Control System, with the favourable opinion of the Internal Control and Risk Management Committee and having heard the Board of Statutory Auditors, who is responsible for controlling that the internal control and risk management system is operational and adequate.
The Head of the Internal Audit department works on the basis of an audit plan approved by the Board of Directors, which provides for periodic reports on the assessment of the internal control and risk management system's adequacy and the reliability of the reporting systems, including the accounting reporting systems, advising the members of the Board of Directors, Top Management, the Internal Control and Risk Management Committee and the Board of Statutory Auditors of his activities.

C. Organizational Model pursuant to Legislative Decree 231/01

In November 2004 the Company's Board of Director's approved an *"Ethics Code",* which confirmed the ethical principles and transparency that guide the Company's internal and external activities, outlining all of the fundamental principles required to guarantee legality, loyalty, and correctness when conducting Reply's business.
During the course of 2007 a project was initiated to adopt an updated organizational, management and control Model pursuant to the provisions of Article 6 of Legislative Decree 231/2001 (the "Model") in relation to the responsibilities of enterprises, in order to prevent the crimes provided by such Decree. The Model was approved by the Board of Directors at a meeting held 28 March 2008, and was subsequently updated through resolutions on 13 March 2009 and 1 August 2011.

The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules of conduct, control instruments and organizational procedures, formation and informational activities and disciplinary system finalized at assuring, the prevention of offences.
The types of crime contemplated by Legislative Decree No. 231/2001 and that have been considered at risk for the Group, as outlined in the annex to the Model, are the following:

(i) Relations with the Public Administration;
(ii) Enterprise obligations;
(iii) Privileged information;

(iv) Security, prevention, health and hygiene in the workplace;
(v) IT crimes and illegal use of personal data;
(vi) Laundering crimes;
(vii) Offences related to violation of copyright laws.
(viii) Employing citizens from foreign countries

The Model was adopted during 2008 and updated in 2009, 2011 and 2013 by all the Italian Group companies. The Organizational Model of Reply S.p.A is available on the company website (www.reply.eu – Investors – Corporate Governance).
The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has appointed a Supervisory Body, which has the duty to verify the correct functioning of the Model and to update it accordingly. The Compliance Committee refers to the Board of Directors and to the Internal Control and Risk Management Committee. The Supervisory Body, which has its own internal Regulations, is comprised of an outsider (Eng. Franco Gianolio) as its President, the Lead Independent Director (Mr. Fausto Forti), and the Head of the Internal Audit department (Mr. Edoardo Dezani), who will remain in office until the approval of the Financial Statements as at 31 December 2014.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Supervisory Body of the Parent Company, on the basis of specific agreements.

In 2013 the Supervisory Body met four (4) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

D. Independent audit firm

The Shareholders' General Meeting held on 29 April 2010, approved the appointment of Reconta Ernst & Young S.p.A. as the Company's independent auditors for the nine-year period 2010-2018 which includes the audit of the separated Financial Statements, the annual consolidated Financial Statements and the half-year condensed consolidated Financial Statements.

E. Director in charge of drawing up the Financial Statements and legal documents

The Board of Directors, at its meeting of 27 April 2012, in accordance with the provisions of Law 262/2005, confirmed as *the Director responsible for drawing up the Company's Financial Statements*, upon the proposal of the Chairman and Chief Executive Officer, and with the favourable opinion of the Board of Statutory Auditors, Mr. Giuseppe Veneziano, based on the experience matured in such department during the previous three years, as well as in the context of the Group's administrative and management control areas ever since it was listed; on 17 May 2012, the power of attorney was renewed for the same Director in order to enable him to carry out the powers attributed to him.
Pursuant to article 24 of the Company by-laws, the *Director* must set up adequate administration and accounting procedures for the drawing up of the statutory Financial Statements, the consolidated statements and any other financial communication.
The *Director*, together with the other Executive organs, must undersign an attestation, annexed to every Financial

Statement and to any other financial communication in accordance with specific laws and regulations.
With reference to his tasks, *the Director responsible for drawing up the Financial Statements* and legal documents has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.

F. Coordination between those involved in the Internal Control and Risk Management System

At present, the company does not consider it necessary to set up formal procedures for coordination between the various parties involved in the Internal Control and Risk Management system, as they already work in a spirit of mutual cooperation.

12. Directors' interests and transactions with related parties

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

- Promptly inform the board in detail of the existence of the interest and of the related circumstances;
- Abandon the board meeting when the issue is discussed.
- The Board of Directors can however, under certain circumstances, allow the Directors to participate and/or vote.

