

REPLY

ANNUAL REPORT 2002

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**ANNUAL REPORT
2002**

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CORPORATE BODIES

Board of Directors

<i>Chairman</i>	Mario Rizzante
<i>Chief Executive Officers</i>	Sergio Ingegnatti Oscar Pepino
<i>Directors</i>	Marco Mezzalama (1) Paul de Sury (1)

Board of Statutory Auditors

<i>Statutory Auditors</i>	Piergiorgio Re – Chairman Tommaso Vallenzasca Paolo Claretta-Assandri
<i>Alternate Auditors</i>	Domenica Gai

Independent Auditors

Deloitte & Touche Italia S.p.A.

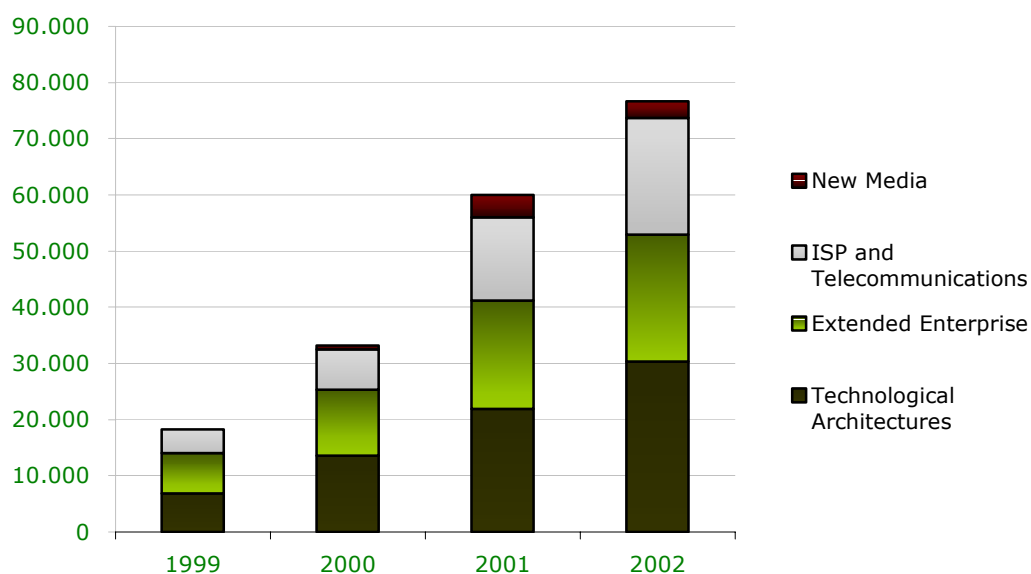
(1) Independent directors in accordance with the Corporate governance code for listed companies.

REPLY – FINANCIAL HIGHLIGHTS

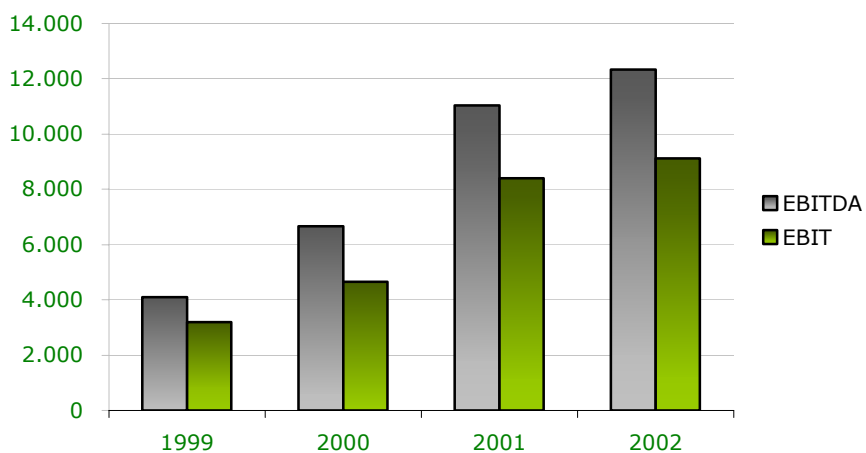
Statement of operation data (thousand euros)	2002	%	2001	%	2000	%	1999 proforma	%
Revenues	77.141	100,0	60.303	100,0	33.337	100,0	18.596	100,0
Gross operating income	12.324	16,0	11.047	18,3	6.659	20,0	4.088	22,0
Operating income	9.111	11,8	8.404	13,9	4.649	13,9	3.204	17,2
Income before extraordinary items*	9.292	12,0	9.185	15,2	4.544	13,6	3.068	16,5
Net income/(loss)	3.535	4,6	3.842	6,4	1.883	5,6	1.464	7,9

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

Revenues by business line



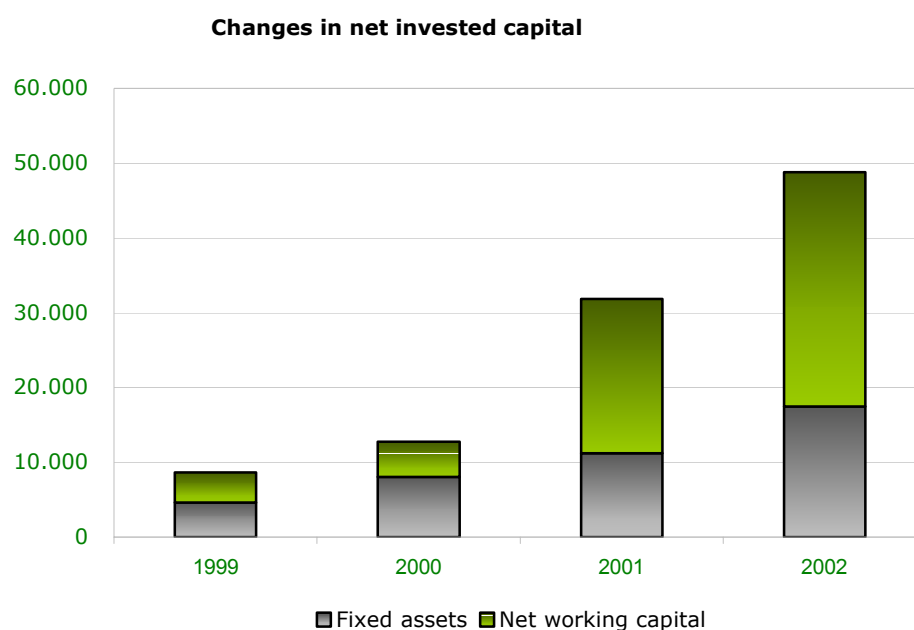
Development of profitability



Balance sheet items	2002	2001	2000	1999
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(thousand euros)				proforma
Shareholders' equity	48.888	45.615	41.761	6.437
Total assets	79.197	69.789	56.996	15.475
Share capital	4.244	4.244	4.244	1.669
Working capital, net	31.314	20.582	4.681	4.043
Cash Flow *	6.748	6.485	3.648	2.348
Fixed assets	17.482	11.237	8.040	4.633
Net financial position	4.131	16.497	30.087	(1.619)

* Calculated as the sum of net income, amortization and depreciation



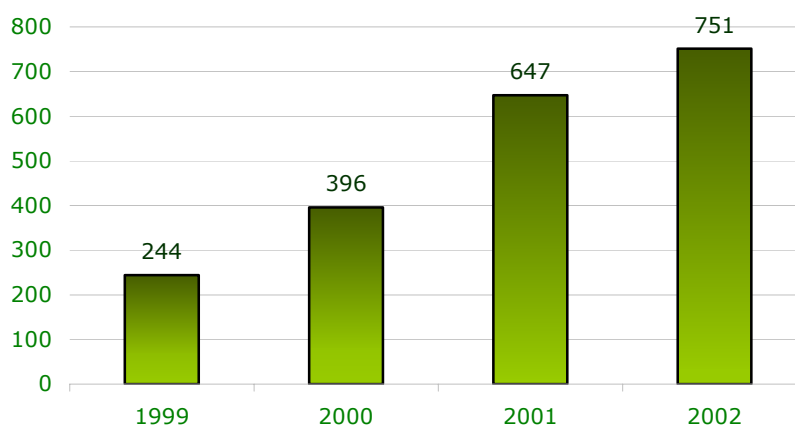
Figures per single share (in euros)	2002	2001	2000	1999 proforma
Number of shares	8.162.200	8.162.200	8.162.200	3.232.000
Operating result per share	1,11	1,03	0,57	0,99
Net result per share after tax deduction	0,47	0,49	0,22	0,45
Net profit per share	0,43	0,47	0,23	0,45
Cash flow per share	0,83	0,79	0,45	0,73
Net worth per share	6,00	5,59	5,12	1,99

Reply on the Stock market



	2002	2001	2000	1999 proforma
Other information				
Number of employees	751	647	396	244

Human resources



LETTER TO THE SHAREHOLDERS

To our shareholders,

In 2002, a difficult and demanding year, Reply has consolidated and strengthened its growth. The results achieved are particularly important because they demonstrate once more, the Group's ability to achieve positive performances despite difficult economic conjectures.

Our goal has always been to create value; we have accomplished this by providing high quality solutions, by setting up solid work groups, capable of gaining ground and being successful in such a short period in competitive markets such as the Industrial, the Manufacturing, the Telecommunications, the Banking and the Insurance market.

During 2002, we have also strengthened our offer in the infrastructures and security segment; and have entered in the Health and Public Authority segment, which seem to have a strong growth potential.

Therefore in 2003, alongside the development of our traditional business lines, Reply will also be engaged in developing the activities in the Public Administration segment and in intensifying its services and solutions for "Real Time Enterprises":

I am confident that the basis we have developed will allow us to improve the perception of Reply and strengthen the positioning of the Group in dynamic markets.

It would be needless to remember the international crisis and the unfavorable conjectures, which have characterized the market in which Reply operates. I would however like to stress the hard work and spirit with which we have faced such scenario; in fact I am convinced that our efforts, our skills and our capabilities of being always innovative will once again be rewarded.

The Chairman

Mario Rizzante



DIRECTORS' REPORT ON OPERATIONS

GROUP DISTINCTIVE FEATURES

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

Procedures, technology, applications are all rings of a value chain connected to ever so smaller sequences. Increasing effectiveness of procedures, availability of information to anyone and anywhere, the ability to make decisions in real time are objectives that require business capability but also complete domain of consolidated solutions and the ability to implement them timely to different technological platforms.

Reply's value is acknowledged through its ability to assist its clients in the realization of their projects by introducing innovation and quality along with its experience in specific sectors.

In order to provide its clients with the necessary instruments to reformulate strategies and organizational models in the new scenario, Reply, one of the leading Italian companies in the "e-business" field, has developed an offer of integrated services that include:

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

Reply works by means of subsidiary companies with specific knowledge, expertise, and skills. This allows Reply to be flexible and dynamic, typical features of small enterprises, but at the same time, with the ability to design, develop and organize, characteristics of an entity of vast dimension.

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

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

These factors consist of:

a) Skilled domain of Reply services

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

b) Accomplished long-term relationships with great industries and main operators in the telecommunication scenario;

c) International strategic agreements;

d) Significant partnership with some of the main "software vendors";

- e) A specialized and consolidated Group of management, strongly profit oriented;
- f) Pro-activity in organization and framework, aimed to move up the market evolution.

Reply's e-business services are mainly developed in the following area:

- Architecture and Technologic Solutions
- Extended Enterprises
- ISP and Telecommunications
- New Media

The different offers are thought to grant:

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

The offers are also verticalized with the following industrial segments:

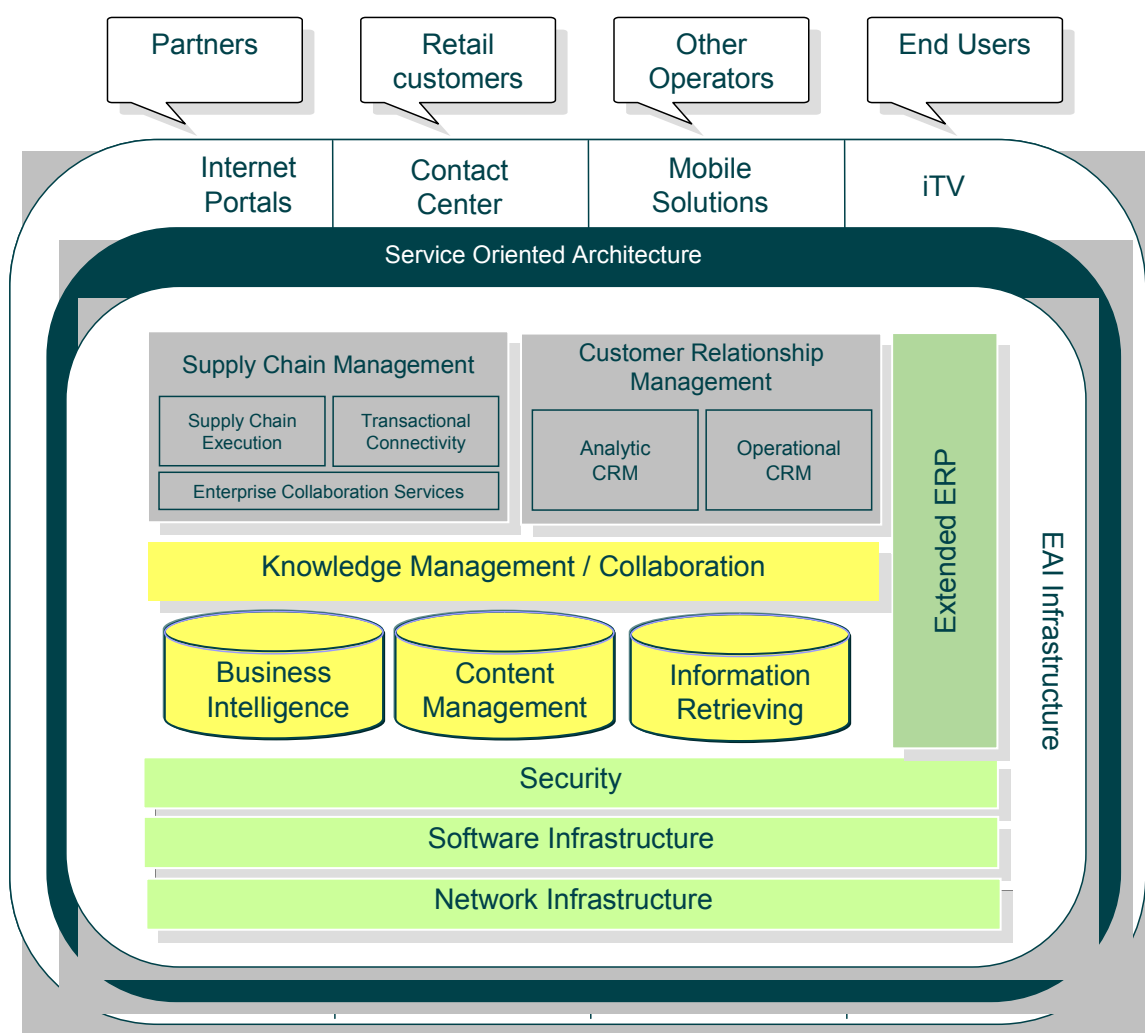
- Banking and Financial Services
- Telecommunications
- Manufacturing
- Public Administration/E-Government

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

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

BUSINESS SOLUTIONS

Reply is specialized in creating effective business solutions based on innovative technologies. What characterizes Reply's services is the ability to be one step ahead in the development of business models and new technology and the swiftness with which it is able to transform such knowledge in a competitive edge and efficiency for its clients.



Reply's offer

Reply intervenes in the value chain in those aspects where interaction with clients, employees and partners is relevant.

Reply's value is acknowledged through its ability to assist its clients in the realization of their projects by introducing innovation and quality along with its experience in specific sectors.

Technological Architectures

The current and ever more imperative business needs require informatics systems and structures able to:

- Manage and adapt to sudden changes in the organizational structure;
- Manage frequent changes in company procedures and systems;
- Provide applications to diversified channels (clients, suppliers, partners), allowing access through different devices (Browser, PDA, Smartphone, Mobile phones, etc).

With the experienced gained in application integration and in new Internet and Wireless communication technology, Reply assists its clients in the design and realization of multichannel solutions able to:

- Transform existing business models in solutions that interact with the entire value chain;
- Evolve back office application platforms based on "storage bins" and communication between "storage bins" into flexible, service oriented, integrated architectural models through different channels;
- Manage continuous evolution of communication networks and devices by working on architectures, on basic services connected to channels and on the mechanisms of application and infrastructure management;
- Optimize software and communication infrastructures in order to guarantee performances in terms of cost, security and liability.

Designing and realizing e-business solutions is only the first step of the whole life cycle of a project. A new challenge consists in being able to excel in management activities and in continuous evolution that are necessary in order to successfully face the growth of functionality, users and volume of data.

Reply's Application Management services are characterized by:

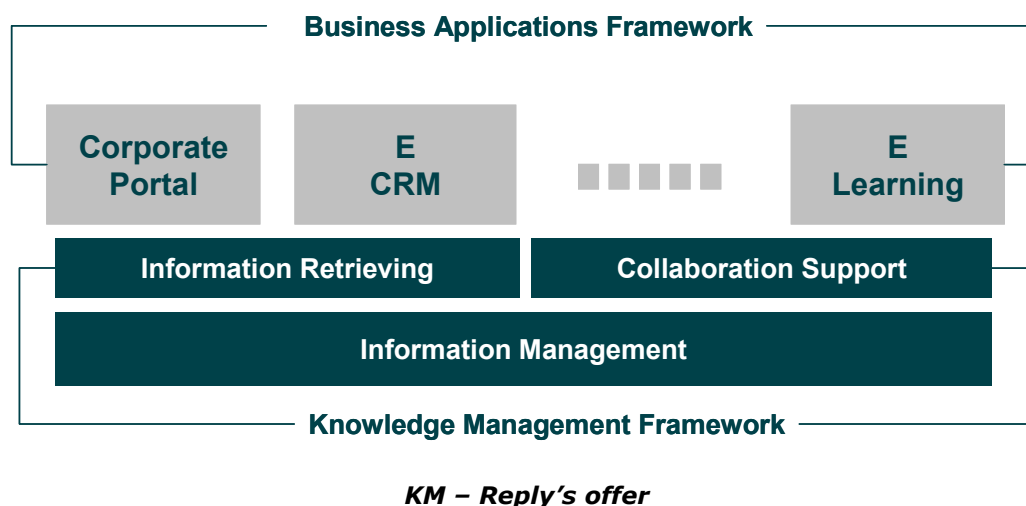
- A flexible and modular approach, in terms of service models;
- Data mediation methodology;
- The use of internal instruments and market leader for MOC (Management Operation Center);
- Vast technological experience and knowledge of market leading platforms continuously updated thanks to design and consulting activities.

Reply supplies support for:

- **Application Layer:** monitoring, trouble ticketing, administration, help desk, day-to-day management, management correction, management evolution.
- **Infrastructure Layer:** 24x7 service management, management of functional evolution, technological upgrade, monitoring, event management, help desk, human resource management.
- **Value added services:** proactive capacity planning, data analysis services.

Knowledge Management

Reply supports companies in the realization of advanced Knowledge Management solutions, by collaborating in the definition and organization of procedures at the basis of Knowledge systems and by offering its knowledge and its System Integration skills on specific technological sectors.



Reply proposes Knowledge Management solutions based on Web architectures able to support the modern company needs in terms of:

COLLABORATIVE KNOWLEDGE MANAGEMENT

- Real Time Collaboration
- Team Services
- Community Platforms
- Instant Messaging
- E-learning

CONTENT-BASED KNOWLEDGE MANAGEMENT

- Web Content Management
- Enhanced Search Engine
- Categorization & Taxonomy
- Enterprise portals

Extended Enterprises

The new communication technologies, which have allowed the origin of extended enterprises, based on the integration of different and distinct functional units of the production cycle, are now supporting their growth towards even more open models where the availability and access to updated information in real time has become the competitive and often successful element.

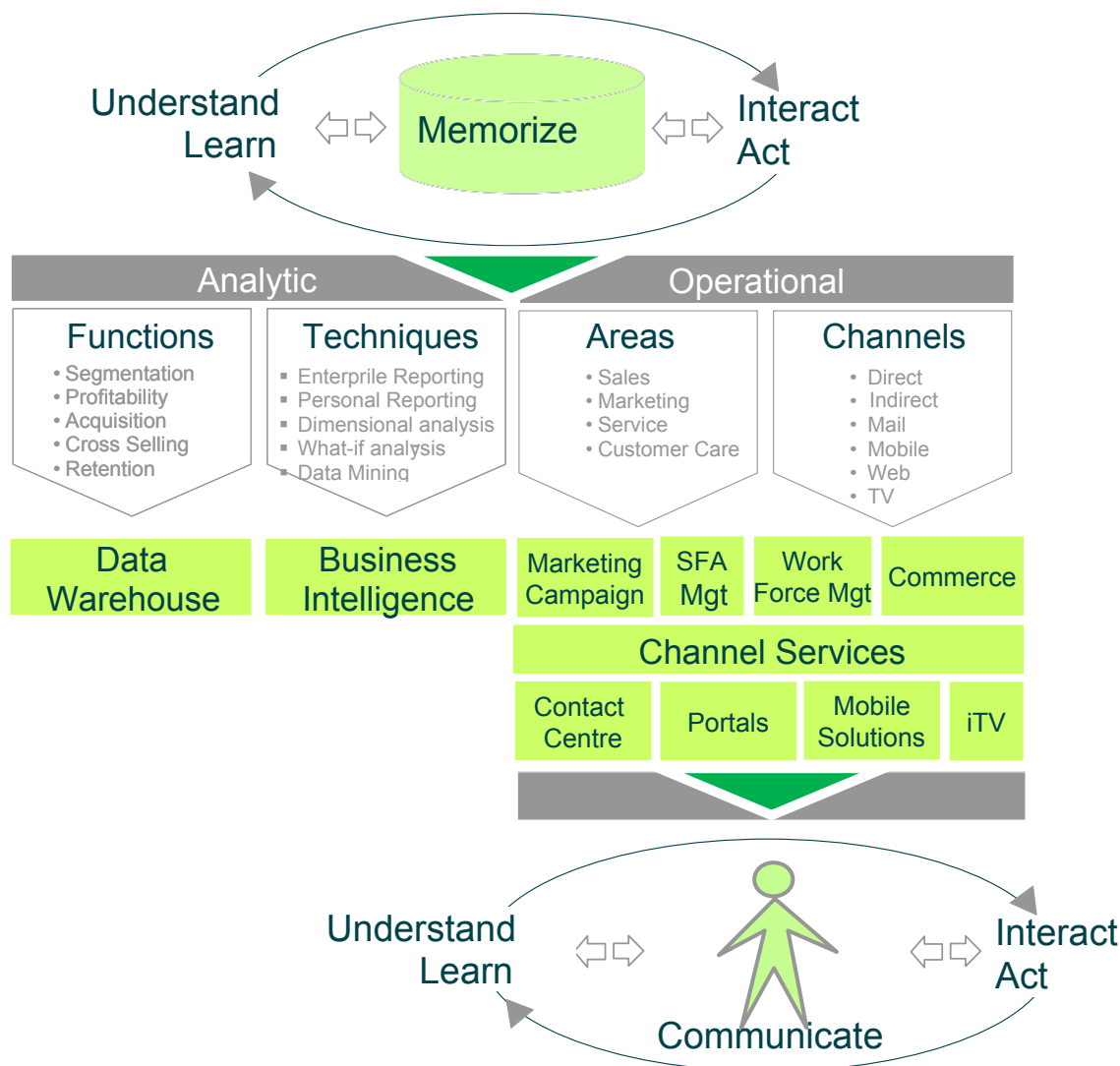
In order for these new business models to be efficient it is necessary to overcome difficult challenges, in terms of Qualifying Technology, System Integration and in terms of skill on procedures supporting the Business.

Reply approaches the different operational models of the Extended Enterprise by designing solutions and applications of Customer Relationship Management and Supply Chain Management based on market leading products and applications and based on its propriotor platform for the Supply Chain Execution Click Reply™.

Customer Relationship Management

Reply intervenes in internal procedures and skills by redesigning, where necessary, company procedures and by projecting architectural applications that support marketing, sales and assistance activities. Reply is therefore capable of:

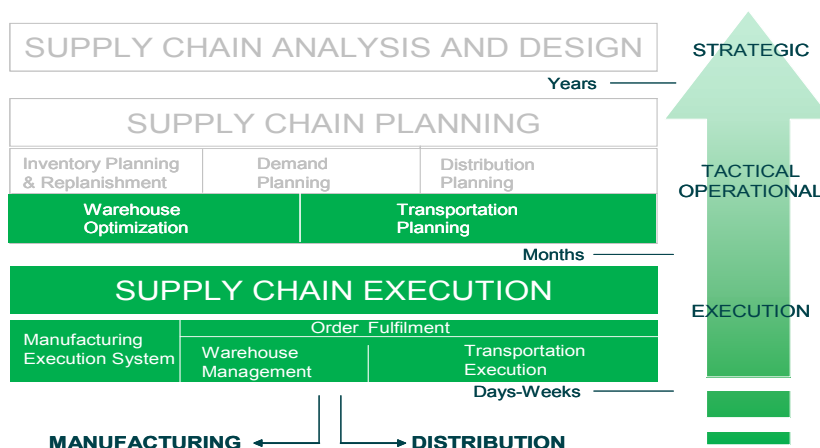
- Defining the suitable Business Model in order to manage client relations, in terms of technological solutions, procedures and evaluation of the organizational impact;
- Designing the logical architecture;
- Remapping the operational and managerial procedures;
- Designing the architectural application that supports analytical components (Business Intelligence and Data Mining) and CRM (Advanced Contact Center, Customer Service and Customer Care).



Supply Chain Management

Reply helps its clients in integrating their operational partners by constructing optimized Supply Chain Execution models capable of:

- Distributing products and services in an integrated way
- Saving in provisioning
- Reducing logistic costs
- Improving stock rotation
- Increasing the percentage of on time delivery
- Reducing the lead time related to order fulfillment



Reply's services within SCM include:

- Application Design & Delivery
- Infrastructure Design
- Application Management
- Facility Management

Telecommunications and ISP

The new net infrastructures (Broad band both wireless GPRS, UMTS and fixed ADSL, optical wires) and the existing possible applications allow the creation of a new generation of converging services, made available to clients at any time and anywhere. Services and content are ever more related to the types of users ((business, consumer, employee), and terminal devices (voice phone, PDA, PC etc.) and to the business models.

Reply integrates its technological knowledge and its client-side architectures with a consolidated experience in procedures and infrastructures typical of the Telecommunications segment in the following areas:

- Implementation and support in Billing and Customer Care solutions for BSCS, Kenan and Portal;
- Consulting on CRM platforms;
- New generation of OSS services (Network Performance, Network Management & Inventory, Data Mediation, SLA management, Service Assurance, IP management & provisioning);
- Testing, validation and qualification of protocols and compatibility of applications between devices;
- E-solutions;
 - Community portals;

- Web hosting (consumers, SMB);
- Multimedia services, distribution and authoring (sharehouse, streaming, videoconferencing, multimedia messaging, etc).
- M-solutions
 - Mobile Enabling Portals
 - Mobile platform development (Pocket PC 2002, SmartPhone, Symbian, Nokia Platforms)
- Knowledge Management
- Business Intelligence and Data Mining

Within the Telecommunications business, Reply, apart from being strongly specialized in the market leading platforms, has developed People&Web™ Reply, a platform for web hosting, streaming (live and on demand) and the management of value added services, designed to allow and gain access to multichannel applications.

New Media

The variety and complexity of digital communication allows to reach clients in an ever more personal way.

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

In this framework, the design of multimedia contents – crucial part in the realization of E-business solutions – is one of the sectors in which Reply is specialized, sector in which knowledge of new technology joins hand in hand with the capability of offering *Communication Consulting* services.

Reply integrates Communication and Creativity to design innovative contents and services that are able to take advantage of the new digital channel potentials.

- Internet
- Interactive Television
- Mobile

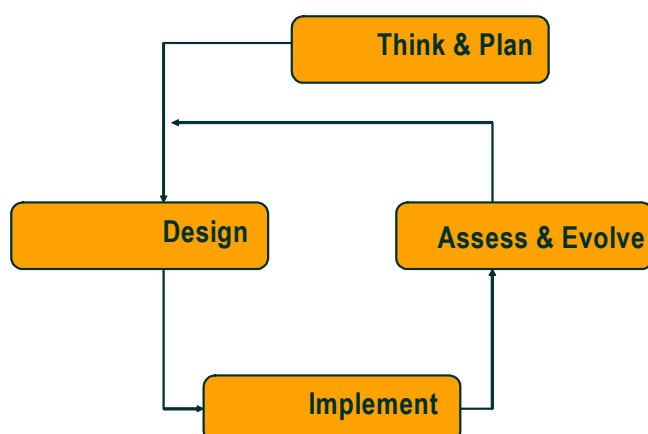
Skills on new Devices complete and integrate Reply's strong specialization on Technological Architecture.

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

METHODOLOGY

Reply's services are based on a methodological approach that join consulting activities (*E-business Consulting* ed *E-business Communication*), related to specific applicative areas, with implementation activities (*E-business Implementation*).

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



Think & Plan

In this step, the client's business, communication, and marketing strategies are defined and so is the plan as how to realize them. This step is divided in three moments:

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

Design

In this step, contents, technological architectures, and functions related to the established *E-business* solutions are designed. This step consists of:

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

Implement

This step consists in the software development and integration of components with other enterprise systems and the production of other multimedia contents. This step is organized as follows:

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

Assess & Evolve

This is the last stage of Reply's methodological approach, in which the outcome is checked so that it is possible to plan further action:

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

REPLY'S TECHNOLOGY

Proprietor software

Click Reply™

Platform for the Supply Chain Execution based on Web architectures that can be integrated with e-business systems or with more advanced order management modules, through standard XML.

People&Web™Reply

Software solution for the creation and management of Web Hosting, Provisioning and Streaming applications and services on multi platforms.

Collaboration agreements

Reply has signed collaboration agreements with some of the world leading software producers in order to on one hand, to strengthen market penetration and on the other hand, to increase the number of technological solutions that can be developed for clients.

These agreements enable Reply to achieve interactive contacts with such producers that include the collaboration and support with the supplier's technical personnel, the access to information on products not publicly available, pre-sale assistance combined with a marketing and trademark approach.

Reply has also developed significant skills on world leading technology in different market areas.

STRATEGIC DEVELOPMENT LINES

Reply's strategic goal is to consolidate its role as leader on the Italian *E-business* market and to expand on international markets.

In order to achieve such goals, management intends to operate on the following:

Launch of new services and development of the business lines

During 2002 Reply has strengthened its offer in the infrastructure and security segment and with the acquisition of 49% of Santer's share capital at year-end, has entered the Health and Local Authority segment, two fundamental areas of the Public Administration. In 2003 Reply's development plans foresee the growth of activities in the Public Administration sector and further completion of the services and solutions offered for "Real Time Enterprises".

As far as the technological lines are concerned Reply, alongside the consolidation of its current offer, intends to develop the component related to new architectures that are Web Services oriented and to enrich mobile solutions on multichannel architecture.

Reply also intends on strengthening VAS (Value Added Services) solutions in the Telecommunications and ISP sector.

By launching new services and by expanding the existing business lines Reply can continue taking advantage of the synergic activities with the different operating companies of the Group.

Internal Knowledge Management

The rapid technological evolution, qualifying characteristic of the modern world, contemporarily requires specific skills and a methodological approach that facilitates the timely realization of effective solutions.

In order to maintain and consolidate this distinctive feature, which *management* has defined as crucial, the Group's strategy on the one hand is finalized in financing the Reply methodology and on the other hand, is finalized in improving the sharing of know-how achieved through the realization of projects in continuous evolution thanks to *internal knowledge management*.

Territorial expansion – Acquisitions

Reply intends on establishing its expansion, on national and international markets, on the basis of its current business model. Such model is based on a network of specialized and flexible operational companies, and on a portfolio of medium to large sized clients.

The geographical development, both national and international, will be achieved even through the acquisition of companies in innovative market niches, equipped with qualified human resources and operating in the same business lines as the Group.

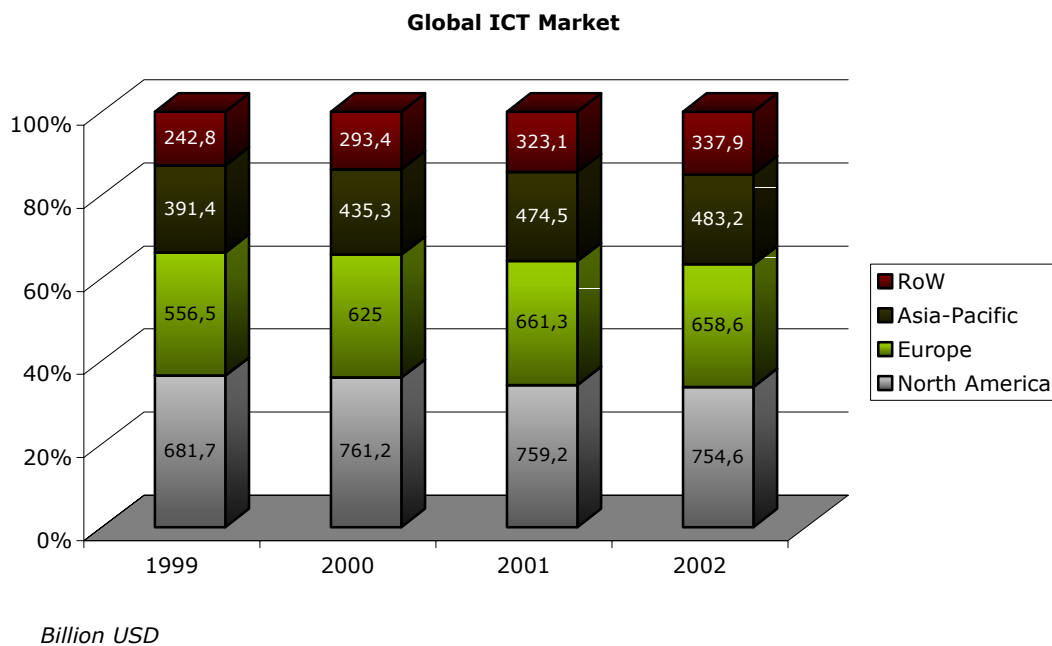
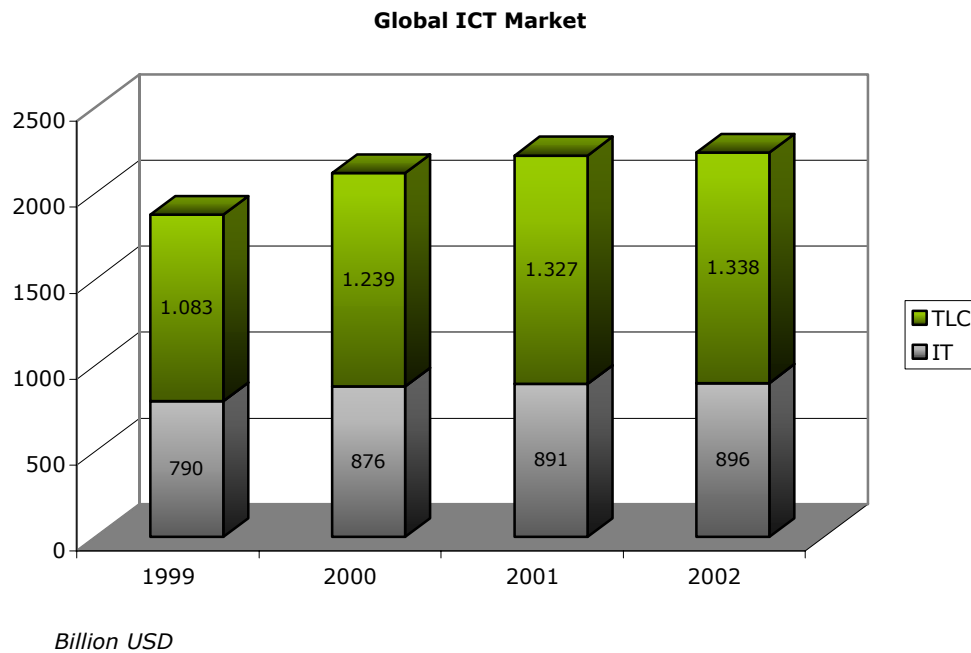
Human Resources and Intellectual Capital

Reply's human resources are drawn from the most important universities and colleges of the sector. This is one of Reply's distinctive features and it intends on maintaining it through a human resource expansion process, by increasing training investments, improving relations with universities and by continuous innovation of its business, communication and technological skills. In order to be entailed to privileged channels to attract high-qualified personnel, the Company plans on intensifying collaboration with the different universities.

THE REFERENCE MARKET

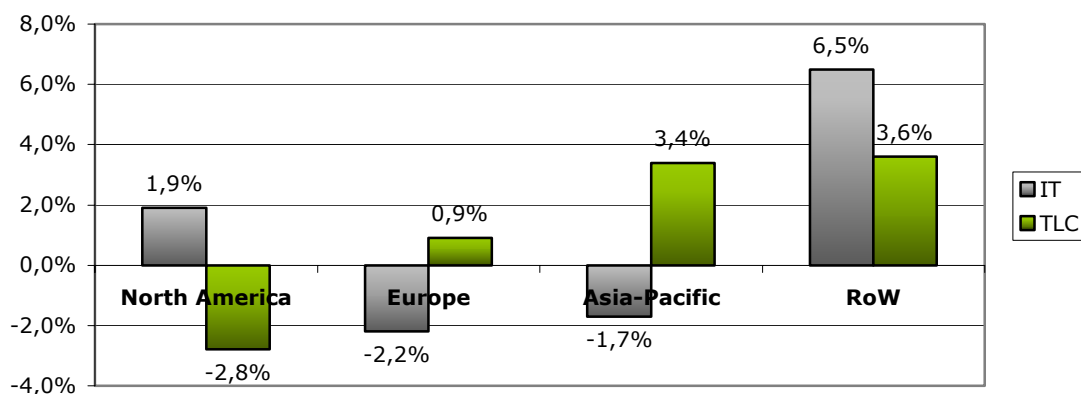
According to Assinform/NetConsulting¹, the global ICT market in 2002 stood at 2.234 billion USD, with an increase of 0.7% compared to 2001 and making up 7.0% of the global Gross Domestic Product.

In Europe the ICT market recorded a drop of 0.4% (-2.2% of the IT market, +0.9% of the TLC market).