Beginning from the 15 June 2006 the Company has adopted a Regulation on Significant Operations with related parties.
In accordance with Consob regulation no. 17221 of 12 March 2010, the Company has adopted, effective 1 January 2011, procedures for transaction with related parties (the "Procedures") to ensure full transparency and substantial and procedural fairness in transactions with related parties and is available on the Company website (www.reply.eu – Investors – Corporate Governance).
Recalling the definition of Consob Regulation no. 17221 of 12 March 2010, the Procedures establish "significant transactions" those requiring the prior approval of the Board of Directors, with the exception of those subject to law and/or the General Shareholders, "minor transactions" (unless pertaining to the residual category of non significant transactions) those that can be delegated to one or more members of the Board and "exempt transactions" those falling under the types disciplined by Consob regulations.
The Company has exercised the option to apply the procedures related to minor transactions to significant transactions, as it is a smaller sized company.
Under a procedural perspective, when a transaction with a related party is deemed probable, the Designated Director (that is the Director in charge of supervising the Internal Control System) timely provides the Committee (identified within the Internal Control Committee) written communication with a brief description of the transaction.
If the transaction falls under the significant transaction category and the Designated Director has proposed the application of the specific procedures, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavourable opinion, the Board of Directors could choose to submit to the General Shareholders' meeting the decision concerning the transaction; in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favourable vote, provided that they represent at least 10% of the voting share capital.
If the transaction falls under the minor transaction category, the Committee submits to the Director its non binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction prior to the presentation of the contractual proposal, or, in case the decision is taken by the Board of Directors of the Company, at least three days prior to the board's meeting.

If the transaction falls under the General Shareholders' competencies or must be authorized by the latter, in addition to what has been described above, depending on whether the transaction is significant or minor, the Committee must express a motivated opinion in relation to the Company's interest in carrying out the transaction along with the convenience and substantial correctness of the terms and conditions of the transaction when the Board of Directors is called to approve the motion to submit to the General Shareholders' meeting the decision.
If, in relation to a significant operation the motion to submit to the General Shareholders' meeting the decision is approved by the Board of Directors despite an unfavourable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary resolutions by the General Shareholders' meeting – cannot be approved unless the majority of the non Related Shareholders express a favourable vote, provided that they represent at least 10% of the voting share capital.
In case there is an urgency, the operation, as long it is not competence of the Shareholders and does not need their authorization, may be concluded in derogation of the procedures as long as all mandatory information has been provided to the public and under the condition that:

- Should the transaction fall under the Chief financial officer's powers, the Chairman of the Board of Directors must be informed the reasons of the urgency prior to the transaction being executed;
- The transactions are subsequently approved in a following Shareholders' meeting;
- The body convening the Shareholders' meeting must draw up a report with adequate motivations of the urgency and the Board of Statutory Auditors must refer to the Shareholders their opinion in relation to the reasonableness of the urgency;
- The report and valuation of the previous point must be made available to the public at least 21 days prior to the Annual Shareholders' meeting and in accordance with the means set out by Consob;
- Within one day following the Annual Shareholders' meeting, the Company must make available to the public the information regarding the results of the voting.

The Designated Director, on at least a quarterly basis, submits to the Committee, to the Board of Directors and to the Board of Statutory Auditors, a detailed report concerning transactions previously approved by the Board of Directors and/or carried out by the Chief Executive Officer.
The Head of the Internal Control Function periodically carries out – in any case at least on a half-year basis – control activities over the fulfilment of obligations of the Procedures herein by the competent company departments and refers to the Committee and Board of Statutory Auditors.

During 2013, the Committee for transaction with related parties, identified within the Internal Control Committee (now called the Control and Risks Committee), met three (3) times to resolve on a minor transaction in relation to which the Committee deemed the existence of an interest of the Company to execute the transaction and expressed a favourable opinion with regards to the convenience and correctness of the related conditions.

13. Appointment of Statutory Auditors

The appointment and substitution of Auditors is disciplined by Art. 23 (Board of Statutory Auditors) of the by-laws, and is available on the Company's *website* (www.reply.eu under –Investors – Corporate Governance).

Art. 23 of the Company by-laws has been amended by the Board of Directors resolution passed on 26 October 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies) and the resolution of the Extraordinary Shareholders' meeting on 28 April 2011.

Art. 23 of the Company by-laws, regulates that:

- The lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least twenty-five days prior to the date set for the Shareholders' meeting on first call; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance with binding laws or regulations; should at the expiry date stated above, only one list be presented, or only lists presented by shareholders that are inter-related in accordance with the regulations in force, lists can be presented up to five days following such date. In this case the above threshold is reduced by half;
- The voting mechanism foresees that the votes obtained from each list, with separate sections for Statutory Auditors and Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. The ratios will then be progressively assigned to the candidates on each list and ranked in descending order. The candidates with the highest ratio will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- If candidates obtain the same percentage of votes, the candidate will be selected from the list which has not elected a Statutory Auditor, whereas if all the lists have elected the same number of candidates, the Statutory Auditor will be chosen from the list which obtained the most votes. If the result in percentage and vote is the same the Shareholders vote once more and the candidate with the highest percentage will be appointed;
- The office of President of the Board of Statutory Auditors is held by the Statutory Auditor which was elected from the minority list that obtained the highest number of votes;
- In the event of a Statutory Auditor being replaced, the first alternate auditor belonging to the same list as the auditor will take his place. Where this is not possible, the alternate auditor will be replaced by the non elected candidate having the highest percentage of votes among the list that the leaving auditor has chosen.

With regard to the application of the criterion of allocation in connection with the election of auditors, under Art. 148, paragraph 1 bis of the TUF, Law no. 120 of 2011 established that the above provisions shall apply from the first renewal of the body one year from the date of entry into force of the above-mentioned law; such rules will apply to Reply to S.p.A. as from the renewal of the corporate bodies on the approval of the Financial Statements at 31 December 2014 and under the approval of the shareholders' meeting on 16 April 2014.

14. Statutory Auditors

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

Cristiano Antonelli	President
Ada Alessandra Garzino Demo	Statutory Auditor
Paolo Claretta – Assandri	Statutory Auditor
Giuliana Monte	Alternate auditor
Alessandro Pedretti	Alternate auditor

The Board of Statutory Auditors was appointed during the Shareholders' meeting on 27 April 2012 based on the list which was presented by the majority shareholders of Alika S.r.l., apart from Mrs. Giuliana Monte, appointed with resolution dated 22 July 2013 (substituting Mr. Alessandro Mikla whose resignation was effective as 30 April 2013).
The office expires on 31 December 2014 with the approval of the Financial Statements.

The table below summarises the Board of Statutory Auditors with the main information requested in accordance with Article 144-duodecies issued by Consob

Name	Office	In office	List(*)	Independent from Code	% of attendance in meetings	Other offices held (1)
Cristiano Antonelli	President	From 1.1.12				
		To 31.12.14	M	X	100%	-
Ada Alessandra	Statutory Auditor	From 1.1.12				
Garzino Demo		To 31.12.14	M	X	100%	24
Paolo Statutory	Auditor	From 1.1.12				
Claretta-Assandri		To 31.12.14	M	X	100%	32
Alessandro Mikla	Alternate auditor	From 1.1.12				
		To 30.04.13	M	X	NA	NA
Giuliana Monte	Alternate auditor	From 22.07.13				
		To 31.12.14	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 1.1.12				
		To 31.12.14	M	X	NA	NA

Key:
M/m: M/majority list m/minority list
(1) Where applicable a list of all positions held has been annexed, according to Art. 144-quinquies decies of RE, as replaced by Resolution no. 17326 of 13 May 2010.
(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favourable votes equal to 59.199% of the share capital.

Following is a brief description of personal and professional characteristics of the members of the Statutory Auditors of the Company:

Cristiano Antonelli President of the Board of the Statutory Auditors

Cristian Antonelli is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis at the University of Turin (2004-2010); Director of the Bachelor degree in Institution and Business Communication(2004-2013); Director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine and along with Bo Carlsson edits the column 'Economics of Science Technology and Innovation' of Springer. His education background includes a Master in Economics at ISTAO of Ancona. During 1978 and 1979 he was a junior economist of the Science and Technology department of the OCSE and Rockefeller Fellow in the Sloan School of Massachusetts Institute of Technology from 1983 to 1985. He has taught in the universities of Sassari, Calabria, the Polytechnic of Milan and in the universities of Manchester, Nice, Lyon, Lumiere, Aix-en-Provence, Paris XIII and Paris XII. During the academic year 1999-2000 he taught in the university of Dauphine Paris IX. In the past Mr. Antonelli was member of the Board of Directors of Telecom Italia in the two-year period 1998-99 and of Pirelli&C for the three-year period 2008-2011; Member of the Science Committee of Confindustria in 1999 and 2000; Techno-scientific Committee of ENEA from 2000-2004. Furthermore he held office as Chairman of ICER (International Centre for Economic Research from 2008 to 2011 and was Vice-president of the International Schumpeter Society from 1999 to 2004.

Ada Alessandra Garzino Demo Statutory Auditor

Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1991 and the Registry of Auditors ever since 1995. She works as a Charted accountant and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals. Mrs. Ada Alessandra Garzino Demo is specialized in Telecommunication tax matters and fiscal planning. She covers the role of both Statutory Auditor and president in other companies.

Paolo Claretta Assandri Statutory Auditor

Mr. Paolo Claretta Assandri received a graduate degree in Economics and Commerce at the University of Turin in 1978, has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1981 and the Registry of Auditors ever since 1983. She works as a Charted accountant in Turin and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2013 the Statutory Auditors met six (6) times.

The compensations paid to the Statutory Auditors is disclosed in the Annual Report on Remuneration pursuant to Article 123-ter of TUF.
Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of the committee for control and risks and audits responsible for supervising: (i) the financial disclosure process, (ii) the effectiveness of the internal control, internal audit and risk management systems, (iii) the audit of the annual separate and consolidated accounts, (iv) the independence of the independent auditors.