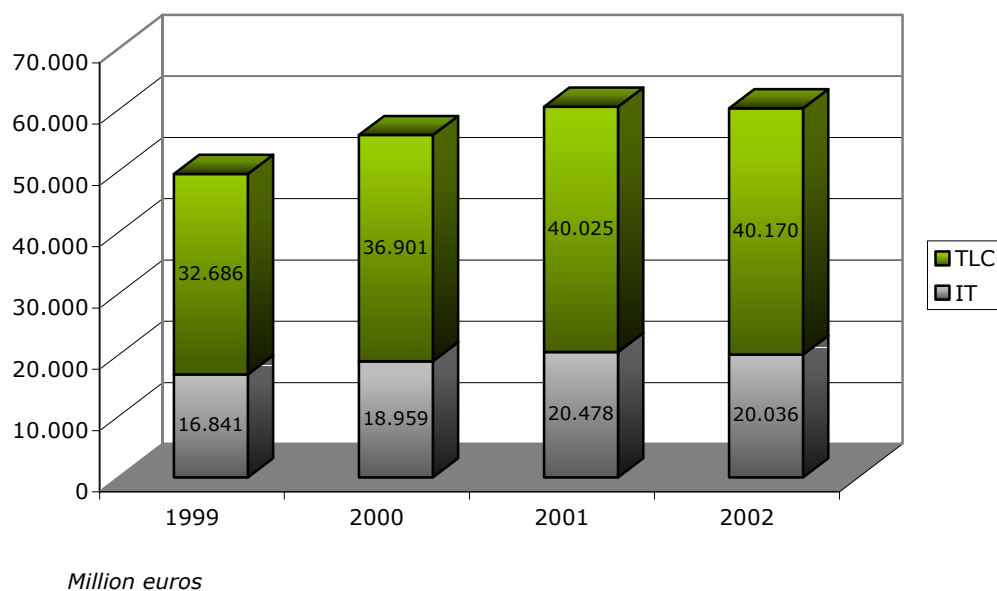
¹ Assinform: Assinform 2003

**IT and TLC market trend
in the major global areas**



Even in Italy the ICT market recorded a drop compared to 2001: -0.5%. After years of growth (+12.8% in 2000 and +8.3% in 2001), the aggregate demand for informatics and telecommunications retracted, standing at 60.206 million euros compared to 60.503 million euros in 2001.

ICT Italian market



After having experienced a positive trend, the IT market stood at 20.036 million euros with a 2.2% retraction compared to 2001.

In 2002 not only consumer demand dropped, which amounted to 820 million euros (-9.5% compared to 2001) but also the Public Administration demand and market demand experienced a downfall. In the latter case, the fall in demand was inversely proportional to the dimension. Small enterprises made investments in informatics for 3.805 million euros (-5.2%), medium scaled enterprises for 4.650 million euros (-1.3%) and large scaled enterprises for 10.761 million euros (-0.8%).

In 2002 the sale of hardware, amounting to 5.375 million euro, experienced a drop of 13.5% (against an increase of 2.6% in 2001), the sale of services and technical assistance, amounting to 975 million euros also encountered a fall (-4.2%), while the sale of software services, amounting to 13.686 million euros, increased by 3.3% against 11.8% in 2001 but not enough to compensate the other activities. The increase of software and informatics services was equally distributed between the two. Services recorded a turnover of 9.764 million euros, an increase of 3.4% compared to 2001, while software recorded a turnover of 3.922 million euros, with an increase of 3%. In both cases the growth rates dropped significantly: in 2001 they were at +12.4% and at +10.3% respectively.

The demand for services was pulled mainly by outsourcing services (+7.5%), by system integration (+6%) and by consulting services (+4%). This demonstrates that the IT demand is oriented towards the rationalization of informatics systems, the availability of applications and security and the improvement of business wealth management (CRM, business intelligence).

In 2002, in Italy, the telecommunications market as a whole (terminal equipment and fixed and mobile net services) generated a turnover amounting to 40.170 million euros, with a slight increase of 0.4% compared to 2001.

The market has not been expanding because of structural reasons: the depletion of infrastructure investments in broad band nets, the weakening of the mobile telecommunications boost because of delay in the introduction of innovation and because of the limited growth, in terms of numbers, of users (54,2 million).

The year 2002 marked a significant decrease in infrastructure components (-11.6%), barely offset by the increase of services, including mobile telephone services.

Services recorded an increase of 4.9% passing from 28.937 million euros in 2001 to 30.365 million euros in 2002, (compared to an increase of 9.3% in 2001). Services remained stable thanks to those related to mobile (14.240 million euros), that in 2002 recorded an increase of 9%, whereas fixed nets (16.125 million euros) increased by 1.6%.

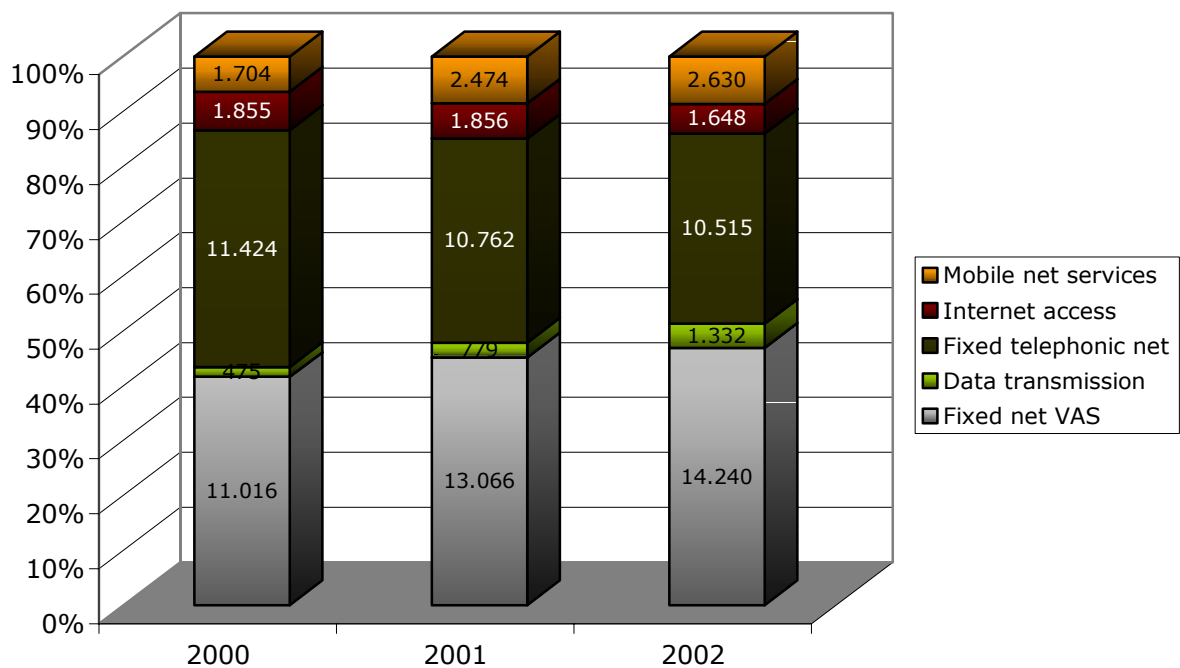
With reference to the global IT market in the Public Administration field, according to Gartner, such market will increase at a constant annual growth rate (CAGR) of 10.8% from 2000-2005. The growth will be pulled by the Health sector, where an annual growth rate of 17.3% is expected. The E-Government sector is expected to grow at a CAGR of 13% from 2000-2005.

According to the Sirmi forecasts, even in 2003 the Italian IT market should record a downfall: -0.3% compared to 2002. More specifically, a slight increase in software (+1.2%), in services (+1.4%) and a decrease in hardware (-2.4%) and hardware maintenance (-7.2%) is expected.

The negative trend in the IT market should be limited to this year: a 2.3% increase in 2004 and a 3.3% increase in 2005 is expected. For the TLC market, the Sirmi forecasts indicate a 5.6% increase in 2003.

The ICT Italian market is being negatively influenced by the general economic trend that is causing a delay in enterprises decision making, caution in making new investments or confirming those already planned.

Italian market of telecommunication services



Million euros

GROUP RESULTS

Founded in June 1996, Reply operates through a network of companies; each specialized in a specific business line and through approximately 800 employs.

The Group's activities are concentrated in three distinct business areas:

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

Reply has also developed proprietor software systems and contemporarily has drawn up important work agreements with some of the leading "software vendors" in the world.

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

Fiscal year 2002 closed with positive results with an increase compared to the previous year. Such results are particularly significant especially in light of the difficult economic context, which has characterized the market in which the Group operates.

Consolidated turnover stood at 77,1 million euros (60,3 million euro in 2001) with an increase of 27.9% compared to the previous year.

Reply reached significant profitability levels once again in 2002. In particular, gross operating income, amounted to 12,3 million euros, corresponding to 16% of revenues, and EBIT stood at 9,1 million euros, corresponding to 11.8% of revenues.

Such results confirm Reply's solidity and the validity of its business strategies, which have enabled to be successful in competitive markets, such as the industrial, the telecommunications, and the bank and insurance market.

As of 31 December 2002 Reply's total net equity amounted to 48,9 million euros.

The net financial position as at December 31 2002 amounted to 4,1 million euros.

Total investments in tangible assets totaled 1,1 million euro.

Reclassified consolidated statement of income

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

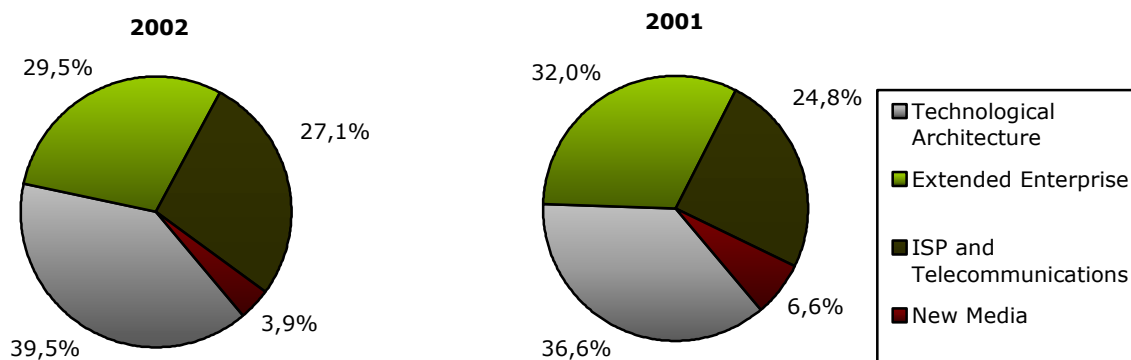
(thousand euro)	2002		2001	
Revenues from sales and services (*)	76.674		59.976	
Other revenues	467		327	
Value of production	77.141	100,0	60.303	100,0
Raw materials, supplies and merchandise, net of change in inventory	(2.309)	(3,0)	(1.120)	(1,9)
Services	(22.478)	(29,1)	(18.204)	(30,2)
Leases and rentals	(1.574)	(2,0)	(1.005)	(1,7)
Other operating costs	(676)	(0,9)	(943)	(1,6)
Value added	50.104	65,0	39.031	64,7
Personnel costs and directors' remuneration	(37.780)	(49,0)	(27.984)	(46,4)
Gross operating income (EBITDA)	12.324	16,0	11.047	18,3
Amortization and depreciation	(2.303)	(3,0)	(1.733)	(2,9)
EBIT before amortization of listing expenses	10.021	13,0	9.314	15,4
Amortization of listing expenses	(910)	(1,2)	(910)	(1,5)
Operating income (EBIT)	9.111	11,8	8.404	13,9
Financial income/(expenses), net	181	0,2	781	1,3
Income before extraordinary items	9.292	12,0	9.185	15,2
Extraordinary income/(expenses), net	(84)	(0,1)	(117)	(0,2)
Result before taxation	9.208	11,9	9.068	15,0
Income taxes	(5.458)	(7,1)	(5.162)	(8,6)
Minority interest	(215)	(0,2)	(64)	(0,1)
Net income	3.535	4,6	3.842	6,4

(*) Change in work in progress included

During 2002 the Group reached a turnover of 77,1 million euros with an increase of 27.9% compared to 2001.

Breakdown of 2002 and 2001 revenues by business line is illustrated below:

	2002	%	2001	%
(thousand euro)				
Technological Architectures	30.286	39.5%	21.951	36.6%
Extended Enterprise	22.619	29.5%	19.192	32.0%
ISP and Telecommunications	20.779	27.1%	14.874	24.8%
New Media	2.990	3.9%	3.959	6.6%
Total	76.674	100%	59.976	100%



Technological Architecture covers the largest area in terms of incidence on revenues, amounting to 39.5% in 2002 (36.6% in 2001); *Extended Enterprise*, one of the major drivers of the Group's growth, had an incidence on revenues standing at 29.5%; the *ISP and Telecommunications* business line showed a significant increase in spite of "flat" market conditions; *New Media*, which completes Reply's line of business, showed a marginal incidence on revenues.

Alongside Reply's traditional offers, which have been consolidated and strengthened throughout the year, the Group made two acquisitions in new market segments with high development potential, such as the Local Public Administration and software infrastructure design and management-related services.

The partnership with Lombardia Informatica and the subsequent acquisition of Santer S.p.A., in December 2002, a company specialized in solutions for the National Health Service and local Authorities, will enable Reply to convey its services towards local health units and local authorities, introducing diversified and technologically advanced solutions able to maximize efficiency of relations between citizens and enterprises.

Sysproject, which joined the Group at the end of October, strengthens Reply's Web Management, Security and Application Management products and aims to become a major active component in e-business infrastructure management. Sysproject will also make it possible to supervise more effectively the interesting sectors of wireless connectivity and consulting services for complex corporate networks.

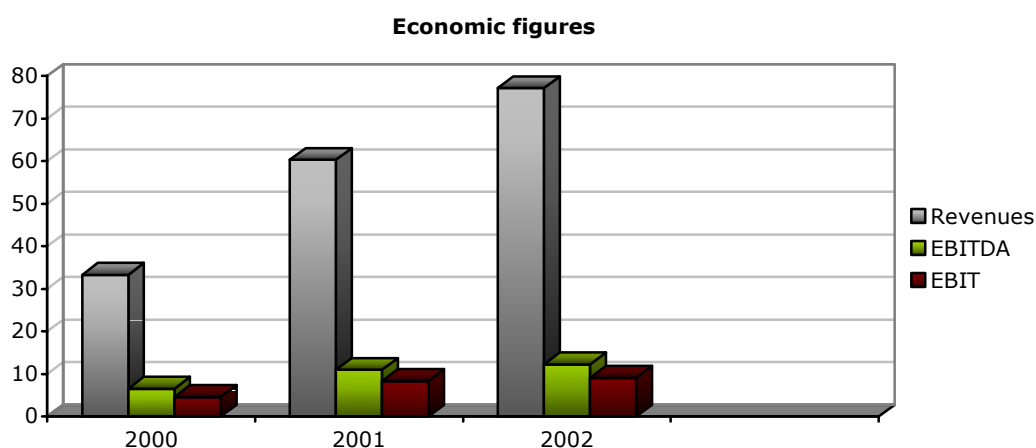
For more information on the above-mentioned operations refer to the paragraph on the new acquisitions.

EBITDA in 2002 stood at 12,3 million euro, with an increase of 11.6% and an incidence on revenues amounting to 16%; the decrease of approximately 2 percentage points compared to the previous year is due to pressure on prices and to the launch of the new business units (Web Application Management, Mobile and Security), which have not yet reached the break even point.

EBIT totaled 9,1 million euro, with an increase of 8.4% after having deducted amortization of 3,2 million euro and with an incidence of 11.8% on revenues.

Income before extraordinary items reflects investments of liquidity in government securities and mutual investment funds.

The Group's net income stood at 3,5 million euros, after having deducted an average tax rate of 59%, due mainly to non tax-deductible items for IRAP purposes.



Analysis of the Group Balance Sheet

The Group balance sheet as of 31 December 2002, compared to 31 December 2001 is provided below:

(thousand euros)	31/12/2002		31/12/2001		Change
	(a)	%	(b)	%	(a-b)
Current assets					
Financial receivables and securities	7.995	10.1	18.612	26.7	(10.617)
Operating assets	53.720	67.8	39.940	57.2	13.780
Total current assets	61.715	77.9	58.552	83.9	3.163
Non-current assets					
Financial receivables and securities	432	0.5	341	0.5	91
Other assets	17.050	21.5	10.896	15.6	6.154
Total non-current assets	17.482	22.1	11.237	16.1	6.245
Total assets	79.197	100.0	69.789	100.0	9.408
Current liabilities					
Financial liabilities	3.834	4.8	2.035	2.9	1.799
Operating liabilities	22.406	28.3	19.358	27.7	3.048
Total current liabilities	26.240	33.1	21.393	30.7	4.847
Non-current liabilities					
Financial liabilities	30	0.0	80	0.1	(50)
Other non-current liabilities	3.341	4.3	2.235	3.2	1.106
Total non-current liabilities	3.371	4.3	2.315	3.3	1.056
Total liabilities	29.611	37.4	23.708	34.0	5.903
Total Shareholders' equity	49.586	62.6	46.081	66.0	3.505
Total liabilities and Shareholders' equity	79.197	100.0	69.789	100.0	9.408

Total assets as at 31 December 2001 amounted to 69.789 thousand euros and as at 31 December 2002 amounted to 79.197 thousand euros, with an increase of 9.408 thousand euros.

The change is related to:

- An increase in current assets for 3.163 thousand euros, owing to a decrease of financial current assets for 10.617 thousand euros and an increase of the operating assets for 13.780 thousand euros;

- An increase in non-current assets for 6.245 thousand euros, due mainly to the equity investment in Santer S.p.A. and to goodwill deriving from consolidation of Sysproject Reply S.r.l., purchased in 2002.

The ratio between current operating assets, amounting to 53.720 thousand euros (39.940 thousand euros as at 31 December 2001) and current operating liabilities, amounting to 22.406 thousand euros (19.358 thousand euros as at 31 December 2001), is 2.4 (2.1 as at 31 December 2001).

Analysis of the economic and financial structure

Detail of the net invested capital as at 31 December 2002 and the related coverage is detailed in the table below:

(thousand euro)	31/12/2002		31/12/2001		Change
	(a)	%	(b)	%	(a-b)
Current operating assets	53.720		39.940		13.780
Current operating liabilities	(22.406)		(19.358)		(3.048)
Net current operating assets	31.314		20.582		10.732
Non-current assets					
Non-current assets	17.482		11.237		6.245
Net invested capital (A)	48.796	100.0	31.819	100.0	16.977
M/L term non-financial liabilities	3.341	6.9	2.235	7.0	1.106
Net Shareholders' equity	49.586	101.6	46.081	144.8	3.505
Total non-financial sources (B)	52.927	108.5	48.316	151.8	4.611
Net financial position (A-B)	(4.131)	(8.5)	(16.497)	(51.8)	12.366

Net invested capital as at 31 December 2002 amounted to 48.796 thousand euros, compared to 31.819 thousand euros as at 31 December 2001 with a difference of 16.977 thousand euros due mainly to the increase in net current operating assets and to equity investments.

Net invested capital was financed for 3.341 thousand euros by medium/long term non-financial liabilities, comprising the reserve for employee termination indemnities (2.895 thousand euros), by the reserve for directors' severance indemnities (446 thousand euros) and by Shareholders' equity for 49.586 thousand euros, with a residual net financial liquidity of 4.131 thousand euros.

Detail of Net invested capital is provided below:

(thousand euros)	31/12/2002	31/12/2001	Change
	(a)	(b)	(a-b)
Work in progress and inventories	6.946	5.481	1.465
Third party trade receivables, net	43.956	32.889	11.067
Other assets	2.818	1.570	1.248
Current operating assets (A)	53.720	39.940	13.780
Third party trade payables	7.471	6.621	850
Other liabilities	14.935	12.737	2.198
Current operating liabilities (B)	22.406	19.358	3.048
Non-current assets (C)	17.482	11.237	6.245
Net invested capital (A-B+C)	48.796	31.819	16.977

The increase in third party trade receivables is mainly due to some significant trade receivable positions with high rated clients which have however been reduced in the first months of 2003.

Net financial position

Detail of the Group's net financial position as at 31 December 2002 analyzed by maturity date and compared to 31 December 2001 figures is provided below:

(thousand euros)	31/12/2002	31/12/2001	Change
Bank and cash on hand	4.422	16.972	(12.550)
Financial assets not held as fixed assets	3.573	1.640	1.933
Due to banks	(3.825)	(1.981)	(1.844)
Due to other providers of finance within 12 months	(9)	(54)	45
Cash and short term borrowings, net	4.161	16.577	(12.416)
Due to banks beyond 12 months	(30)	(71)	41
Due to other providers of finance beyond 12 months	-	(9)	9
Long term financial position	(30)	(80)	50
Total net financial position	4.131	16.497	(12.366)

The net financial positions as at 31 December 2002 amounted to 4.131 thousand euros with a decrease of 12.366 thousand euros compared to 31 December 2001, detailed as follows:

2002

(thousand euros)	
Cash flow generated from operating activities	8.654
Change in working capital	(11.532)
Cash flow from operating activities (A)	(2.878)
Cash flow used for investment activities (B)	(9.458)
Cash flow used for financial activities (C)	(30)
Change in net financial position (A+B+C)	(12.366)

Analytical detail of the above cash flow movements is shown in the attached statement of sources and application of funds.