15. Relations with Shareholders

The Board of Directors ensures that a person in charge of relations with investors id identified and periodically assesses the need to constitute a structural function within the company.
With a resolution of the Board on 27 April 2012 Mr. Riccardo Lodigiani, in charge of relations with institutional investors and with shareholders (Investor relator) in order to create an ongoing dialogue with the market.
The abovementioned person must exclusively and periodically inform the Chairman and the designated member of the board of his activities.
On the Company’s website (www.reply.eu, Investors – Corporate Governance), the following documents are available:

- Company by-laws;
- Annual calendar for 2014 of company events;
- Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the Code of Ethics;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Annual Report on Remuneration;
- Procedures on Related party transactions

16. General Shareholders' Meeting

The company encourages and facilitates the participation at the Annual General Meetings providing any necessary information or explanation in order to guarantee a smooth and conscientious participation of the Shareholders.
The Company, with the resolution by the Board of Directors on 26 October 2010 and by the Extraordinary Shareholders' meeting on 28 April 2011, has introduced the amendments to the Company's by-laws required by Legislative Decree no. 27 of 27 January 2010 enacting the Community Directive no. 2997/36/EC in relation to the shareholders' rights in listed companies.
Art. 12 of the Company by-laws establishes that shareholders are entitled to intervene during the General Shareholders' meeting if they are shareholders at the end of the seventh accounting day of open markets preceding the General Shareholders' meeting and have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code.
The Company can designate for each general meeting one or two persons to whom confer the voting rights with specific instructions for one or more proposals on the agenda.
The designated persons, the means and terms of the conferred delegation are communicated on the notice calling the general meeting.
The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at regulating the running of the meetings), as the Company's by-laws provide adequate provisions concerning the matter.
All the directors spoke at the General Shareholders' meeting held on 23 April 2013. On that occasion, the Board of Directors reported on its activities during the year 2012. Seven (7) Directors out of nine (9) spoke at the Ordinary and Extraordinary Shareholders' meeting held on 22 July 2013.

17. Other Corporate Governance practices

System of the Company's operational procedures – in order to properly apply the Company's regulations and to reduce risks connected with achieving the Company's objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, governing both the activities carried out by the single departments as well as relations with other entities; Reference is made in this regard to what has been described in the paragraph on the Internal Control and Risk Management System.

18. Changes Subsequent To The Year End Under Review

Following the year end close no significant changes have been made to the structure of the Corporate Governance, other than what has been disclosed above.

Turin, 14 March 2014

For the Board of Directors
The Chairman
Mr. Mario Rizzante

Reply S.p.A.

Annual Report on Remuneration

1. Introduction

This document ("The Annual Report on Remuneration", the "Report"), was prepared and approved by the Board of Directors on 14 March 2013 according to Article 123-ter of Legislative Decree No. 58/1998 ("TUF") and Article 6 of the Corporate Governance Code, the December 2011 version, approved by the Corporate Governance Committee established at Borsa Italiana S.p.A.
The Report describes the Remuneration policy adopted by Reply S.p.A (hereon "Reply") with reference to remuneration to (i) members of the Board of Directors and in particular to Executive Directors and Directors invested with special charges (ii) Directors with Strategic Responsibility.

2. Section I

2.1. Drafting, approval and implementation of the Remuneration Policy

The corporate bodies and persons responsible for drafting, approving and implementing the remuneration Policy are the following:

- Shareholders' meeting;
- The Board of Directors;
- The Remuneration and Nominating Committee;
- Executive Directors;
- Statutory Auditors.

Shareholders' meeting

With regard to remuneration, the Shareholders' meeting:

- Determines the remuneration of each member of the Board of Directors and the Executive Committee, if appointed in accordance with Article 2364(1) (3) of the Italian Civil Code; and shall establish, a total amount to all the Board. This amount is established in a concrete manner as to attract, retain and motivate the staff invested with high professional skills necessary to manage the Company with success;
- Determines the participation in the profit of the present Company, dependent on the Gross consolidated margin, to Directors invested with special charges in accordance with the Company bylaw;
- Expresses its advisory, non-binding vote on the Annual Report on Remuneration approved by the Board of Directors, upon the proposal of the Remuneration and Nominating Committee;
- Receives adequate information with regards to the remuneration policy;
- Resolves on the Remuneration Plans based on shares or other financial instruments for Directors, employees and collaborators, including Managers with strategic responsibilities pursuant to Article 114-bis TUF.

Board of Directors

The Board of Directors:

- Establishes a Remuneration and Nominating Committee from among its members. One member must have adequate knowledge and experience with regards to financial and remuneration policy; the persons competence is evaluated by the Board when he/she is elected;
- Determines, upon a proposal of the Remuneration and Nominating Committee, the remuneration policy for members of the administrative bodies. The remuneration policy defines guidelines which all company members involved must follow as to determine the remuneration of Executive Directors, Directors invested with special charges and

Directors with strategic responsibilities. Such guidelines are illustrated in the present document;

- Approves the Annual Report on Remuneration which shall be submitted to the General Shareholders' meeting;
- Upon the proposal or opinion of the Remuneration and Nominating Committee determines, based on the guidelines of the Remuneration Policy, and in any case upon consulting the Board of Statutory Auditors, the remuneration of the Executive Directors and other Directors with specific responsibilities; prepares, with the assistance of the Remuneration and Nominating Committee, the remuneration plans based on the allocation of shares or other financial instruments and submits them to the approval of the Shareholders' meeting in accordance with Article 114-bis TUF;

Carries out the Remuneration plans based on shares or other financial instruments delegated by the Shareholders' meeting

Remuneration and Nominating Committee

The Remuneration and Nominating Committee:

- Makes proposals and advises the Board of Directors in relation to the remuneration to Executive Directors and other Directors with special charges, and furthermore advises on the identification and fixing of adequate performance objectives that enable the calculation of the variable components of the compensation;
- Makes proposals to the Board of Directors on the remuneration policy;
- Assists the Board of Directors in drawing up and implementing remuneration plans based on shares or other financial instruments;
- Periodically evaluates the adequacy and correct application of the remuneration policy, making use of information provided by the Executive Directors when the evaluation is referred to a Director with strategic responsibility;
- Provides the Board of Directors' opinions and proposals about remuneration;
- Monitors implementation of the decisions adopted by the Board of Directors regarding remuneration, evaluating that the performance target has been achieved;
- Refers to the Shareholders' the methods of the Committees functions; for such reason, the presence of the Chairman of the Remuneration and Nominating Committee or another member of the Committee is recommended at the annual Shareholders' meeting;
- If it is deemed necessary or appropriate an external consultant with expertise in remuneration policy can be utilized to carry out such task; the independent expert must not carry out any form of activity in favour of Reply Human resource department, shareholders', Executive Directors and Directors with strategic responsibilities. The independence of external consultants is verified by the Remuneration and Nominating Committee before they are appointed.

On 27 April 2012, Reply S.p.A.'s Board of Directors appointed the members of the Remuneration and Nominating Committee. As at the date of approval of this Report, the Remuneration and Nominating Committee was comprised as follows:

- Fausto Forti, Chairman of the Committee and Lead Independent Director;
- Marco Mezzalama, Independent Director;
- Carlo Alberto Carnevale Maffé, Independent Director.

The Chairman of the Remuneration and Nominating Committee has gained adequate knowledge and experience on financial issues and remuneration policy given his professional experience characterized by operational responsibility in large companies.

In 2013 the Remuneration and Nominating Committee did not rely on the support of independent remuneration policy experts to draw up the Remuneration Policy.

For further information regarding the operation and activities of the Remuneration and Nominating Committee for the financial year ended as at 31 December 2013, see the 2013 Report on Corporate Governance and Ownership Structure.

Executive Directors

Executive Directors:

- Provide the Remuneration and Nominating Committee all useful information so to evaluate the adequacy and concrete application of the Remuneration Policy, with particular regard to the remuneration of Directors with strategic responsibilities;
- Establish the remuneration to Directors with Strategic Responsibilities based on the guidelines set out by the Remuneration Policy.

Statutory Auditors

The Board of Statutory Auditors has the task of providing opinion in relation to the Remuneration Policy; in particular the Board provides opinions on the remuneration of Executive Directors and Directors invested with special charges; in expressing their opinion the Board verifies the consistency of the proposals with the Remuneration Policy:

2.2. Remuneration Policies

The 2014 Remuneration Policy has remained substantially unvaried with respect to 2013, in view of the assessments made by the Remuneration and Nominating Committee at the meeting of 14 March 2014 and subsequently, on the same date, by the Board of Directors. The Remuneration Policy is intended to ensure the Company has the ability to attract, retain and motivate individuals who have professional skills and experience to pursue the achievement of the Company's objectives. The Policy is also instrumental in aligning the interests of the Company's *management* with those of the shareholders, pursuing the primary objective of the creation of value over a medium-long term period, through the creation of a strong link between remuneration and individual *performance*.

2.3. Remuneration of Directors

With reference to 2013 the Directors were as follows:

Mario Rizzante	Chairman and Chief Executive Officer
Tatiana Rizzante	Chief Executive Officer
Oscar Pepino	Executive Director
Claudio Bombonato	Executive Director
Daniele Angelucci	Executive Director
Filippo Rizzante	Executive Director
Fausto Forti	Non-Executive Director, Independent and Lead Independent Director
Marco Mezzalama	Non-Executive Director and Independent
Carlo Alberto Carnevale Maffè	Non-Executive Director and Independent

In 2013 remuneration of Directors not invested with operational proxies is as follows:

- 30,000 Euros for each member of the Board, as resolved by the Shareholders' meeting of 27 April 2012.

In 2013 the remuneration of Board members of the Supervisory Body – with reference to Mr. Fausto Forti – was determined as follows:

- 1,000 Euros for each participation in the Supervisory Body meeting.

A specific remuneration component in relation to the participation in the Committee meetings or to the execution of specific engagements not related to operational proxies is not foreseen, being the beneficiaries of the compensation only the Executive Directors that are also members of the Committee, the compensation to the Directors already takes into consideration the commitment deriving from the participation in the Committee meetings.
In line with *best practices*, Non-Executive Directors are not eligible for any variable form of compensation linked to the achievement of financial targets.
In line with best practice, the Company has an insurance policy on third party liability for damage inflicted by the Board of Directors (apart from the General Manager, but also Directors with Strategic Responsibilities) in performing their duties, with the aim of safeguarding the beneficiaries and the Company from any connected indemnity, excluding cases of malice or gross negligence.