Reply on the Stock Market

During 2002 the Italian stock market underwent heavy downsizing. The market capitalization by companies listed on the Italian markets dropped from 592.319 millions of euro (equal to 48.7% of the gross domestic product) to 457.992 (36.6% of the gross domestic product) with a decrease of approximately 23%.

Trend of the New Market was quite negative with no additional listings and capitalization dropped by fifty percent, passing from 12.489 to 6.438 million euros.

In such a context, the Reply share (REY, MI) market trend, despite an annual loss of 41%, dropping from 18.0 euros (closing price as at 28 December 2001) to 10.62 euros (closing price as at 30 December 2002), over performed the Numtel index, which in the same period fell by 50.1%.

To be noted that the previous year the Reply share trend was opposite that of the market trend (+40% Reply, -42% Numtel) and that during 2002 the Reply share was constantly above the index, which demonstrates that the share is more stable and better with respect to the market.

During the year major financial institutes confirmed their interest in the share, which maintained and constantly proposed studies on the Group (10 positive opinions and positive recommendation) while interest on behalf of Italian foreign investors is once again documented by the presence of quotas in the share capital (more than 2%).

The investor relations activity were also intense, management was involved in meeting investors in Italy and in London and meeting other major European finance institutes.

The following graph shows the Reply share trend compared to the general Numtel index trend in 2002:



Human resources

The growth that has characterized the Group is also reflected through the number of employees; 751 as at 31 December 2002 compared to 647 as at 31 December 2001.

Personnel mainly comprise University graduates in Electronic and Informatics Engineering, Business and Economics from the best universities.

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

Research and Development

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

Research activities include the updating and the improvement of services to propose on the market. In particular, research and development of the Group is aimed at updating and improving proprietor software.

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

ACQUISITIONS OF THE YEAR

Information concerning acquisitions that took place in 2002 is provided below.

Sysproject

In October 2002 the Parent Company Reply S.p.A. acquired 100% of Sysproject's share capital, an informatics company specialized in the design and management of architecture, of systems and services for the Web.

The acquisition price amounted to 2.071 million euros, of which 50% involved a financial disbursement and the remaining 50% a swap of 92,500 Reply treasury shares.

Sysproject mainly operates in the segment related to the design and management of software infrastructures with a strong specialization of Microsoft architecture.

The acquisition comes within Reply's development plans related to the Web Management business line, which includes services and solutions for the management, the monitoring and the evolution of e-business solutions.

With the acquisition of Sysproject, Reply consolidates its services for Web Management, Security and Application Management and intends on developing an important active component for the infrastructure and e-business management.

Sysproject will also make it possible to supervise more effectively the interesting sectors of wireless connectivity and consulting services for complex corporate networks.

Sysproject operates mainly on the Italian market and closed fiscal year 2002 with a turnover that stood at 2,3 million euros and EBIT 23.4% of revenues.

Santer

In December 2002 the Parent Company Reply S.p.A. reached an industrial partnership agreement with Lombardia Informatica, technological partner of Regiona Lombardia, through the acquisition of 49% of Santer S.p.A.'s share capital, an Information Technology company that operates on the Local Public Administration market.

Lombardia Informatica assigned Reply the public bid, in which other five important companies participated, allowing access to Santer's share capital and contemporarily being entrusted with the supply of services and products for 14,7 million euros to be executed in three years (4,9 million per year).

Such transaction took place through an exclusive subscription of a capital addition amounting to 5,6 million euros; 1 million euros for the subscription of 49% of Santer's share capital, 4,5 million euros for paid-in surplus and 30.000 euros for a contribution account.

Reply also has the possibility of exercising the option of acquiring another 2% of Santer's share capital after 3 years from the agreement and within six months of such term (within 6 months following the end of 2005), at a price equal to that of the subscription of the capital addition compared to the percentage of the share capital assigned.

Reply holds 49% of Santer's share capital, Lombardia Informatica holds 31.68% whereas the remaining 19.32% is held by the Milan Chamber of Commerce (12.94%) and the Bergamo, Como, Lecco, Sondrio and Union Camere Chamber of Commerce (6.38%).

The acquisition of Santer SpA will enable Reply to enter the Local Public Administration segment, in a framework, that of the Health and Local Authorities, characterized by a high technological growth and development potential. The acquisition will allow Reply to expand its offer of e-government solutions that are technologically innovative for the Local Public Administration, to capitalize its know-how in a new market and to have a partnership with an important player of the public sector.

Santer is the result of a demerger of Lombardia Informatica that took place in March 2002. Santer is specialized in the offer of technologically advanced solutions for the Health (Aziende Sanitarie and Aziende Ospedaliere) and Local Authority markets.

Santer, in the capacity of "instrumental body" of Lombardia Informatica can be engaged by the latter with activities related to the realization of products and services within the market in which it operates.

The systems and application solutions designed and realized by Santer are aimed at the complete integration of informatics of the Local Authorities and Health Authorities, with the objective of simplifying and developing more efficient relations between citizens and enterprises

The company is on the market through 3 divisions:

- Pharmaceutical
- Local Health Division
- Local Public Authorities

The "Pharmaceutical" division of Santer provides innovative solutions (2 proprietor software) for the management of all aspects related to pharmaceutical expenditure and has designed a system to administer prescriptions for the 15 ASL in Lombardia.

The "Local Health Division" is specialized on applications based on Oracle e-business suites for the integrated administration of back office for ASL and Aziende Ospedaliere.

The "Local Public Authorities" division carries out the design and realization of web solutions able to manage on-line services to citizens and companies, and takes care of the development of communication nets among local entities. The two solutions are based on Microsoft technology.

Santer is also one of the major players in the project aimed at realizing the Regional Service Card, an electronic card that allows access to on-line connections with doctors, hospitals, emergency rooms and pharmacies.

The specific skills in applications for the Local Public Authorities and the strong territorial roots achieved by Santer combined with innovative skills in e-business (SCM, CRM, Knowledge & Content Management, Mobile) and Reply's People&Web software platform will allow to convey services towards local health units and local authorities, introducing diversified and technologically advanced solutions able to maximize efficiency of relations between citizens and enterprises.

Reply's capillary and extended network throughout Italy also represents an important opportunity to expand Santer's proposals outside of the Lombardia Region.

The goal is in fact, to make Santer one of the Italian leaders on the Local Public Administration market, with particular reference to the Health segment and to municipalities with more than 50,000 inhabitants.

Santer's headquarters are in Milan with 90 employees and more than 100 clients. Santer closed 2002 with a turnover that amounted to 13 million euros, where approximately 7 million euros derive from a three-year contract related to the administration of medical prescriptions for the 15 ASLs in Lombardia.

THE PARENT COMPANY REPLY S.p.A.

Reply S.p.A., Holding of the Reply Group, mainly carries out the operational, co-ordination and the technical and quality management of the Group as well as the administration, finance and marketing activities for the subsidiaries.

Economic and financial trends of the subsidiaries were very positive in 2002; brilliant results in terms of turnover and profitability were reached.

The financial structure of the company, compared to the previous year is outlined below:

(thousand euros)	31/12/2002	31/12/2001	Change
	(a)	(b)	(a-b)
Tangible assets	631	482	149
Intangible assets	3.511	4.290	(779)
Financial fixed assets	15.202	7.008	8.194
Total fixed assets	19.344	11.780	7.564
Net working capital	12.211	11.096	1.115
NET INVESTED CAPITAL	31.555	22.876	8.679
M/L term non financial liabilities	2.478	2.063	415
Shareholders' equity	47.841	43.685	4.156
Net financial position	(18.764)	(22.872)	4.108
TOTAL COVERAGE	31.555	22.876	8.679

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

Net invested capital, amounting to 31.555 thousand euro has been financed by non-financial medium/long term liabilities for 2.478 thousand euros, which comprises the reserve for employee termination indemnities (260 thousand euros), and the reserve for deferred tax on dividends (2.218 thousand euros), and has been financed by Shareholders' equity for 47.841 thousand euros, with a residual net financial liquidity amounting to 18.764 thousand euros.

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

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

(thousand euros)	2002	2001	Change
Revenues from operational activities	8.237	5.584	2.653
Revenues from sales and services	17.133	5.613	11.520
Purchases, services and other costs	(21.748)	(8.908)	(12.840)
Personnel and related costs	(2.983)	(1.845)	(1.138)
Gross operating income	639	444	195
Amortization and Depreciation	(1.866)	(1.475)	(391)
Operating income	(1.227)	(1.031)	(196)
Financial income/(expenses), net	1.013	1.265	(252)
Income from equity investments	6.547	5.362	1.185
Extraordinary income/(expenses), net	(23)	(24)	1
Result before taxation	6.310	5.572	738
Income taxes	(2.154)	(1.931)	(223)
Net result	4.156	3.641	515

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 2.119 thousand euros (1.695 thousand euros in 2001);
- Activities carried out centrally for the subsidiary companies for 4.077 thousand euros (2.585 thousand euros in 2001);
- Management services for 1.951 thousand euros (1.221 thousand euros in 2001).

Revenues from sales and services are related to agreements that Reply S.p.A. has reached with important clients, and which Reply S.p.A. then subcontracts to the subsidiaries. These types of contracts were more frequent in 2002 and this explains the difference compared to the previous year.

Gross operating income, influenced solely by operational activities, stood at 639 thousand euros.

Operating income in 2002 marked a negative result of 1.227 thousand euros, after having deducted amortization expenses for 1.866 thousand euros related to listing expenses (910 thousand euros) and to the "Reply" trademark (342 thousand euros).

Net financial income is connected to investments in government bonds and investment funds.

Income from equity investments refers to dividends from subsidiaries, recorded on accrual basis (4.203 thousand euros) and to the related tax credit (2.344 thousand euros) that has been offset by the appropriation to a deferred tax fund.

Net result for the year 2002 amounted to 4.156 thousand euros (3.641 thousand euros in 2001).

Related party transactions

Financial and business transactions between Reply S.p.A. and its subsidiaries are carried out at normal market conditions and they consist mainly in providing services, in the centralization of administration procedures and in the co-ordination of all other Group activities.

The financial and economic effects arising from such transactions are summarized below:

(thousand euros)

Financial transactions	
Financial receivables	16.771
Receivables from dividends	4.187
Trade and other receivables	5.749
Trade payables	8.776
Economic Transactions	
Revenues from royalties	2.119
Revenues from services	3.374
Revenues from management services	1.951
Revenues from other charges	703
Cost for licenses	177
Costs for professional services	16.406

Detail of the above is provided at the Notes to Reply S.p.A.'s Financial Statements.

Transactions carried out in 2002 at normal market conditions with related parties (that as of the closing date are Erfurt S.r.l. and its subsidiary, Axcel S.r.l.) were connected mainly to general services and consulting. The object, cost, form and execution terms of such transactions are not to be considered as having negative effects as far as protection of the business wealth is concerned.

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

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

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

- Messer Mario Rizzante, Sergio Ingegnatti and Oscar Pepino hold 51%, 18% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Torino;
- Alika S.r.l. holds 99.94% of Alister Holding, company governed by Luxembourg laws, which holds 100% of Iceberg's share capital, company governed by Luxembourg laws with headquarters at 400, route d'Esch, Luxembourg;
- Iceberg holds 4,807,568 Company shares, equivalent to 58.90% of the Company's share capital.

OTHER INFORMATION

Treasury shares

In compliance with paragraph 2 of art. 2428 of the Italian Civil Code numbers 3) and 4), at the balance sheet date, the Parent Company holds 16,088 treasury shares, amounting to 97.762 euros; at the item net equity the company has posted an unavailable reserve for the same value.

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

Legal and arbitration processes

At the balance sheet date the Group companies are not undergoing legal or arbitration processes that could influence directly or indirectly its economic and financial position.

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

"Fiscal remission"

At the balance sheet date, the Parent Company and its subsidiaries have not yet made a decision concerning a possible compliance to one of the amnesties introduced by the 2003 Finance Law, "fiscal remission".

Stock option plans for Reply's employees

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001 and on 11 June 2002 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. Such stock option plans are detailed as follows:

- 250,000 new ordinary shares were issued with a par value of 0,52 euros in favor of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan will be in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase;
- 200,000 new ordinary shares were issued with a par value of 0,52 euros in favor of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

Both stock option plans have the following purposes:

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

Reply S.p.A.'s Board of Directors, in charge of the stock option plan, has resolved the assignment of 346,900 pre-emptive rights.

None of the assigned rights related to the aforementioned stock option plans are exercisable.

Corporate Governance

The corporate control system adapted by Reply S.p.A., complies with correct management and information principles, which have been accomplished through continuous testing of the efficiency and the effectiveness of the *Corporate Governance*.

The *Corporate Governance* model is illustrated below:

- **Board of Directors.** During 2002 the Board of Directors held several meetings in which it examined and approved major economical and financial transactions, quarterly reports and half-year reports. In these meetings the executive directors provided the Board of Directors and the Statutory Auditors with adequate information concerning non-operating activities, unusual operations and transactions with related parties.
In compliance with the articles of incorporation, the current Board of Directors, holding office until the general meeting approves the 31 December 2002 Financial Statements, is made up of 5 directors of which 3 executive members (Mario Rizzante – Chairman, Sergio Ingengatti and Oscar Pepino – Chief Executive Officers) and 2 non executive members (Paul de Sury and Marco Mezzalama) who are independent directors in accordance with the Self-disciplinary Code.
The nomination of the directors is forthcoming from a list presented by the shareholders that alone or together with other represent 2% of the ordinary voting shares.
- **Remuneration committee.** Within the Board of Directors a Remuneration Committee has been created whose members are Messer Mario Rizzante (Chairman), Paul de Sury and Marco Mezzalama. The Committee has the task of formulating proposals concerning the remuneration of the Chairman and Chief Executive Officers and upon consultation with the latter, formulates proposals concerning remuneration of top management, even through identification of beneficiaries for Stock option incentive plans.
- **Internal Control Committee.** Within the Board of Directors an Internal Control Committee has been created whose members are Messer Mario Rizzante (Chairman), Paul de Sury and Marco Mezzalama.

The Internal Control Committee:

- examines the adequacy of internal controls;
- evaluates the work plan set out by head of internal controls and examines period reports prepared by the same;
- examines the proposals formulated by Independent Auditors in order to assign the engagement;

- provides a report on the activities carried out on the adequacy of the internal control system on the occasion of approval of the financial statements;
- carries out further tasks assigned by the Board of Directors and in particular related to relations with the Independent Auditors.

In order to improve the efficiency and effectiveness of its internal control system Reply has put someone in charge of the internal control, who reports to the members of the Board of Directors, to top management and to the Statutory Auditors.

- **Processing of confidential information.** The Chief Executive Officer and the Investor Relater handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
- **Internal Dealing Code.** In 2002, the Board of Directors, in view of the implementation of the changes introduced during the year by the Market Authorities to the "Regulation to the New Market Organized and Managed by Borsa Italiana S.p.A.", has approved the behavior code concerning "internal dealing" with the purpose of controlling the flow of information of "important people" to the company and the obligation of the latter to notify the market about transactions communicated by these people in the form and in the terms indicated in the abovementioned Code.
- **Relations with institutional investors and with shareholders.** The role of *Investor Relater* must guarantee the correct conduct of relations with financial analysts, institutional investors and Italian and foreign private shareholders.

* * *

In July 2002, the Corporate Governance Committee of Borsa Italiana S.p.A. revised the Corporate Governance Code for listed companies by introducing several changes that take into consideration the best national and international practices: furthermore, in view of the forthcoming expiry of office granted to the Board of Directors, it is hoped that the shareholders take into consideration the subsequent indications suggested by the new text of the Corporate Governance Code when nominating the new members of the Board of Directors and that the newly nominated administration body provides, after its nomination, for the implementation of the changes it feels cannot be left aside in view of the new text of the Code and in view of the organizational structure of the Group.

EVENTS SUBSEQUENT TO 31 DECEMBER 2002

Acquisition of the remaining shares of XYZ

The acquisition contract of 70% of XYZ's share capital in January 2001 also provided a purchasing option (in favor of Reply) and a selling option (in favor of the minority shareholders of XYZ) of the remaining 30% of XYZ's share capital. In February 2003 the selling option was exercised by the aforementioned shareholders at the agreed price of 1.007 thousand euros, and therefore Reply purchased on 14 February 2003 total control over the company.

Company reorganization plan

The objective of the company reorganization plan is to create, within the Reply Group, groups of homogeneous companies by business line; in the first three months of 2003 the following took place:

Demerger

With effect on 1 February 2003 (date in which the demerger, stipulated on 30 January 2003 has effect), the partial demerger of Cluster Reply S.r.l., which involved the Customer Relationship Management business unit transferred to Acquent Reply S.r.l., was executed.

Mergers

Following the acquisition of the remaining 30% of XYZ's share capital, in April 2003, the Extraordinary Shareholders' Meeting approved the merger of Creative Reply S.r.l. in XYZ Reply S.r.l., both operating in the same line of business known as *New Media*.

OUTLOOK FOR 2003

Notwithstanding forecasts of flat growth rates of the IT market, Reply will continue its expansion at a rate higher than that of its market reference, also thanks to what have always been the Group's strong points:

- Great management skill and reliability;
- Excellent quality of services;
- Capability of continuously being technologically innovative, thanks to strong skills on technology;
- business models and strategic vision of management;
- strategic partnerships with world leading operators.

Furthermore, the acquisition of Santer will allow Reply to expand its business lines by entering into a new segment, that of the Local Public Administration, with technologically innovative *e-government* solutions.

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

Reply S.p.A.'s financial statements for the year ended 2002, recorded a net result of 4.156.172 euros and net equity amounted to 47.840.823 euros detailed below:

(in euro)	31/12/2002
Share capital	4.244.344
Additional paid-in capital	14.189.548
Legal reserve	260.124
Reserve for treasury shares on hand	97.762
Other reserves	20.018.133
Retained earnings	4.874.740
Total Share Capital and Reserves	43.684.651
Net result of the year	4.156.172
Total	47.840.823

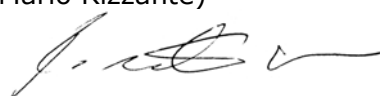
The Board of Directors proposes to the Shareholders to allocate the net result of the year amounting to 4.156.172 euros, as follows:

- 207.809 euros to the legal reserve;
- 816.220 euros as dividends to the shareholders, in the amount of 0,10 euros per ordinary share having the right and that are in circulation at the fixed payment date, 10 July 2003, excluding treasury shares;
- 3.132.143 euros to the extraordinary reserve.

The proposed dividends, to be paid on 10 July 2003 against coupon no.1, are subject to an ordinary tax credit equal to 56.25%

Turin, 17 April 2003

For the Board of Directors
The Chairman
(Mario Rizzante)



REPLY

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2002

REPLY

CONSOLIDATED BALANCE SHEET

(thousand euros)

ASSETS			
		31/12/02	31/12/01
A)	AMOUNT DUE FROM SHAREHOLDERS	28	-
B)	FIXED ASSETS		
I	<i>Intangible fixed assets</i>		
1	Start-up and expansion costs	1.877	2.773
3	Industrial patents and intellectual property rights	261	225
4	Concessions, licenses, trademarks and similar rights	840	1.176
5	Goodwill	120	116
6	Intangible assets in progress and advances	-	41
7	Other	459	139
8	Consolidation differences	5.961	4.648
	<i>Total intangible fixed assets</i>	9.518	9.118
II	<i>Tangible fixed assets</i>		
1	Land and buildings	79	-
2	Plant and machinery	156	90
3	Industrial and commercial equipment	24	22
4	Other assets	1.651	1.612
	<i>Total tangible fixed assets</i>	1.910	1.724
III	<i>Financial fixed assets</i>		
1	Equity investments in		
a)	subsidiary companies	-	53
b)	associated companies	5.621	-
c)	other companies	1	1
		5.622	54
2	Receivables		
d)	other	432	341
		432	341
	<i>Total financial fixed assets</i>	6.054	395
	Total fixed assets (B)	17.482	11.237

(thousand euros)

	31/12/02	31/12/01
C) CURRENT ASSETS		
I <i>Inventories</i>		
3 Contract work in progress	6.780	5.179
4 Finished products and goods for resale	166	302
<i>Total inventories</i>	6.946	5.481
II <i>Receivables</i>		
1 Trade receivables	43.956	32.889
4 Parent company	-	1
5 Other	2.322	1.314
<i>Total receivables</i>	46.278	34.204
III <i>Financial assets not held as fixed assets</i>		
5 Treasury shares	98	91
6 Other securities	3.450	1.549
<i>Total financial assets not held as fixed assets</i>	3.548	1.640
IV <i>Liquid funds</i>		
1 Bank and post office deposits	4.366	16.924
3 Cash on hand	56	48
<i>Total liquid funds</i>	4.422	16.972
Total current assets (C)	61.194	58.297
D) ACCRUED INCOME AND PREPAID EXPENSES	493	255
TOTAL ASSETS	79.197	69.789

(thousand euros)

LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/02	31/12/01
A	SHAREHOLDERS' EQUITY		
<i>I</i>	<i>Share capital</i>	4.244	4.244
<i>II</i>	<i>Additional paid-in capital</i>	14.190	13.152
<i>IV</i>	<i>Legal reserve</i>	260	78
<i>V</i>	<i>Reserve for treasury shares on hand</i>	98	91
<i>VII</i>	<i>Other reserves</i>	20.018	21.063
<i>VIII</i>	<i>Retained earnings (accumulated losses)</i>	6.543	3.145
<i>IX</i>	<i>Group net result</i>	3.535	3.842
	Group Shareholders' equity	48.888	45.615
<i>X</i>	<i>Minority interest</i>	698	466
	Total Shareholders' equity	49.586	46.081
B	RESERVE FOR RISKS AND CHARGES		
1	Employee pensions and similar obligations	344	279
3	Other	102	300
	Total reserve for risks and charges (B)	446	579
C	RESERVE FOR EMPLOYEES TERMINATION INDEMNITIES	2.895	1.656
D	PAYABLES		
3	Due to banks		
-	- within 12 months	3.825	1.981
-	- beyond 12 months	30	71
4	Due to other providers of finance		
-	- within 12 months	9	54
-	- beyond 12 months	-	9
5	Advances	6.031	4.058
6	Trade payables	7.471	6.621
10	Due to parent companies	-	195
11	Due to tax authorities	3.389	4.190
12	Due to social security authorities	2.426	1.855
13	Other payables	3.014	2.407
	Total payables (D)	26.195	21.441
E	ACCRUED EXPENSES AND DEFERRED INCOME	75	32
	TOTAL LIABILITIES	79.197	69.789

(thousand euros)

	31/12/02	31/12/01
MEMORANDUM ACCOUNTS		
Guarantees issued on behalf of related parties	496	602
Guarantees received from third parties	576	484
Commitments for lease contracts	1.881	1.556
TOTAL MEMORANDUM ACCOUNTS	2.953	2.642

REPLY

CONSOLIDATED STATEMENT OF INCOME

(thousand euros)

	2002	2001
A VALUE OF PRODUCTION		
1 Revenues from sales and services	75.065	56.446
2 Change in contract work in progress	1.609	3.530
3 Capitalized production	245	93
5 Other income	222	234
Total value of production (A)	77.141	60.303
B COSTS OF PRODUCTION		
6 Raw materials, consumables and goods for resale	2.343	1.127
7 Services	26.511	20.497
8 Lease and rentals	1.574	1.005
9 Personnel		
a) salary and wages	24.685	18.960
b) social security charges	7.415	5.517
c) employee termination indemnities	1.582	1.149
d) employee pensions and similar obligations	65	65
	33.747	25.691
10 Amortization, depreciation and write downs		
a) amortization of intangible fixed assets	2.228	1.962
b) depreciation of tangible fixed assets	985	681
d) write down of receivables recorded as current assets and liquid funds	259	403
	3.472	3.046
11 Changes in inventories of raw material, consumables and goods for resale	(34)	(7)
12 Provisions for risk	-	300
14 Other operating costs	417	240
Total costs of production (B)	68.030	51.899
Difference between value and cost of production (A-B)	9.111	8.404

(thousand euros)

	2002	2001
C FINANCIAL INCOME AND EXPENSES		
16 Other financial income		
b) from securities held as fixed assets	343	818
d) Other		
- other	100	112
<i>Total financial income</i>	443	930
17 Interest and other financial expenses		
- other	(262)	(149)
<i>Total financial expenses</i>	(262)	(149)
Total financial income and expenses (C)	181	781
D ADJUSTMENTS TO FINANCIAL ASSETS	-	-
E EXTRAORDINARY INCOME AND EXPENSES		
20 Income	279	209
21 Expenses	(363)	(326)
Total extraordinary income and expenses (E)	(84)	(117)
RESULT BEFORE TAXATION	9.208	9.068
22 Income taxes	5.458	5.162
NET RESULT BEFORE MINORITY INTEREST	3.750	3.906
23 Result attributable to minority interest	(215)	(64)
NET RESULT	3.535	3.842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as at 31 December 2002 have been prepared in accordance with the related provisions contained in the Italian Legislative Decree No. 127 dated April 9, 1991. Such financial statements consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code, as suitably amended), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code, as suitably amended) and these explanatory notes.

These notes explain, analyze and, in some cases, supplement the data reported on the face of consolidated financial statements with the information required by article 38 and with other provisions of Italian Decree No. 127/1991. Additional information is provided in order to present a true and fair view of the state of the Group, even where this is not required by specific legislation.

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

ACTIVITY OF THE GROUP

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

CONSOLIDATION

The consolidated financial statements include the financial statements as of 31 December 2002 of Reply S.p.A. and of the subsidiary companies, in which Reply S.p.A. directly or indirectly holds the majority of the voting rights.

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

The financial statements utilized for consolidation purposes were those approved by the Shareholder's meeting of the individual companies or prepared by the respective Board of Directors.

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

The most significant changes that have occurred in the consolidation area of Reply Group compared to the year 2001 are the following:

- consolidation of foreign companies Logistics Reply SL (Spain) and Logistics Reply do Brasil LTDA, established in October 2001 and January 2002 respectively;
- consolidation of Spike Reply S.r.l., established in June 2002;
- consolidation of Sysproject, purchased in the month of October 2002.

Subsequent to the company reorganization plan and following the merger operations that took place on 1 October 2002, Cluster Reply Milano S.r.l and Cluster Reply Roma have been incorporated in Cluster Reply S.r.l. and similarly Technology Reply Torino S.r.l. has been incorporated in Technology Reply S.r.l..

CONSOLIDATION PRINCIPLES

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

- a. The assets and liabilities of the subsidiary companies are consolidated on a line-by-line basis according to the line-by-line consolidation method; the carrying amount of investments held by the Parent Company and other subsidiaries is eliminated against the related shareholders' equity.
- b. When a company is consolidated for the first time, any positive differences arising from the elimination of its carrying value, as indicated at point a., are allocated, where applicable, to the assets of the subsidiary. If the entire difference cannot be allocated to such assets it is then classified as "consolidation differences" as it represents income-earning capacity of the companies acquired, and it is amortized over the period that it is expected to benefit.
Negative differences are classified as "Reserve for risks and charges arising from consolidation" if they reflect estimated future losses; otherwise they are classified as part of "Consolidation Reserve" within Shareholders' equity.
- c. Intercompany receivables and payables, costs and revenues and all significant transactions between consolidated companies, including the payment of dividends, are eliminated. Unrealized intercompany profits, gains and losses arising from transactions between Group companies are also eliminated.
- d. The minority interests in net equity and net result for the year are classified separately in the consolidated shareholders' equity and statement of income.
- e. Adjustments and accruals carried out solely for fiscal purposes are eliminated, taking into account any related tax impact.

ACCOUNTING PRINCIPLES

The accounting principles adopted comply with article 2426 of the Italian Civil Code, with CONSOB indications and with the Italian accounting principles issued by the National Board of "Dottori Commercialisti and of Ragionieri"; where lacking reference is made to those issued by the International Accounting Standards Board (IASB). The accounting principles are in line with the ones adopted in the previous year.

Intangible Fixed Assets

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit. In compliance with accounting principle Nr. 24 the costs incurred by the Parent Company for the listing in the New Market, have been included in start-up and expansion costs, with approval by the Statutory Auditors.

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

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

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

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

Tangible fixed assets

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

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

The annual depreciation rates applied are as follows:

	<u>Rate</u>
Land and building	3%
Plants and machinery	40%-50%
Industrial and commercial equipment	30%
Furniture and fittings	24%
Electronic office equipment	40%
Office equipment	24%
Mobile telephones	40%
Automobiles	50%

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

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

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

Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives

Equity investments

Investments in associated companies are accounted for using the equity method. The positive differences arising between the carrying value and the corresponding net equity at the acquisition date are included in the carrying value of the equity investment and amortized at constant rates that reflect the estimated recovery value. Such amortization, along with minority interest of said investments are recorded at the consolidated statement of income as "Adjustments to financial assets".

Investments in subsidiary companies that are not consolidated on a line-by-line basis because not considered significant or not yet operational, or those in which less than 20% of the share capital is held, are carried at cost. Such investments are written down to reflect a permanent impairment in value. Their book value is reinstated in subsequent years if the reasons for such write down no longer apply.

Inventories

Work in progress, for "on-stream" projects having a long-term nature are valued according to the agreed upon revenues and the stage of completion.

Work in progress for contracts having duration of less than twelve months has been recorded based on costs.

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

Accounts receivable and accounts payables

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

Financial assets not held as fixed assets

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

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

Treasury shares

Treasury shares are stated at cost and valued according to the LIFO method and eventually reduced to their estimated realizable value. An unavailable reserve denominated "Reserve for treasury shares on hand" is posted at Shareholders' equity for the same amount.

Liquidity funds

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

Accruals and Deferrals

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

Reserves for risks and charges

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

Reserve for employee termination indemnities

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

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

Revenue recognition

Revenues from services are recognized at the time of execution.

Revenues from the execution of specific contracts are recognized upon customer approval of the completion of the work or according to the percentage of completion method.

Revenues from sales of products are recognized when title is passed to the client, which is generally at the time of shipment.

Income taxes

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

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

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

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

Translation of foreign currency items

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

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

OTHER INFORMATION

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

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

NOTES TO ASSETS RECORDED IN THE CONSOLIDATED BALANCE SHEET

B) FIXED ASSETS

I. Intangible fixed assets

Net intangible assets as at 31 December 2002 amounted to 9.518 thousand euros (9.118 thousand euros as at 31 December 2001).

(thousand euros)	Historical cost	Accumulated amortization	Net book value 31/12/2002
Start-up and expansion costs	4.686	(2.809)	1.877
Industrial patents and intellectual property rights	730	(469)	261
Concessions, licenses, trademarks and similar rights	1.710	(870)	840
Goodwill	165	(45)	120
Other	757	(298)	459
Consolidation differences	7.205	(1.244)	5.961
Total	15.253	(5.735)	9.518

Movements in intangible assets during 2002 are detailed below:

(thousand euros)	Net book value 31/12/2001	Increases	Change in consolidation	Amortization	Net book value 31/12/2002
Start-up and expansion costs	2.773	28	7	(931)	1.877
Industrial patents and intellectual property right	225	301	1	(266)	261
Concession, licenses, trademarks and similar rights	1.176	6	-	(342)	840
Goodwill	116	-	18	(14)	120
Other	139	433	25	(138)	459
Intangible in progress	41	(41)	-	-	-
Consolidation differences	4.648	1.850	-	(537)	5.961
Total	9.118	2.577	51	(2.228)	9.518

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

Industrial patents and intellectual property rights refer mainly to software patents. The increase in the year includes charges for the management of centralized administration activities of the Group.

The item *Concessions, licenses, trademarks and similar* 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 subscribed by the Parent Company Alister.

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

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

Increase of *Other intangible assets* is due to costs incurred for the renovation of new offices and for the accomplishment of ISO 9001 certification.

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

- acquisition of minority interests of the company Alister Holding SA, transaction which was executed on 9 June 2000 through the parent company Reply's share capital increase (1.159 thousand euros);
- acquisition of 100% of YH Reply S.r.l.'s share capital during the year 2000 (18 thousand euros);
- acquisition, during 2001, of 70% of XYZ Reply S.r.l.'s share capital (1.777 thousand euros);
- acquisition, during 2001, of 58% of e*finance consulting Reply S.p.A.'s share capital (1.157 thousand euros);
- acquisition of 100% of Sysproject Reply S.r.l.'s share capital (1.850 thousand euros).

II. Tangible fixed assets

Tangible fixed assets amounted to 1.910 thousand euros, and are detailed as follows:

(thousand euros)	31/12/2002	31/12/2001	Change
Buildings	79	-	79
Machinery	156	90	66
Electronic equipment	1.066	1.077	(11)
Ordinary office equipment	58	49	9
Furniture and fittings	494	450	44
Automobiles	22	28	(6)
Generic equipment	24	22	2
Mobile telephones	11	8	3
Total	1.910	1.724	186

Movements during 2002 in tangible assets are detailed in the table below:

	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
(thousand euros)					
Historical cost	-	182	42	3.050	3.274
Accumulated depreciation	-	(92)	(20)	(1.438)	(1.550)
Balance as at 31 December 2001	-	90	22	1.612	1.724
<u>Historical cost</u>					
Additions	-	137	13	958	1.108
Disposals	-	(4)	-	(121)	(125)
Change in consolidation	100	31	4	210	345
<u>Accumulated depreciation</u>					
Depreciation	-	(84)	(11)	(890)	(985)
Disposals	-	1	-	30	31
Change in consolidation	(21)	(15)	(4)	(148)	(188)
Historical cost	100	346	59	4.097	4.602
Accumulated depreciation	(21)	(190)	(35)	(2.446)	(2.692)
Balance as at 31 December 2002	79	156	24	1.651	1.910

Total additions in 2002 amounted to 1.108 thousand euros, mainly related to computers and network equipments, plants and office furniture.

In compliance with law nr.72 of 1983, art. 10, no revaluations in accordance with specific laws have been made to the assets of the Group.

As at December 31 2002, 58.5% of the value of tangible assets has been depreciated compared to 47.3% at year-end 2001.

III. Financial fixed assets

Equity Investments

Equity investments as at 31 December 2002 amounted to 5.622 thousand euros compared to 54 thousand euros as at 31 December 2001, and comprised the following:

(thousand euros)	31/12/2002	31/12/2001	Change
Investments in subsidiary companies	-	53	(53)
Investments in associate companies	5.621	-	5.621
Investments in other companies	1	1	-
Total	5.622	54	5.568

Change in *Investments in subsidiary companies* owes to the consolidation on a line-by-line basis of the subsidiary Logistics Reply SL that started running during 2002 (as at 31 December 2001 such investment was carried at cost for 53 thousand euros).

The item *Investments in associate companies* is related to the investment in Santer S.p.A., purchased in December 2002 through the subscription of a share capital increase. Such increase comprises 1.083 thousand euros related to the subscription of 49% of the share capital, 4.508 thousand euros of additional paid-in capital and 30 thousand euros of a contribution grant.

The investment was recorded according to the net equity method that in this case corresponded to the cost as the acquisition date was close to the fiscal year-end.

More details concerning the aforementioned operation is provided at the Directors' Report on Operations.

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

Financial receivables

Other financial receivables include:

(thousand euros)	31/12/2002	31/12/2001	Change
Receivables from insurance companies	280	215	65
Guarantee deposits	152	126	26
Total	432	341	91

The change is due mainly to the insurance premium against Directors' severance indemnities and to guarantee deposits for new rentals.

C. CURRENT ASSETS

I. Inventories

Inventories amounted to 6.946 thousand euros, and are detailed as follows:

(thousand euros)	31/12/2002	31/12/2001	Change
Contract work in progress			
- within 12 months	1.600	1.621	(21)
- beyond 12 months	5.180	3.558	1.622
	6.780	5.179	1.601
Finished products and goods for resale	166	302	(136)
Total	6.946	5.481	1.465

Contract work in progress included mainly the following activities:

- Realization of a spare parts warehouse management system at a European level;
- Development of a call center for road assistance;
- Implementation of applications for the administration-accounting on Oracle platform.

Finished products and goods for resale reflects the value of software licenses, that had not been implemented at year end.

II. Receivables

Change in current assets compared to year-ended 2001 amounted to 12.074 thousand euros and is analyzed below.

Trade receivables

Trade receivables, made up mainly of high rated clients and all collectable within the year, arise from normal sales transactions. Detail is as follows:

(thousand euros)	31/12/2002	31/12/2001	Change
Domestic trade receivables	42.936	32.858	10.078
Foreign trade receivables	1.996	1.002	994
Credit notes to be issued	(289)	(396)	107
Total	44.643	33.464	11.179
Allowance for doubtful accounts	(687)	(575)	(112)
Total trade receivables, net	43.956	32.889	11.067

Receivable rotation, calculated as receivables over monthly turnover stood at approximately 140 days (120 days in 2001).

After having attentively carried out a collectibles analysis of each receivable account as at 31 December 2002, the provision made for doubtful accounts amounted to 259 thousand euros.

Other receivables

Detail is as follows:

(thousand euros)	31/12/2002	31/12/2001	Change
Advances to suppliers	295	445	(150)
Receivables from tax authorities	1.253	519	734
Deferred tax receivables	341	191	150
VAT receivables	250	54	196
Other receivables	183	105	78
Total	2.322	1.314	1.008

Change in *Other receivables* is mainly due to advance payments made on tax debts with respect to the real tax debt due at year-end.

III. Financial assets not held as fixed assets

Treasury shares

Treasury shares are recorded at cost determined according to the LIFO method.

Movements in treasury shares during 2002 are detailed in the table below:

	Quantity	Average price (euros)	Final balance (euros)
Balance at 31/12/01	7.387	12,28	90.714
Increases	101.201	10,33	1.045.070
Disposals	(92.500)	11,22	(1.038.022)
Balance at 31/12/02	16.088	6,08	97.762

Shareholders' equity includes an unavailable reserve for the same amount.

Other securities

(thousand euros)	31/12/2002	31/12/2001	Change
Receivables from disposal of securities	252	-	252
BTP – CCT	1.601	-	1.601
Mutual investment funds	1.579	1.549	30
Other	18	-	18
Total	3.450	1.549	1.901

The item *Receivables from disposal of securities* includes securities purchased under contracts that foresee resale of the same at a future date and at an established price.

The item *Mutual investment funds* refers to liquidity fund shares, recorded at cost, issued by Banca Popolare di Milano.

With regards to financial assets, the comparison with their corresponding market value does not reveal hidden losses.

IV. Liquid funds

This item amounted to 4.422 thousand euros, with a decrease of 12.550 thousand euros compared to 31 December 2001 and reflects the amount of cash at banks and on hand at year end.

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

D. ACCRUED INCOME AND PREPAID EXPENSES

The ending balance of 493 thousand euros, with an increase of 238 thousand euros compared to 31 December 2001, is mainly referred to prepaid expenses from lease contracts and other utility expenses, which are accounted for in accordance with the accruals accounting method.