2.4. Remuneration of Executive Directors

Under a legal and statutory perspective, remuneration of the Company's Executive Directors are established in accordance with:

- Article 2389(3) of the Italian Civil Code – "The remuneration of Directors invested with special responsibilities in conformity with the by-laws is determined by the Board of Directors after consultation with the Board of Statutory Auditors";
- Article 22(2) of the by-laws –"Directors invested with special responsibilities are entitled to share in the profits of the Company, dependent on the Consolidated Gross Operating Margin, whose quantification is established annually by the Shareholders' meeting at the time the Financial Statements are approved".

From the perspective of the Remuneration Policy, the remuneration of the Executive Directors is generally comprised of the following elements:

- A gross annual fixed component;
- A variable component linked to general predetermined, measurable objectives connected to the creation of value over a medium period of time. Establishing a twelve month timeframe should allow targets to be determined that are suitably consistent with the trend of the market in which the Company operates, and is consistent with the objective of aligning the interests of the Executive Directors with the pursuit of the creation of value for shareholders in the medium-long term, considering that, in the Company's case, almost all of the Executive Directors are also shareholders of the Company.

The payment of the variable compensation is deferred in respect of when it has matured of approximately four to five months which enables a proper risk management within the Remuneration Policy of the Company.
The Board of Directors keeps in mind two factors when determining remuneration and its single components: *(i)* the specific proxy that each Executive Directors holds and/or *(ii)* the function and the role actually carried out by each Executive Director within the Company, thus ensuring that the variable component is coherent with the tasks assigned.
Under an accounting perspective, the remuneration of the Executive Directors is recorded in the Financial Statements in the year in which the services are rendered both for the fixed gross annual component and the variable component, even though payment is made through profit sharing in accordance with Article 22 of the

Company By-laws; This is consistent with the International Financial Reporting Standards IAS/IFRS in as much as profit-sharing is considered to all effects as part of the remuneration and therefore the relative al location is recorded in the Financial Statements in the year in which the Executive Directors' services are rendered; for such reason, the proposal to attribute profit-sharing is the object of resolution by the Board of Directors at the same time as approval of the draft annual Financial Statements.

With reference to 2013,

- During the meeting of 14 March 2013 the Board of Directors approved resolutions on the Remuneration Policy for 2013, upon the proposal of the Remuneration Committee;
- The Shareholders' meeting of 27 April 2012 approved, with a non-binding resolution, the Remuneration Report containing the Remuneration Policy;
- During the meeting of 14 March 2013, the Board of Directors, upon the proposal of the Remuneration and Nominating Committee, determined the variable component of the remuneration for the Executive Directors for 2013 by allowing profit-sharing in accordance with Article 22 of the Company's By-laws, and at the meeting of 14 March 2014 it verified performance and made the profit-sharing proposal to be submitted to the Shareholders' meeting, together with the relative division;
- On 16 April 2014 the Shareholders' meeting shall be called to approve the proposal regarding the variable component of remuneration as described.

With reference to 2014, remuneration is based on the following criteria:

- The consistency between the elements as to determine remuneration and the objectives;
- The correct balance between the fixed and variable component based on the strategic objectives and risk management policy of the Company, keeping in mind the field in which it operates and the characteristics of the activities concretely carried out;
- The weight of the variable component is approximately 60% of the whole remuneration package, being understood that the fixed component must be sufficient to compensate the performance of Executive Directors in case the variable component is not paid out when performance objectives established by the Board of Directors are not achieved;
- Pre-established performance targets, i.e. financial results or other specific objectives linked to the payment of the variable component, are measurable and linked to the creation of value for shareholders over the medium to long term;
- The relationship between the variance of the results achieved and the variance of the remuneration is guaranteed through scaling of the variable compensation up to a maximum limit related to a scale of objectives;
- Several month deferral of payment of the variable component with respect to when the compensation matures in order to enable a proper risk management of the company within the Remuneration Policy requirements.

With reference to the variable components of the remuneration for the Executive Directors, the Remuneration and Nominating Committee proposes objectives and, during the subsequent year, *performance* checks in order to verify whether the objectives established the previous year were achieved.

The criteria utilized in defining remuneration to Executive Directors for 2014 was established by the Board of Directors and is as follows:

- Accrual is subordinated to the achievement of one of the accessible terms represented by the capacity of the profits of the Company;
- Fixing of the annual margin objective represented by the Consolidated Gross Operating Margin as shown in the consolidated Financial Statements, with the identification of a minimum threshold and maximum threshold;

- Fixing of further objectives for the Executive Directors invested with special charges in the Company;
- Quantification of the bonus up to a pre-established maximum amount linked to the achievement of assigned objectives;
- Allocation, in general, of the variable profit-sharing component by dividing it among those entitled to receive it, related to the Consolidated Gross Operating Margin to which Directors invested with special responsibilities are entitled pursuant to Article 22 of the Company By-laws;

The Executive Directors can also be granted other types of benefits typical of the office held and recognized within the Group to Directors having strategic responsibilities and/or managers (i.e. company car).
At present, Directors' severance indemnity (TFM) has been allocated for Executive Directors and Managers with strategic responsibilities having analogous characteristics to employee severance indemnity (TFR) pursuant to Article 2120 of the Italian Civil Code to which the Group's Italian managers are legally entitled.
The Board of Directors can propose to the Shareholders the adoption of the incentive mechanisms through the attribution of financial options. At present no incentive plans of this kind have been established.
The Company deems that the Remuneration Policy is consistent with the pursuit of the long-term interests of the company and its risk management.

2.5. General Managers and Directors with Strategic Responsibility

As at 14 March 2014 the role of General Manager is non existent in the Company's organization.
Four Directors have Strategic Responsibility at 14 March 2014.
Remuneration to Directors with Strategic Responsibilities is composed by a fixed and variable component and established with the same principles and criteria described above for the Executive Directors. For further information see point 2.4 Remuneration to Executive Directors. Directors with Strategic Responsibilities have the right to severance indemnity (TFR) ex Art. 2120 of the Italian Civil Code. Furthermore some Directors who cover strategic positions in subsidiaries have also been assigned post termination treatment determined in the same manner as severance indemnity.
The remuneration to the Director in charge of drawing up the Financial Statements and the Internal Audit manager are in line with the tasks assigned.

2.6. Cessation of office or termination of employment

At the date of the present Report no allowance has been set in event of cessation of office or termination of employment on behalf of Executives and Directors with Strategic Responsibilities apart from what is provided by the ex law and/or the Collective labour agreement in case the persons have a dependent work contract.

3. Section Two

3.1. Remuneration paid to members of the Board of Directors, Statutory Auditors, General Managers and Executives with Strategic Responsibilities

Remuneration paid in 2013 to members of the Board of Directors, Statutory and other Executives with Strategic Responsibilities

(figures in thousands of Euros)

Name Surname	Office held in Reply S.p.A.	Period of office	Term of office(*)	Fixed remuneration
Mario Rizzante	Chairman and Chief Executive Officer	1/01/2013-31/12/2013	31/12/2014	460(1)
	Remuneration paid by subsidiaries			240(2)
	Total			700
Tatiana Rizzante	Chief Executive Officer	1/01/2013-31/12/2013	31/12/2014	210(3)
	Remuneration paid by subsidiaries			343
	Total			553
Oscar Pepino	Chief Executive Officer	1/01/2013-31/12/2013	31/12/2014	300
Claudio Bombonato	Chief Executive Officer	1/01/2013-31/12/2013	31/12/2014	400
Filippo Rizzante	Chief Executive Officer	1/01/2013-31/12/2013	31/12/2014	100
	Remuneration paid by subsidiaries			340
	Total			440
Daniele Angelucci	Chief Executive Officer	1/01/2013-31/12/2013	31/12/2014	220
	Remuneration paid by subsidiaries			123(5)
	Total			343
Fausto Forti	Non-Executive Director and Independent	1/01/2013-31/12/2013	31/12/2014	34(7)
C. A. Carnevale Maffé	Non-Executive Director and Independent	1/01/2013-31/12/2013	31/12/2014	30
Marco Mezzalama	Non-Executive Director and Independent	1/01/2013-31/12/2013	31/12/2014	30
Cristiano Antonelli	Chairman of the Board of Statutory Auditors	1/01/2013-31/12/2013	31/12/2014	46
A.A. Garzino Demo	Statutory Auditor	1/01/2013-31/12/2013	31/12/2014	32
	Remuneration paid by subsidiaries			32(8)
	Total			64
Paolo Claretta-Assandri	Statutory Auditor	1/01/2013-31/12/2013	31/12/2014	32
Directors with Strategic Responsibility	Remuneration paid by Reply S.p.A			163
	Remuneration paid by subsidiaries			1,151
	Total			1,314

To be noted that where no indication has been made, no compensation has been given to Reply S.p.A. subsidiaries.
(*) Board of Directors will hold office until the Shareholders' meeting that will approve the 31 December 2014 Financial Statements.
(1) Gross emolument for the office of Chairman and Chief Executive Officer of the Board of Directors in Reply S.p.A.;
(2) Gross emolument for the office of Chief Executive Officer in subsidiaries equal to 120,000 Euros The remaining amount refers to the gross salary received as an employee.
(3) Gross emolument for the office of Chief Executive Officer in Reply S.p.A.;
(4) Gross emolument for the office of Chief Executive Officer in subsidiaries equal to 60,000 Euros. The remaining amount refers to the gross salary received as an employee,