NOTES TO SHAREHOLDERS' EQUITY AND LIABILITIES RECORDED IN THE CONSOLIDATED BALANCE SHEET

A) GROUP SHAREHOLDERS' EQUITY

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

	Share capital	Additional paid-in capital	Legal reserve	Reserve for treasury shares on hand	Extraordinary reserve	Reserve for purchase of treasury shares	Retained earnings	Net result of the year	Total
(thousand euros)									
Balance at 31/12/2000	4.244	34.242	4	-	63	-	1.325	1.883	41.761
Allocation of year 2000 result	-	-	74	-	-	-	1.809	(1.883)	-
Purchase of treasury shares	-	(307)	-	307	-	-	-	-	-
Disposal of treasury shares	-	216	-	(216)	-	-	-	-	-
Setting-up of reserve for treasury shares	-	(21.000)	-	-	-	21.000	-	-	-
Other changes	-	1	-	-	-	-	11	-	12
Result for the year 2001	-	-	-	-	-	-	-	3.842	3.842
Balance at 31/12/2001	4.244	13.152	78	91	63	21.000	3.145	3.842	45.615
Allocation of year 2001 result	-	-	-	-	-	-	-	-	-
- legal reserve	-	-	182	-	-	-	-	(182)	-
- retained earnings	-	-	-	-	-	-	3.508	(3.508)	-
- Directors' fees	-	-	-	-	-	-	-	(152)	(152)
Purchase of treasury shares	-	-	-	1.045	-	(1.045)	-	-	-
Disposal of treasury shares	-	1.038	-	(1.038)	-	-	-	-	-
Other changes	-	-	-	-	-	-	(110)	-	(110)
Result for the year 2002	-	-	-	-	-	-	-	3.535	3.535
Balance at 31/12/2002	4.244	14.190	260	98	63	19.955	6.543	3.535	48.888

As at 31 December 2002 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.244 thousand euros.

This is made up of 8,162,200 ordinary shares, par value 0,52 euros each.

Stock option plans

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001 and on 11 June 2002 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. Such stock option plans are detailed as follows:

- 250,000 new ordinary shares were issued with a par value of 0,52 euros in favor of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan will be in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase;
- 200,000 new ordinary shares were issued with a par value of 0,52 euros in favor of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

Reply S.p.A.'s Board of Directors, in charge of the stock option plan, has resolved the assignment of the following pre-emptive rights:

Resolution date	Nr. of options (*)	Exercise price (euros)	Exercise period
6 July 2001	196.300	15,969	06/07/2003 – 06/01/2004
28 September 2001	2.400	13,379	28/09/2003 – 28/03/2004
13 November 2001	5.700	15,035	13/11/2003 – 13/05/2004
13 February 2002	14.300	16,776	13/02/2004 – 13/08/2004
21 March 2002	5.700	17,066	21/03/2004 – 21/09/2004
22 April 2002	18.900	16,330	22/04/2004 – 22/10/2004
8 August 2002	14.400	13,198	08/08/2004 – 08/02/2005
26 September 2002	2.400	12,719	26/09/2004 – 26/03/2005
13 November 2002	59.800	10,618	13/11/2004 – 13/05/2005
13 February 2003	27.000	10,572	13/02/2005 – 13/08/2005
	346.900		

(*) Net of option recovered from resigned employees

Group consolidated net equity as at 31 December 2002 amounted to 48.888 thousand euros (45.615 thousand euros as at 31 December 2001).

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

(thousand euros)	31/12/2002		31/12/2001	
	Result	Net equity	Result	Net equity
Reply S.p.A.'s financial statements	4.156	47.841	3.641	43.685
Results of the subsidiary companies	6.115	10.070	4.501	17.800
Carrying value of investments in consolidated companies	-	(9.589)	-	(16.283)
Consolidation differences	(537)	5.961	(537)	4.648
Elimination of dividends collected in 2002 from subsidiary companies	(1.624)	-	-	-
Elimination of dividends recorded on the accrual accounting basis by the Parent Company	(4.187)	(4.187)	(3.432)	(3.432)
Adjustments on accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(173)	(510)	(267)	(337)
Minority interest	(215)	(698)	(64)	(466)
Reply Group consolidated financial statements	3.535	48.888	3.842	45.615

B) RESERVES FOR RISKS AND CHARGES

Employee pensions and similar obligations

This item is related to the Companies' liability for Directors' severance indemnity.

The difference of 65 thousand euro, compared to the previous year, is related to the additional leaving indemnity conferred to several members of the Board of Directors for the year 2002 resolved by the individual company's Shareholders' Meeting.

Other

The item *Other* refers to charges connected to the reorganization plan aimed at creating within Reply, groups of companies operating in the same line of business.

C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITY

Movements in the reserve were as follows:

(thousand euros)	
Balance at 31/12/2001	1.656
Change in consolidation	61
Provision for the year	1.582
Utilizations	(404)
Balance at 31/12/2002	2.895

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

The number of employees as at 31 December 2002 is 751, compared to 647 employees as at 31 December 2001.

D) PAYABLES

As at 31 December 2002 payables amounted to 26.195 thousand euros, of which 3.864 thousand euros financial payables (2.115 thousand euros as at 31 December 2001) and 22.331 thousand euros trade and other payables (19.326 thousand euros as at 31 December 2001).

Financial payables

(thousand euros)	31/12/2002			31/12/2001		
	Short term	Medium/long term	Total	Short term	Medium/long term	Total
Advances on invoices and bank overdrafts	3.746	-	3.746	1.808	-	1.808
Medium/long term borrowings	79	30	109	173	71	244
Total due to banks	3.825	30	3.855	1.981	71	2.052
Due to other providers of finance	9	-	9	54	9	63
Total financial payables	3.834	30	3.864	2.035	80	2.115

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

Medium and long-term borrowings, as at 31 December 2002, are detailed as follows:

Financial Institution	Balance at 31/12/02 (euro/000)	Interest rate	Maturity date	Installment
San Paolo Imi	17	Euribor 6 months + 1.25%	3 April 2003	Monthly post-dated
San Paolo Imi	17	Euribor 6 months + 1.25%	31 March 2003	Monthly post-dated
San Paolo Imi	24	Euribor 6 months + 1.25%	8 February 2005	Monthly post-dated
San Paolo Imi	17	Euribor 6 months + 1.25%	30 March 2003	Monthly post-dated
San Paolo Imi	7	Euribor 6 months + 1.25%	31 March 2003	Monthly post-dated
BIBOP	27	Euribor 6 months + 1.25%	1 January 2006	Monthly post-dated
Total medium/long term borrowings	109			

In order to get the above borrowings, the Group obtained a guarantee from "Consorzio Unionfidi" for 390 thousand euros, equivalent to 80% of the amount collected by the financial institute SANPAOLO IMI. As a consequence, the Group has subscribed shares in "Consorzio Unionfidi", recorded as financial fixed assets.

The net financial position as at 31 December 2002 amounted to 4.131 thousand euros and is detailed as follows:

(thousand euros)	31/12/2002	31/12/2001	Change
Current financial assets			
Treasury shares	98	91	7
Receivables from disposal of securities	252	-	252
Securities	1.601	-	1.601
Mutual investment funds	1.579	1.549	30
Other	43	-	43
Liquid funds	4.422	16.972	(12.550)
Total current financial assets	7.995	18.612	(10.617)
Financial payables			
Due within 12 months	(3.834)	(2.035)	(1.799)
Due beyond 12 months	(30)	(80)	50
Total financial payables	(3.864)	(2.115)	(1.749)
Net financial position	4.131	16.497	(12.366)

For a detailed analysis of changes in the net financial position refer to the Directors' Report on Operations and the statement of sources and application of funds.

Trade and other payables

Trade and other payables in 2002 increased by 3.005 thousand euros compared to year-ended 2001 and are detailed at the table below:

(thousand euros)	31/12/2002	31/12/2001	Change
<i>Advances</i>	6.031	4.058	1.973
<i>Trade payables</i>	7.471	6.621	850
<i>Due to parent companies</i>	-	195	(195)
<i>Due to tax authorities</i>			
Income taxes (Irpeg- Irap)	1.324	2.550	(1.226)
VAT payable	884	769	115
Withholding taxes	1.181	871	310
	3.389	4.190	(801)
<i>Due to social security authorities</i>			
Inps	2.111	1.622	489
Inpdai	190	129	61
Inail	14	40	(26)
Other authorities	111	64	47
	2.426	1.855	571
<i>Other payables</i>			
Employee accruals	2.731	2.025	706
Other payables to authorities	90	98	(8)
Other payables	193	284	(91)
	3.014	2.407	607
Total trade and other payables	22.331	19.326	3.005

A brief description of the non-financial payables is provided below:

Advances

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

Trade payables

As at 31 December 2002 trade payables amounted to 7.471 thousand euros and included:

- domestic suppliers for 7.280 thousand euros;
- foreign suppliers for 121 thousand euros;
- due to related parties for 70 thousand euros related to services carried out at normal market conditions, which consist mainly in providing various services including the use of offices and office of the secretary.

Due to tax authorities

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

Due to social security authorities

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

Other payables

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

MEMORANDUM ACCOUNTS

Detail is as follows:

(thousand euros)	31/12/2002	31/12/2001	Change
Guarantees issued on behalf of related parties	496	602	(106)
Guarantees received by third parties	576	484	92
Commitments for lease contracts	1.881	1.556	325
Total	2.953	2.642	311

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

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

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

A) VALUE OF PRODUCTION

Revenues from sales and services

Revenues from sales and services, including changes in contract work in progress, amounted to 76.674 thousand euros and are detailed as follows:

(thousand euros)	2002	2001	Change
Revenues from services	74.242	58.599	15.643
Hardware and software licenses for resale	2.432	1.377	1.055
Total	76.674	59.976	16.698

The Group mainly operates on the Italian market; in 2002 revenues from foreign countries made up approximately 4.3% of total revenues (2.7% in 2001).

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

Capitalized production

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

B) COST OF PRODUCTION

Raw materials, consumables and goods for resale

Detail is as follows:

(thousand euros)	2002	2001	Change
Hardware for resale	350	25	325
Software licenses for resale	1.440	688	752
Other	555	414	141
Total	2.345	1.127	1.218

Services

The cost of services is detailed as follows:

(thousand euros)	2002	2001	Change
Commercial and technical consultancy	11.029	9.027	2.002
Services from Parent Company and related parties	1.413	1.208	205
Directors' fees	3.918	2.153	1.765
Traveling and professional training expenses	4.688	3.037	1.651
Marketing expenses	552	466	86
Administrative and legal services	926	833	93
Utilities	869	466	403
Statutory Auditors' and Independent Auditors' fees	144	109	35
Canteen expenses	830	679	151
Media services to be rebilled	935	1.425	(490)
Other	1.207	1.094	113
Total	26.511	20.497	6.014

Services from Parent Company and related parties refer to service contracts related to the use of premises, domiciliation and office of the secretary services.

Media services to be rebilled refer to the ordinary business of XYZ Reply S.r.l., operating in the multimedia communication and web-marketing business.

Leases and rentals

Charges for leases and rentals are detailed below:

(thousand euros)	2002	2001	Change
Lease and rental expenses	785	471	314
Lease of automobiles	760	499	261
Other	29	35	(6)
Total	1.574	1.005	569

The change in *Leases and rental expenses* is due mainly to rentals for the opening of new offices and to automobile leases granted to management.

Personnel costs

Personnel costs amounted to 33.747 thousand euros, with a change of 8.056 thousand euros compared to the previous year. The breakdown of these costs is provided at the statement of income. The following table indicates the number of employees by category:

(number)	31/12/2002	31/12/2001	Change
Directors	44	27	17
Managers	63	47	16
Staff	644	573	71
Total	751	647	104

Amortization, depreciation and write downs

Amortization of intangible assets amounted to 2.228 thousand euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets amounted to 985 thousand euro, has been determined on a straight-line basis at economic-technical rates that reflect the useful life of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Write downs of receivables and liquid funds amounted to 259 thousand euros and are referred to the provision for doubtful accounts.

Other operating costs

These costs amounted to 417 thousand euros and include:

(thousand euros)	2002	2001	Change
Hospitality expenses	62	60	2
Gifts to clients	36	13	23
Loss on receivables	33	-	33
Magazines	34	20	14
Taxes on automobiles	19	13	6
Other	233	134	99
Total	417	240	177

C) FINANCIAL INCOME AND EXPENSES

Detail is as follows:

(thousand euros)	2002	2001	Change
Gain on securities	343	818	(475)
Interest income on bank accounts	98	110	(12)
Interest due to banks	(94)	(14)	(80)
Interest charges on loans	(8)	(28)	20
Loss on securities	(64)	(75)	11
Interest on income tax from previous years	(54)	(32)	(22)
Other	(40)	2	(42)
Total	181	781	(600)

E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income amounted to 279 thousand euros and is referred to income falling out of the ordinary course of business.

Extraordinary expenses amounted to 363 thousand euros and are mainly related to unexpected losses falling out of the ordinary course of business.

INCOME TAXES

Income taxes due for the year 2002 amount to 5.458 thousand euros, compared to 5.162 thousand euros in 2001.

(thousand euros)	2002	2001	Change
Current taxes	5.608	5.304	304
Deferred taxes, net	(150)	(142)	(8)
Total	5.458	5.162	296

Tax burden before taxation is equivalent to 59.3% (56.9% in 2001). The difference, compared to the theoretical tax incidence of 40.25%, is mainly due to non-deductible costs as per IRAP (the regional tax on value added) and to permanent tax differences of certain costs.

OTHER INFORMATION

Emoluments of the Parent Company's Directors and Statutory Auditors

Emoluments of the Parent Company's Directors and Statutory Auditors for the year 2002 amounted to 790 thousand euros and 56 thousand euros respectively, including the remuneration of services provided by them to other Group companies.

The Notes to Reply S.p.A.'s financial statements provide complete details of the above figures.

REPLY

CONSOLIDATED STATEMENT OF CASH FLOW

(thousand euros)	2002	2001
Net result for the year	3.535	3.842
Depreciation and amortization	3.213	2.643
Accrual for employee termination indemnities	1.582	1.149
Accrual for reserve for risk and charges	65	365
Accrual for allowances and doubtful accounts	259	403
Cash flows from operating activities before working capital movements	8.654	8.402
Change in inventories	(1.465)	(3.686)
Change in trade receivables	(11.325)	(17.569)
Change in other current assets	(1.249)	(763)
Change in trade payables	655	(1.147)
Change in other current liabilities	2.393	6.861
Change in reserve for risks and charges	(198)	-
Change in employee termination indemnities	(343)	(326)
Change in working capital	(11.532)	(16.630)
Cash flows from operating activities (A)	(2.878)	(8.228)
Capitalization of intangible assets	(2.628)	(4.082)
Additions and disposals of tangible assets	(1.171)	(1.575)
Change in other long-term assets	(5.659)	(183)
Cash flows used in investing activities (B)	(9.458)	(5.840)
Increase in share capital and minority interest	232	466
Other changes in net equity	(262)	12
Cash flows used in financing activities (C)	(30)	478
Change in net financial position (A + B + C)	(12.366)	(13.590)
Net financial position at beginning of the year	16.497	30.087
Net financial position at year-end	4.131	16.497

REPLY

RECALSSIFIED CONSOLIDATED BALANCE SHEET

(thousand euros)	2002	2001
Intangible fixed assets	9.518	9.118
Tangible fixed assets	1.910	1.724
Financial fixed assets	6.054	395
Total fixed assets (A)	17.482	11.237
Inventories	6.946	5.481
Trade receivables	43.956	32.890
Other current assets	2.818	1.569
Total current assets (B)	53.720	39.940
Trade payables	(7.471)	(6.816)
Other current liabilities	(14.935)	(12.542)
Total current liabilities (C)	(22.406)	(19.358)
Net current assets (D) (B + C)	31.314	20.582
Employee termination indemnities (E)	(2.895)	(1.656)
Reserve for risks and charges (F)	(446)	(579)
Net invested capital (A + D + E + F)	45.455	29.584
Shareholders' equity	49.586	46.081
Long-term net financial position	30	80
Short-term net financial position	(4.161)	(16.577)
Shareholders' equity and net financial position	45.455	29.584

REPLY

COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2002 AND EQUITY INVESTMENTS

Company name	Registered office	Share capital	Group interest
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PARENT COMPANY

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

@Logistics Reply S.r.l.	Torino - Corso Francia, 110	€ 78.000	100,00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	92,50%
Acquent Reply S.r.l.	Torino - Corso Francia, 110	€ 99.000	100,00%
BeWit Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	70,00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	85,00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€ 78.000	100,00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€ 55.207	100,00%
Creative Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
e*finance consulting Reply S.p.A.	Roma - Via Monte Zebbio, 32	€ 104.000	58,00%
Logistics Reply do Brasil LTDA	San Paolo - Brasile	R\$ 588.059	80,00%
Logistics Reply SL	Barcellona - Spagna	€ 53.010	100,00%
planeT Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	80,00%
Spike Reply S.r.l.	Torino - Corso Francia, 110	€ 50.000	90,00%
Sysproject S.r.l.	Torino - Corso Francia, 110	€ 10.400	100,00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€ 62.400	100,00%
Sytel Reply Milano S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€ 79.743	100,00%
XYZ Reply S.r.l.	Torino - Corso Francia, 110	€ 10.400	70,00%
YH Reply S.r.l.	Torino - Corso Francia, 110	€ 21.224	100,00%

ASSOCIATE COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Santer S.p.A.	Milano - Via Don Minzoni, 24	€ 2.209.500	49,00%
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STATUTORY AUDITOR' REPORT TO THE SHAREHOLDERS' MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2002

To the Shareholders,

The Board of Directors is submitting to You the consolidated financial statements as of 31 December 2002, including the Balance Sheet, the Statement of Income and the Notes to the consolidated financial statements, delivered to the Statutory Auditors jointly with the financial statements and the Directors' Report on Operations, which includes information on data, and analysis of the activities carried out, even at a consolidated level, by REPLY S.p.A. and its subsidiary companies.

Within this framework, the consolidation area is defined clearly through the list of the companies included, which were 20 as at 31 December 2002, all consolidated on a line-by-line basis.

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

The consolidated financial statements as at 31 December 2002 indicates a consolidated net equity amounting to 48.888 thousand euros, net of the consolidated net result amounting to 3.535 thousand euros.

Deloitte & Touche Italia S.p.A., the Auditing firm engaged in certifying the REPLY consolidated financial statements, issued its report on 23 April 2003, in which it asserts that the REPLY Group Consolidated Financial Statements as of 31 December 2002 comply with laws governing the criteria for their preparation.

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

- the consolidation area has been determined correctly;
- the adopted consolidation procedures are pursuant to the law and have been applied correctly;
- the figures expressed in the financial statements correspond to the accounting results of the Parent Company and to the information sent by its subsidiaries;
- all the information used for consolidation purposes is referred to the entire administrative period of the year 2002;
- the accounting principles and the evaluation criteria, whose supervision is carried out by the Statutory Auditors, seem to have been applied correctly.

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

The STATUTORY AUDITORS
Turin, 22 May 2002

(Prof. Piergiorgio Re)
(Mr. Tommaso Vallenzasca)
(Mr. Paolo Claretta-Assandri)

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REPORT OF THE INDEPENDENT AUDITORS
ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156
OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998
(Translation from the Original Issued in Italian)

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

1. We have audited the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The balance sheet as of December 31, 2002 of the affiliate Santer S.p.A., investment purchased at year-end whose carrying value represents the 7% of total consolidated assets, have been audited by other auditors who have provided us their report thereon. Our opinion expressed herein, insofar as it relates to the carrying value of the above mentioned investment is therefore based also on the audit performed by other auditors.

For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated April 24, 2002 issued under our firm's former name "Arthur Andersen S.p.A.".



Bari Bologna Brescia Firenze Genova Milano Napoli Padova Roma Torino Treviso Verona
Sede Legale: Via della Moscova, 3 - 20121 Milano - Capitale Sociale Euro 1.500.000 i.v.
Partita IVA 09869140153 - Codice Fiscale/Registro delle Imprese Milano n. 02466670581 - R.E.A. Milano n. 960046

3. In our opinion, the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2002 comply with the Italian statutory provisions related to consolidated financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company and its subsidiaries as of that date.

DELOITTE & TOUCHE ITALIA S.p.A.
s/Giuseppe Pedone – Partner

Turin, Italy
April 23, 2003

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

REPLY S.p.A.

FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2002

REPLY S.p.A. BALANCE SHEET

(in euros)

ASSETS			
		31/12/02	31/12/01
A)	AMOUNT DUE FROM SHAREHOLDERS	-	-
B)	FIXED ASSETS		
I	<i>Intangible fixed assets</i>		
1	Start-up and expansion costs	1.820.863	2.733.781
3	Industrial patents and intellectual property rights	388.127	141.871
4	Concessions, licenses, trademarks and similar rights	840.266	1.175.972
5	Goodwill	101.226	115.686
6	Intangible assets in progress and advances	-	103.291
7	Other	360.825	19.991
	<i>Total intangible assets</i>	3.511.307	4.290.592
II	<i>Tangible fixed assets</i>		
2	Plant and machinery	131.075	59.726
3	Industrial and commercial equipment	12.202	7.494
4	Other assets	487.205	414.483
	<i>Total tangible assets</i>	630.482	481.703
III	<i>Financial fixed assets</i>		
1	Equity investments		
a)	subsidiary companies	9.581.352	7.007.764
b)	associate companies	5.621.021	-
		15.202.373	7.007.764
2	Receivables		
a)	subsidiary companies	16.771.525	11.418.862
d)	other	71.845	63.065
		16.843.370	11.481.927
	<i>Total financial assets</i>	32.045.743	18.489.691
	Total fixed assets (B)	36.187.532	23.261.986

(in euros)

	31/12/02	31/12/01
C) CURRENT ASSETS		
I <i>Inventories</i>	-	-
II <i>Receivables</i>		
1 Trade receivables	11.122.301	4.878.470
2 From subsidiary companies	9.936.370	10.353.254
4 From parent companies	-	1.089
5 Other	2.898.360	2.612.489
<i>Total receivables</i>	23.957.031	17.845.302
III <i>Financial assets not held as fixed assets</i>		
1 Investments in subsidiaries	-	9.297.500
5 Treasury shares	97.762	90.714
6 Other securities	3.198.530	1.549.382
<i>Total financial assets not held as fixed assets</i>	3.296.292	10.937.596
IV <i>Liquid funds</i>		
1 Banks and post office deposits	1.075.811	1.998.587
3 Cash on hand	5.481	3.648
<i>Total liquid funds</i>	1.081.292	2.002.235
Total current assets (C)	28.334.615	30.785.133
D) ACCRUED INCOME AND PREPAID EXPENSES	526.406	159.005
TOTAL ASSETS	65.048.553	54.206.124

(in euros)

LIABILITIES		31/12/02	31/12/01
A	SHAREHOLDERS' EQUITY		
<i>I</i>	<i>Share Capital</i>	4.244.344	4.244.344
<i>II</i>	<i>Additional paid-in capital</i>	14.189.548	13.151.526
<i>IV</i>	<i>Legal reserve</i>	260.124	78.073
<i>V</i>	<i>Reserve for treasury shares on hand</i>	97.762	90.714
<i>VII</i>	<i>Other reserves</i>	20.018.133	21.063.205
<i>VIII</i>	<i>Retained earnings</i>	4.874.740	1.415.774
<i>IX</i>	<i>Net result for the year</i>	4.156.172	3.641.016
	Total Shareholders' equity (A)	47.840.823	43.684.652
B	RESERVES FOR RISKS AND CHARGES		
2	Taxation reserve	2.217.908	1.930.219
	Total reserves for risks and charges (B)	2.217.908	1.930.219
C	RESERVE FOR EMPLOYEE TERMINATION INDEMNITY	259.774	133.306
D	PAYABLES		
3	Due to banks		
	- within 12 months	2.482.128	1.549.845
5	Advances	1.378.100	718.908
6	Trade payables	1.382.059	1.189.510
8	Due to subsidiary companies	8.776.191	4.507.601
10	Due to parent companies	-	8.494
11	Due to tax authorities	284.043	103.106
12	Due to social security authorities	235.142	170.653
13	Other payables	177.188	202.678
	Total payables (D)	14.714.851	8.450.795
E	ACCRUED EXPENSES AND DEFERRED INCOME	15.197	7.152
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	65.048.553	54.206.124

(in euros)

MEMORANDUM ACCOUNTS	31/12/02	31/12/01
Guarantees issued on behalf of related parties	496.315	601.672
Guarantees received from third parties	129.868	45.514
Commitments for lease contracts	448.394	328.719
TOTAL MEMORANDUM ACCOUNTS	1.074.577	977.905

REPLY S.p.A.

STATEMENT OF INCOME

(in euros)

	2002	2001
A VALUE OF PRODUCTION		
1 Revenues from sales and services	24.577.208	10.949.097
5 Other income	793.225	248.157
Total value of production (A)	25.370.433	11.197.254
B COSTS OF PRODUCTION		
6 Raw materials, consumables and goods for resale	799.298	637.046
7 Services	20.272.023	7.839.462
8 Leases and rentals	506.703	305.810
9 Personnel		
a) salary and wages	2.156.779	1.346.174
b) social security charges	680.596	414.804
c) employee termination indemnities	146.008	84.188
	2.983.383	1.845.166
10 Amortization, depreciation and write downs		
a) amortization of intangible assets	1.615.324	1.360.722
b) depreciation of tangible assets	250.322	113.555
d) write downs of receivables and liquid funds	60.274	45.796
	1.925.920	1.520.073
14 Other operating costs	109.799	80.228
Total costs of production (B)	26.597.126	12.227.785
Difference between value and costs of production (A-B)	(1.226.693)	(1.030.531)

(in euros)

	2002	2001
C FINANCIAL INCOME AND EXPENSES		
15 Income from equity investments		
- subsidiary companies	6.546.822	5.361.719
16 Other financial income		
b) income from receivables held as financial fixed assets	290.232	818.095
d) other		
- subsidiary companies	816.527	440.323
- other	39.413	84.310
<i>Total financial income</i>	<i>7.692.994</i>	<i>6.704.447</i>
17 Interest and other financial expenses		
- other	(132.662)	(77.653)
<i>Total financial expenses</i>	<i>(132.662)</i>	<i>(77.653)</i>
Total financial income and expenses (C)	7.560.332	6.626.794
D ADJUSTMENTS TO FINANCIAL ASSETS	-	-
E EXTRAORDINARY INCOME AND EXPENSES		
20 Income	19.165	5.230
21 Expenses	(42.264)	(29.410)
Total extraordinary income and expenses (E)	(23.099)	(24.180)
RESULT BEFORE TAXATION	6.310.540	5.572.083
22 Income taxes	2.154.368	1.931.067
NET RESULT FOR THE YEAR	4.156.172	3.641.016

NOTES TO THE FINANCIAL STATEMENTS

FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2002 have been prepared in accordance with the provisions set out by the Italian Civil Code, interpreted by the Italian accounting principles issued by the National Board of "Dottori Commercialisti and of Ragionieri", and, in absence thereof, by those issued by the International Accounting Standards Board (IASB). They consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Notes to the financial statements.

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

ACTIVITY OF THE COMPANY

Reply S.p.A., has been listed since 6 December 2000 on the new market of Borsa Italiana. It is the Holding of a group of companies that are focused and specialized in the E-business market. Reply S.p.A. mainly carries out the operational, co-ordination and the technical management of the Group, as well as accounting, finance, purchases and marketing management.

ACCOUNTING PRINCIPLES

The following accounting principles have been adopted pursuant to article 2426 of the Italian Civil Code, and also take into account CONSOB indications.

Intangible fixed assets

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit. In compliance with accounting principle Nr. 24 costs incurred by the Parent Company for the listing on the New Market, have been included in start-up and expansion costs with the approval of the Statutory Auditors.

The duration of the amortization plans is based on the estimated useful lives of the related assets. More specifically:

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

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

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

Tangible fixed assets

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

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

The annual depreciation rates applied are as follows:

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

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

Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives.

Assets leased

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

Equity investments

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

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

Accounts receivable and accounts payables

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

Other financial assets not held as fixed assets

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

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

Treasury shares

Treasury shares are stated at cost and valued according to the LIFO method and eventually reduced to their estimated realizable value. An unavailable reserve denominated "Reserve for treasury shares on hand" is posted at Shareholders' equity for the same amount.

Liquid funds

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

Accruals and Deferrals

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

Reserves for risks and charges

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

Reserve for employee termination indemnities

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

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

Revenue recognition

Revenues from services are recognized at the time of execution.

Revenues from the execution of specific contracts are recognized upon customer approval of the completion of the work or according to the percentage of completion method.

Revenues from sales of products are recognized when title is passed to the client, which is generally at the time of shipment

Dividends

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

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

Income taxes

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

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

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

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

Translation of foreign currency items

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

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

OTHER INFORMATION

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

No exceptions allowed under art. 2423.4 of the Italian Civil Code have been taken advantage of in drawing up the financial statements.

NOTES TO THE BALANCE SHEET ASSETS

B) FIXED ASSETS

I. Intangible fixed assets

Net intangible assets as at 31 December 2002 amounted to euro 3.511.307 (euro 4.290.592 as at 31 December 2001).

(in euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2002
Start-up and expansion costs	4.564.640	(2.743.777)	1.820.863
Industrial patents and intellectual property rights	763.018	(374.891)	388.127
Concession, licenses, trademarks and similar rights	1.710.752	(870.486)	840.266
Goodwill	144.608	(43.382)	101.226
Other	457.278	(96.453)	360.825
Total	7.640.296	(4.128.989)	3.511.307

Movements in intangible fixed assets in 2002 can be summarized as follows:

(in euros)	Net book value at 31/12/2001	Additions	Amortization	Net book value at 31/12/2002
Start-up and expansion costs	2.733.781	-	(912.918)	1.820.863
Industrial patents and intellectual property rights	141.871	500.595	(254.339)	388.127
Concession, licenses, trademarks and similar rights	1.175.972	6.444	(342.150)	840.266
Goodwill	115.686	-	(14.460)	101.226
Intangible in progress and advances	103.291	(103.291)	-	-
Other	19.991	432.291	(91.457)	360.825
Total	4.290.592	836.039	(1.615.324)	3.511.307

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

Industrial patents and intellectual property rights refer mainly to software licenses in relation to the centralized administration activities. The increase of 500.595 euros is mainly due to:

- Oracle Applications accounting system (295 thousand euros);
- Intranet (134 thousand euros);
- Other applications for administration management (54 thousand euros).

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

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

The increase in 2002 is related to the registration of the "Click" trademark, platform for the Supply Chain Execution.

Goodwill amounted to 101.226 euros and is referred to the value of the business branch related to the Information Technology consultancy and management support activities, purchased from the parent company Alika S.r.l. in July 2000.

Increase of *Other intangible assets* is due to costs incurred for the renovation of new offices (382 thousand euros) and for the accomplishment of ISO 9001 certification (50 thousand euros).

II. Tangible fixed assets

Tangible fixed assets as at 31 December 2002 amounted to euros 630.482 and are detailed in the table below:

(in euros)	31/12/2002	31/12/2001	Change
Plant and machinery	131.075	59.726	71.349
Generic equipment	12.202	7.494	4.708
Electronic equipment	154.828	164.034	(9.206)
Ordinary office equipment	1.494	2.054	(560)
Furniture and fittings	322.489	236.083	86.406
Automobiles	5.305	12.103	(6.798)
Mobile phones	3.089	209	2.880
Total	630.482	481.703	148.779

Movements in tangible assets in 2002 are illustrated in the table below:

(in euros)	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost	76.080	9.925	532.722	618.727
Accumulated depreciation	(16.354)	(2.431)	(118.239)	(137.024)
Balance as at 31 December 2001	59.726	7.494	414.483	481.703
<u>Historical cost</u>				
Additions	127.225	7.934	285.939	421.098
Disposals	-	-	(23.360)	(23.360)
<u>Accumulated depreciation</u>				
Depreciation	(55.876)	(3.226)	(191.220)	(250.322)
Disposals	-	-	1.363	1.363
Historical cost	203.305	17.859	795.301	1.016.465
Accumulated depreciation	(72.230)	(5.657)	(308.096)	(385.983)
Balance as at December 2002	131.075	12.202	487.205	630.482

In 2002 the Company's additions totaled 421 thousand euros and referred mainly to:

- telephone and net systems for 110 thousand euros;
- computers and network equipment for 93 thousand euros;
- furniture and fittings and plants for new office locations totaling 171 thousand euros.

In compliance with law nr.72 of 1983, art. 10 no revaluations in accordance with specific laws have been made to the Company assets.

As at December 31 2002, 38% of the value of tangible assets has been depreciated.

III. Financial fixed assets

Equity investments

Equity investments as at 31 December 2002 amounted to euros 15.202.373, with an increase of euros 8.194.609 compared to 31 December 2001.

(in euros)	Balance as at 31/12/2001	Acquisitions and subscriptions	Disposals	Other movements	Balance as at 31/12/2002	Interest
@Logistics Reply S.r.l.	759.167	-	-	-	759.167	100,0%
Aktive Reply S.r.l.	56.496	-	-	-	56.496	100,0%
Atlas Reply S.r.l.	10.000	30.000	(750)	-	39.250	92,5%
Acquent Reply S.r.l.	-	-	-	149.000	149.000	100,0%
BeWit Reply S.r.l.	7.000	-	-	-	7.000	70,0%
Blue Reply S.r.l.	8.500	-	-	-	8.500	85,0%
Business Reply S.r.l.	374.461	50.000	-	-	424.461	100,0%
Cluster Reply S.r.l.	531.191	-	-	9.187	540.378	100,0%
Cluster Reply Milano S.r.l.	3.426	-	-	(3.426)	-	-
Cluster Reply Roma S.r.l.	4.412	-	-	(4.412)	-	-
Creative Reply S.r.l.	10.049	-	-	-	10.049	100,0%
e*finance consulting Reply S.p.A.	1.905.200	-	-	-	1.905.200	58,0%
Logistics Reply do Brasil LTDA	-	229.316	-	-	229.316	80,0%
Logistics Reply SL	53.010	-	-	-	53.010	100,0%
planeT Reply S.r.l.	8.000	-	-	-	8.000	80,0%
Spike Reply S.r.l.	-	45.000	-	-	45.000	90,0%
Sysproject Reply S.r.l.	-	2.071.022	-	-	2.071.022	100,0%
Sytel Reply S.r.l.	592.579	-	-	(465)	592.114	100,0%
Sytel Reply Milano S.r.l.	2.500	-	-	-	2.500	25,0%
Technology Reply S.r.l.	239.737	-	-	1.616	241.353	100,0%
Technology Torino S.r.l.	2.500	-	-	(2.500)	-	-
XYZ Reply S.r.l.	2.349.879	-	-	-	2.349.879	70,0%
YH Reply S.r.l.	89.657	-	-	-	89.657	100,0%
Santer S.p.A.	-	5.621.021	-	-	5.621.021	49,0%
Total	7.007.764	8.046.359	(750)	149.000	15.202.373	

Detail of changes in Equity investments is provided below:

Acquisitions, subscriptions and other transactions

- *Atlas Reply S.r.l.*
The amount refers to a reserve set up to cover the equity investment's loss against waiver of the financial receivable from the same. Such reserve will be utilized by the subsidiary to cover the 2002 loss.
- *Business Reply S.r.l.*
The amount refers to a reserve set up to cover the equity investment's loss against waiver of the financial receivable from the same. Such reserve will be utilized by the subsidiary to cover the 2002 loss.
- *Logistics Reply do Brasil LTDA*
The amount refers to the establishment of the company in the first months of 2002, which operates in the *Supply Chain Management* sector in Brazil. Reply S.p.A. holds 80% of the share capital.
- *Spike Reply S.r.l.*
The amount recorded at balance sheet is referred to the subscription, in June 2002, of 90% of Spike Reply S.r.l.'s, share capital. The company operates in the *Security Applications and Infrastructure* segment.
- *Sysproject Reply S.r.l.*
In October 2002, 100% of Sysproject Reply S.r.l.'s share capital was acquired. The company operates in the design, development and management of software infrastructure segment.
The difference between the carrying value and the corresponding share of the company's net equity is 1.850 thousand euros, which has been recorded as "consolidation difference" in the consolidated financial statements.
- *Santer S.p.A.*
This equity investment amounted to 5.621 thousand euros as at 31 December 2002 and is related to the investment in Santer S.p.A., purchased in December 2002 through the subscription of a share capital increase. Such increase comprises 1.083 thousand euros related to the subscription of 49% of the share capital, 4.508 thousand euros of additional paid-in capital and 30 thousand euros of a contribution grant.

Disposal

- *Atlas Reply S.r.l.*
The change is related to the sale of 7.5% of Atlas Reply S.r.l.'s share capital to management of the company.

Other transactions

- *Acquent Reply S.r.l.*
The company (already Backer Reply S.r.l.), which was initially destined to manage the finances of the Group, pending the market opportunities or the possibility to liquidate for business needs, was recorded as financial assets not held as fixed assets in 2001. In the first months of 2002 it was repositioned within the Reply Group, changing its company's name into Acquent Reply S.r.l., after having disposed of its financial assets by transferring them to the Parent Company Reply S.p.A., establishing itself into a fully operating company of the Group.

The amount recorded at balance sheet corresponds to the residual value initially subscribed.

- *Cluster Reply S.r.l., Cluster Reply Milano S.r.l. and Cluster Reply Roma S.r.l.*
Change in these equity investments is subsequent to the company reorganization plan aimed at creating homogeneous groups of companies by business lines. Merger operations were executed on 1 October 2002 with effective accounting date starting from 1 January 2002.
- *Technology Reply S.r.l and Technology Reply Torino S.r.l.*
Change in these equity investments is subsequent to the company reorganization plan aimed at creating homogeneous groups of companies by business lines. Merger operations were executed on 1 October 2002 with effective accounting date starting from 1 January 2002.

* * *

Negative adjustments to the carrying value of equity investments were not carried out in 2002, as the individual companies performances were positive with positive perspectives for 2003. Had the "net equity" method been applied to record equity investments, the value of such investments would have been greater by 1.571 thousand euros. The effects deriving from the application of said method are reflected in the consolidated financial statements.

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

More specifically, the greater carrying value of XYZ Reply S.r.l., acquired in 2001, is due to amortization of goodwill, considered recoverable in future years.

A list of all Equity investments, including information required by art. 2427 of the Italian Civil Code, is attached to the notes to the consolidated financial statements.

The statement of reconciliation between net equity and net result of Reply S.p.A. and the corresponding consolidated figures are provided in the notes to the consolidated financial statements.

Receivables

Receivables from subsidiaries

This item amounted to 16.771.525 euros and is referred to loans granted to the subsidiary companies.

The interest rate applied to the loans is the 3 month Euribor with an additional spread of 2%. Detail is as follows:

(in euros)	31/12/2002	31/12/2001	Change
@Logistics Reply S.r.l.	6.200.000	2.892.159	3.307.841
Aktive Reply S.r.l.	250.000	315.039	(65.039)
Atlas Reply S.r.l.	270.000	103.291	166.709
BeWit Reply S.r.l.	150.000	154.937	(4.937)
Blue Reply S.r.l.	-	413.166	(413.166)
Business Reply S.r.l.	2.876.839	1.626.839	1.250.000
Cluster Reply S.r.l.	1.168.103	1.291.142	(123.039)
Cluster Reply Roma S.r.l.	-	568.103	(568.103)
Creative Reply S.r.l.	500.000	335.697	164.303
planeT Reply S.r.l.	1.600.000	284.051	1.315.949
Spike Reply S.r.l.	50.000	-	50.000
Sytel Reply S.r.l.	2.100.000	1.807.599	292.401
Sytel Reply Milano S.r.l.	700.000	335.697	364.303
Technology Reply S.r.l.	-	154.937	(154.937)
Technology Torino S.r.l.	-	154.937	(154.937)
XYZ Reply S.r.l.	406.583	206.583	200.000
YH Reply S.r.l.	500.000	774.685	(274.685)
Total	16.771.525	11.418.862	5.352.663

Receivables from other companies

This item is mainly related to guarantee deposits for lease contracts.