Remuneration for the participation to internal committees	Non equity variable remuneration		Non monetary benefits	Other remuneration	Total	*Fair value* of the equity remuneration	Post mandate Indemnity
	Bonus and other incentives	Profit Sharing					
-	-	400	-	-	860	-	-
-	-	-	-	-	240	-	-
-		400			1,100	-	-
-	-	400	-	-	610	-	-
-	-	-	-	-	343	-	-
-	-	400	-	-	953	-	-
-	-	400	-		700	-	-
-	-	600	-	-	1,000	-	-
-	-	400	-	-	500	-	-
-	-	-	-	-	340		-
-	-	400	-	-	840		-
-	-	400	-	-	620	-	-
-	-	-	-	19(6)	142		-
-	-	400	-	19	762		-
-	-	-	-	-	34	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	46	-	-
-	-	-	-	-	32	-	-
-	-	-	-	-	32		-
-	-	-	-	-	64		-
-	-	-	-	-	32	-	-
-	-	-	-	-	163	-	-
-	-	1,598	-	82(9)	2,831	-	-
-	-	1,598	-	82	2,994	-	-

(5) Gross emolument for the office of Chief Executive Officer in subsidiaries equal to 60,000 Euros. The remaining amount refers to the gross salary received as an employee,
(6) Post termination treatment.
(7) Gross emolument for the office of Independent Directors in 2013 equal to 30,000 Euros (Euro/1000 he residual amount is referred to the presence tokens in 2012 for the participation in the Internal control Committee meetings;
(8) Gross emolument for the office of Chairman of the Board of Statutory Auditors in 2013 in subsidiaries;
(9) Post termination treatment.

3.2. Stock-option granted to members of the Board of Directors and Executives with Strategic Responsibility (in Euros)

		Shareholders' meeting resolution of10/06/2004
Name and Surname	**Office**	**(1)**
Tatiana Rizzante	Chief Executive Officer	Plan 2004
Daniele Angelucci	Executive Director	Plan 2004
Directors with Strategic Responsibility		Plan 2004

(1) Plan
(2) Number of options
(3) Exercise price
(4) Possible exercise period
(5) Number of options
(6) Exercise price
(7) Possible exercise period
(8) Fair value on the granting date
(9) Granting date
(10) Market price of the underlying shares at the granting date
(11) Number of options
(12) Exercise price
(13) Market price of the underlying shares at the granting date
(14) Number of options
(15) Number of options
(16) Fair value

3.3. Shares held by the members of the Board of Directors and Executives with Strategic Responsibility in companies with listed shares and its subsidiaries

Shares held by the members of the Board of Directors

First name and Surname	Office	Shares held	No. of shares held at 31/12/2012	No. of shares bought	No. of shares sold	No. of shares held at 31/12/2013
Mario Rizzante	Chairman and Chief Executive Officer	Reply S.p.A.	11,381	-	-	11,381
Tatiana Rizzante	Chief Executive Officer	Reply S.p.A.	15,734	15,000	15,000	15,734
Oscar Pepino	Executive Director	Reply S.p.A.	13,710	-	-	13,710
Claudio Bombonato	Executive Director	Reply S.p.A.	17,500	-	-	17,500
Filippo Rizzante	Executive Director	Reply S.p.A.	3,400	-	-	3,400
Daniele Angelucci	Executive Director	Reply S.p.A.	145,290	15,000	15,000	145,290
Fausto Forti	Non- Executive Director and Independent	Reply S.p.A.	-	-	-	-
C. A. Carnevale Maffé	Non- Executive Director and Independent	Reply S.p.A.	-	-	-	-
Marco Mezzalama	Non- Executive Director and Independent	Reply S.p.A.	250	-	-	250

At 31/12/2013 the following members of the Board of Directors hold shares in the Company:

- Mario Rizzante and Oscar Pepino hold 51% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin.
- Alika S.r.l. holds no. 4,936,204 Reply S.p.A. shares, equivalent to 52.7775% of the Company's share capital.

	Number of options 01/01/2013			Options assigned in 2013						Options exercised in 2013			Options expired in 2013	Total Options held at 31/12/2013	Options relating to the current financial year
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	15,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	15,000	21.339	32.06	-	-	-
	15,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	15,000	21.339	24.60	-	-	-
	60,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	30,000	21.339	36.69	-	30,000	-

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

Number of Directors having strategic responsibility		Shares held	No. Of shares held at 31/12/2012	No. of shares bought	No. of shares sold	No. Of shares held at 31/12/2013
4	Reply S.p.A.	540,354	30,000	92,052	478,302	

Definitions

In the present document the definitions of the words in upper case is as follows:

"Board": means all the Board members of Reply, whether Executive, Non- Executive, Independent, etc.;

"Executive Directors": means, in accordance with the criteria of the Corporate governance Code for Listed Companies:

- Directors of Reply who have been nominated as Chief Executive Directors of the Company or subsidiaries which has strategic importance;
- Members of the Reply Board of Directors with management duties in the Company or subsidiaries which has strategic importance;
- The Directors of Reply, who may also be the Chairman of the Company, holder of specific individual proxies or having a specific role in the development of the company strategies;

"Other Directors invested with special charges" means Directors who are assigned special charges (i.e. Chairman, Vice- Chairman), different from the Executive Directors;

"Executives with Strategic responsibilities" means those who have power and responsibility in – directly or indirectly- planning, managing and controlling the activities of the Company, in accordance with the Consob Regulation no. 17221/2010 regarding Related Parties.

Corporate Information

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