C. CURRENT RECEIVABLES

II. Receivables

Trade receivables

Trade receivables, mainly made up of high rated companies, all collectable within the year, arise from normal sales transactions. Details are as follows:

(in euros)	31/12/2002	31/12/2001	Change
Trade receivables from third parties	11.253.759	4.952.729	6.301.030
Credit notes to be issued	(17.787)	(20.862)	3.075
Total	11.235.972	4.931.867	6.304.105
Allowance for doubtful accounts	(113.671)	(53.397)	(60.274)
Total receivables, net	11.122.301	4.878.470	6.243.831

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

The above contractual practice has been much more frequent in 2002 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A., and this explains the significant increase of the net receivables position.

As of 31 December 2002, after having carried out an attentive risk evaluation, the provision made for doubtful accounts amounted to 60.274 euros.

Receivables from subsidiary companies

Detail is as follows:

(in euros)	31/12/2002	31/12/2001	Change
Dividends from subsidiaries recorded on accrual basis	4.187.486	3.431.500	755.986
Other receivables	5.748.884	6.921.754	(1.172.870)
Total	9.936.370	10.353.254	(416.884)

Dividends from subsidiary companies recorded on an accrual basis were resolved by the shareholders' meeting of the subsidiaries at the time of approval of the financial statements for the year 2002. The detail is as follows:

(in euros)	31/12/2002
@Logistics Reply S.r.l.	270.000
Acquent Reply S.r.l.	35.000
Aktive Reply S.r.l.	90.000
Cluster Reply S.r.l.	1.700.000
e*finance Reply S.p.A.	34.986
Sysproject Reply S.r.l.	90.000
Sytel Reply S.r.l.	800.000
Sytel Reply Milano S.r.l.	107.500
Technology Reply S.r.l.	1.060.000
Total	4.187.486

Other receivables refer to the exploitation of the trademark "Reply" by the subsidiaries and to service contracts that the Parent Company Reply carries out in favor of the subsidiaries at normal market conditions, and more specifically:

- Co-ordination, technical and quality management;
- Administration, financial assistance, several purchasing and marketing activities.

Other receivables

Detail is as follows:

(in euros)	31/12/2002	31/12/2001	Change
Advance to suppliers	123.323	334.005	(210.682)
Receivables from tax authorities for prepaid tax on dividends	2.335.773	1.930.219	405.554
Receivables from tax authorities	435.939	290.555	145.384
VAT receivable	-	54.384	(54.384)
Other receivables	3.325	3.326	(1)
Total	2.898.360	2.612.489	285.871

The item *Receivables from tax authorities for prepaid tax on dividends* includes the tax credit on dividends recorded on accrual basis, and amounted to euro 2.335.773. Such receivable will be offset in 2002 by the relative tax credit.

Receivables from tax authorities is detailed below:

(in euros)

Receivables from tax authorities for prepaid tax on dividends	1.938.702
Current tax debt	(1.851.615)
Deferred tax	118.321
IRPEG tax receivable from tax return	216.722
Other withholding tax	13.809
Total	435.939

III. Financial assets not held as fixed assets

Equity investments in subsidiaries

The company (already Backer Reply S.r.l.), which was initially destined to manage the finances of the Group, pending the market opportunities or the possibility to liquidate for business needs, was recorded as financial assets not held as fixed assets in 2001. In the first months of 2002 it was repositioned within the Reply Group, changing its company's name into Acquent Reply S.r.l., after having disposed of its financial assets by transferring them to the Parent Company Reply S.p.A., establishing itself into a fully operating company of the Group. The amount recorded as financial assets as at 31 December 2002 corresponds to the residual value initially subscribed.

Treasury shares

Treasury shares are recorded at cost determined according to the LIFO method.

Movements in treasury shares during 2002 are detailed in the table below:

	Quantity	Average price (euros)	Final balance (euros)
Balance as at 31/12/01	7.387	12,28	90.714
Increases	101.201	10,33	1.045.070
Disposals	(92.500)	11,22	(1.038.022)
Balance as at 31/12/02	16.088	6,08	97.762

The disposal of 92,500 shares in 2002 is related entirely to the swap transaction that allowed Reply S.p.A. to purchase 50% of Sysproject Reply S.r.l.'s share capital and to gain complete control over the company.

Shareholders' equity includes an unavailable reserve for the same amount.

Other securities

This item as at 31 December 2002 amounted to 3.198.530 euros, and is detailed as follows:

(in euros)	31/12/2002	31/12/2001	Change
BTP – CCT	1.600.573	-	1.600.573
Government bonds	15.978	-	15.978
Mutual investment funds	1.579.354	1.549.347	30.007
Other	2.625	35	2.590
Total	3.198.530	1.549.382	1.649.148

The item *Mutual investment funds* refers to liquid fund shares, recorded at cost, issued by Banca Popolare di Milano.

With regards to financial assets, the comparison with their corresponding market value does not reveal hidden losses.

IV. Liquid funds

This item amounted to 1.081.292 euros, and shows a change of 920.943 euros compared to 31 December 2001, and is referred to cash at banks and on hand at year-end.

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

D) ACCRUED INCOME AND PREPAID EXPENSES

This item, amounted to 526.406 euros, with an increase of 367.401 euros compared to 31 December 2001, and mainly refers to prepaid expenses arising from lease contracts and other utility expenses, which are accounted for on an accrual basis.

NOTES TO BALANCE SHEET LIABILITIES

A) SHAREHOLDERS' EQUITY

The table below shows the changes in Shareholders' equity in 2002 compared to 2001.

	Share capital	Additional paid-in capital	Legal reserve	Reserve for treasury shares on hand	Extraordinary reserve	Reserve for treasury share to purchase	Rounding reserve	Retained earnings	Net result of the year	Total
(in euros)										
Balance at 31/12/2000	4.244.344	34.242.240	3.559	-	63.204	-	-	-	1.490.289	40.043.636
Allocation of 2000 result	-	-	74.514	-	-	-	-	1.415.775	(1.490.289)	-
Purchase of treasury shares	-	(307.073)	-	307.073	-	-	-	-	-	-
Disposal of treasury shares	-	216.359	-	(216.359)	-	-	-	-	-	-
Set up of reserve for purchase of treasury shares	-	(21.000.000)	-	-	-	21.000.000	-	-	-	-
Rounding due to euro conversion	-	-	-	-	-	-	1	(1)	-	-
Net result 2001	-	-	-	-	-	-	-	-	3.641.016	3.641.016
Balance at 31/12/2001	4.244.344	13.151.526	78.073	90.714	63.204	21.000.000	1	1.415.774	3.641.016	43.684.652
Allocation of 2001 result	-	-	182.051	-	-	-	(1)	3.458.966	(3.641.016)	-
Purchase of treasury shares	-	-	-	1.045.070	-	(1.045.070)	-	-	-	-
Disposal of treasury shares	-	1.038.022	-	(1.038.022)	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	(1)	-	-	(1)
Net result 2002	-	-	-	-	-	-	-	-	4.156.172	4.156.172
Balance at 31/12/2002	4.244.344	14.189.548	260.124	97.762	63.204	19.954.930	(1)	4.874.740	4.156.172	47.840.823

As at 31 December 2002 the fully subscribed paid-in share capital of Reply S.p.A. amounted to 4.244.344 euros, without any change compared to prior year.
This is made up of 8,162,200 ordinary shares, par value 0,52 euros each.

Stock option plans

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001 and on 11 June 2002 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. Such stock option plans are detailed as follows:

- 250,000 new ordinary shares were issued with a par value of 0,52 euros in favor of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan will be in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase;
- 200,000 new ordinary shares were issued with a par value of 0,52 euros in favor of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

Reply S.p.A.'s Board of Directors, in charge of the stock option plans, has resolved the assignment of the following pre-emptive rights:

Resolution date	Nr. options (*)	Exercise price (euro)	Exercise period
6 July 2001	196.300	15,969	06/07/2003 – 06/01/2004
28 September 2001	2.400	13,379	28/09/2003 – 28/03/2004
13 November 2001	5.700	15,035	13/11/2003 – 13/05/2004
13 February 2002	14.300	16,776	13/02/2004 – 13/08/2004
21 March 2002	5.700	17,066	21/03/2004 – 21/09/2004
22 April 2002	18.900	16,330	22/04/2004 – 22/10/2004
8 August 2002	14.400	13,198	08/08/2004 – 08/02/2005
26 September 2002	2.400	12,719	26/09/2004 – 26/03/2005
13 November 2002	59.800	10,618	13/11/2004 – 13/05/2005
13 February 2003	27.000	10,572	13/02/2005 – 13/08/2005
	346.900		

(*) Net of option recovered from resigned employees

B) RESERVES FOR RISKS AND CHARGES

Taxation reserve

Taxation reserve as at 31 December 2002 amounted to 2.217.908 euros. This reserve includes deferred taxes on dividends from subsidiaries recorded at the balance sheet on an accrual basis.

The reserve as at 31 December 2001, which amounted to 1.930.219 euros has been completely utilized against the fiscal results of the current year and against the temporary differences that originated deferred taxation in prior years.

The new provision has been calculated on the basis of expected tax ratios at the time the temporary differences will be reversed.

Movements in the reserve were as follows:

(in euros)	
Balance at 31/12/2001	1.930.219
Provision for the year	2.217.908
Utilization	(1.930.219)
Balance at 31/12/2002	2.217.908

C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

Movements in the reserve were as follows:

(in euros)	
Balance at 31/12/2001	133.306
Provision for the year	146.008
Utilization	(19.540)
Balance at 31/12/2002	259.774

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

The number of employees as at 31 December 2002 was 59, with an increase of 20 employees compared to 31 December 2001.

D) PAYABLES

Payables as at 31 December 2002 amounted to 14.714.851 euros, with an increase of 6.264.056 euros compared to 31 December 2001 (8.450.795 euros).

(in euros)	31/12/2002	31/12/2001	Change
Financial payables			
3) Due to banks - within 12 months	2.482.128	1.549.845	932.283
Total	2.482.128	1.549.845	932.283
Trade and other payables (within 12 months)			
4) Advances	1.378.100	718.908	659.192
6) Trade payables - Third parties	1.382.059	1.189.510	192.549
8) Due to subsidiary companies	8.776.191	4.507.601	4.268.590
10) Due to parent companies	-	8.494	(8.494)
11) Due to tax authorities			
Irap – income tax	68.499	-	68.499
VAT payables	83.301	-	83.301
Withholding tax (employees)	123.221	91.086	32.135
Withholding tax (professionals)	3.291	6.289	(2.998)
Other	5.731	5.731	-
	284.043	103.106	180.937
12) Due to social security authorities			
Inps	66.162	40.638	25.524
Inpdai	90.659	68.891	21.768
Inail	1.818	1.978	(160)
Previndai	25.917	19.781	6.136
Contribution on employee accruals	42.073	38.348	3.725
Other	8.513	1.017	7.496
	235.142	170.653	64.489
13) Other payables			
Employee accruals	145.448	121.917	23.531
Other payables to employees	1.077	-	1.077
Due to Directors	2.725	5.802	(3.077)
Other payables	27.938	74.959	(47.021)
	177.188	202.678	(25.490)
Total trade and other payables	12.232.723	6.900.950	5.331.773
Total payables	14.714.851	8.450.795	6.264.056

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

Advances

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

Trade payables

Trade payables as at 31 December 2002 amounted to 1.382 thousand euros and included:

- domestic suppliers for 1.368 thousand euros;
- foreign suppliers for 12 thousand euros;
- payables to related parties for 2 thousand euros, connected to business transactions carried out at normal market conditions for contracts related to the use of premises and office of the secretary services.

Due to subsidiary companies

This item refers to trade transactions carried out at normal market conditions.

Such payables refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2002 compared to the prior year and this explains the difference in the payable position.

Due to tax authorities

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

Due to social security authorities

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

Other payables

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

Analysis of the net financial position

Financial payables as at 31 December 2002 amounted to 2.482.128 euros. The net financial position at the same date amounted to 18.763.941 euros and is detailed as follows:

(in euros)	31/12/2002	31/12/2001	Change
Financial fixed assets			
Financial receivables beyond 12 months			
Subsidiary companies	16.771.525	11.418.862	5.352.663
Other	71.845	63.065	8.780
Total financial fixed assets	16.843.370	11.481.927	5.361.443
Current assets			
Equity investments	-	9.297.500	(9.297.500)
Securities	1.616.551	-	1.616.551
Mutual investment funds	1.579.354	1.549.347	30.007
Other	125.502	90.749	34.753
Liquid funds	1.081.292	2.002.235	(920.943)
Total financial assets within current assets	4.402.699	12.939.831	(8.537.132)
Total financial sources	21.246.069	24.421.758	(3.175.689)
Financial payables			
Due within 12 months	(2.482.128)	(1.549.845)	(932.283)
Due beyond 12 months	-	-	-
Total financial payables	(2.482.128)	(1.549.845)	(932.283)
Net financial position	18.763.941	22.871.913	(4.107.972)

Change compared to the previous year amounted to 4.107.972 euros and is due to:

Cash flows from operating activities before working capital movements	8.446.008
Change in net working capital	(3.124.231)
Cash flows from operating activities (A)	5.321.777
Cash flows used in investing activities (B)	(9.429.749)
Change in net financial position (A+B)	4.107.972

MEMORANDUM ACCOUNTS

Detail is as follows:

(in euros)	31/12/2002	31/12/2001	Change
Guarantees issued on behalf of related parties	496.315	601.672	(105.357)
Guarantees received from third parties	129.868	47.514	82.354
Commitments for lease contracts	448.394	328.719	119.675
Total	1.074.577	977.905	96.672

Guarantees issued on behalf of related parties mainly refer to patronage letters in favor of credit institutions, in order to provide the subsidiaries with credit lines.

NOTES TO THE STATEMENT OF INCOME

A) VALUE OF PRODUCTION

Revenues from sales and services

Revenues from sales and services in 2002 amounted to 24.577.208 euros and are detailed below:

(in euros)	2002	2001	Change
Revenues from services	17.133.684	5.612.770	11.520.914
Royalties on "Reply" trademark	2.118.700	1.695.306	423.394
Intercompany services	3.373.500	2.420.375	953.125
Other intercompany charges	1.951.324	1.220.646	730.678
Total	24.577.208	10.949.097	13.628.111

Revenues from services mainly refer to professional services related to third party agreements with the Parent Company Reply S.p.A. and subcontracted by the latter to the subsidiaries. Such a practice has become much more frequent in 2002 compared to the prior year and this explains the significant difference in revenues.

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

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

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

B) COSTS OF PRODUCTION

Raw materials, consumables and goods for resale

This item refers to:

(in euros)	2002	2001	Change
Software licenses for resale	659.499	540.934	118.565
Other	139.799	96.112	43.687
Total	799.298	637.046	162.252

Software licenses for resale refer to the cost of sales contracts stipulated by third parties with Reply S.p.A..

Services

The cost of services is detailed as follows:

(in euros)	2002	2001	Change
Commercial and technical consultancy	205.751	77.391	128.360
Services from Group companies	16.356.856	5.327.445	11.029.411
Services from parent companies and related parties	222.300	216.912	5.388
Directors' fees	790.000	392.507	397.493
Traveling and professional training expenses	440.794	211.694	229.100
Marketing expenses	434.488	347.892	86.596
Administrative and legal services	422.839	510.030	(87.191)
Statutory Auditors' and Independent Auditors' fees	74.832	66.693	8.139
Utilities	196.459	135.077	61.382
Services to be recharged to Group companies	695.858	131.517	564.341
Other	431.846	422.304	9.542
Total	20.272.023	7.839.462	12.432.561

Services from Group companies are connected to revenues from services to third parties.

Services from Parent Company and related parties refer to contracts related to the use of premises, domiciliation and office of the secretary services.

Leases and rentals

Charges for leases and rentals are detailed below:

(in euros)	2002	2001	Change
Leases and rentals	300.408	174.078	126.330
Lease of automobiles	193.111	117.121	75.990
Other	13.184	14.611	(1.427)
Total	506.703	305.810	200.893

The item *Other* is related to a financial lease contract for hardware. Had this item been recorded according to the international accounting principle (IAS 17) no significant changes would have been produced.

Personnel

Personnel costs amounted to 2.983.383 euros with a difference of 1.138.217 euros compared to 31 December 2001, and are detailed in the statement of income. The following table indicates the number of employees by category:

(number)	31/12/2002	31/12/2001	Change
Directors	16	11	5
Managers	9	5	4
Staff	34	23	11
Total	59	39	20

Amortization, depreciation and write downs

Amortization of intangible assets amounted to 1.615.324 euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets, amounted to 250.322 euros, and has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Write down of receivables and liquid funds amounted to 60.274 euros and are related to the provision for doubtful accounts.

Other operating costs

These costs include:

(in euros)	2002	2001	Change
Hospitality expenses	8.524	17.958	(9.434)
Gifts to clients	6.342	4.039	2.303
Magazines	7.356	2.226	5.130
Taxes on automobiles	5.496	3.537	1.959
Other	82.081	52.468	29.613
Total	109.799	80.228	29.571

C) FINANCIAL INCOME AND EXPENSES

Details are provided below:

(in euros)	2002	2001	Change
Dividends and tax credit	6.546.822	5.361.719	1.185.103
Gain on securities	290.232	818.095	(527.863)
Interest from subsidiaries	816.527	440.323	376.204
Interest income on bank accounts	37.281	82.224	(44.943)
Interest due to banks	(76.224)	(2.559)	(73.665)
Interest due on taxes from previous years	(78)	-	(78)
Financial losses	(55.396)	(75.071)	19.675
Loss/gain on exchange differences	(959)	2.063	(3.022)
Other	2.127	-	2.127
Total	7.560.332	6.626.794	933.538

E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income amounted to 19.165 euros and is referred to income falling out of the ordinary course of business.

Extraordinary expenses amounted to 42.264 euros and are mainly related to unexpected losses falling out of the ordinary course of business.

INCOME TAXES

Income taxes due for fiscal year 2002 amount to 2.154.368 euros.

(in euros)	2002	2001	Change
Current income taxes	54.781	848	53.933
Deferred tax, net	2.099.587	1.930.219	169.368
Total	2.154.368	1.931.067	223.301

Current income taxes include:

(in euros)

Income taxes 2002		1.985.000
IRPEG	1.851.000	
IRAP	134.000	
Utilization of deferred tax liabilities on 2001 dividends		(1.930.219)
Total		54.781

Deferred tax (2.099.587 euros) is related to deferred tax liability on dividends from the subsidiary companies (2.217.908 euros), recorded on an accrual basis, and to deferred tax asset related to non-tax deductible costs at year-end (118.321 euros).

The tax burden before taxation is equivalent to 34.1 % (34.7% in prior year), compared to the theoretical tax rate of 40.25%.

Pursuant to accounting principle nr. 25, the reconciliation statement between the theoretical tax rate and current tax has been provided below:

(in euros)	TAXABLE	RATE	TAX
CALUCULATION OF IRPEG:			
Current tax			1.851.000
Utilization of previous years deferred tax liability	5.361.719	36%	(1.930.000)
<i>Current tax - IRPEG</i>			<i>(79.219)</i>
Temporary differences deductible in future	358.549	33%	(118.321)
Deferred tax liability of the year	6.523.259	34%	2.217.908
Current tax – IRPEG			2.020.368
CURRENT TAX - IRAP			134.000
Total			2.154.368

Other fiscal provisions

Following the changes brought about by art. 2.1.10 of Law Decree 18/12/97 nr. 467 to art. 105 of Presidential Decree 917/86, the tax return includes the calculation of the taxes paid that would allow to attribute full withholding tax assets to dividends, and the calculation of "virtual" tax that would allow to attribute to dividends a limited withholding tax asset (that is without the possibility of reimbursement or compensation with other withholding tax liabilities).

OTHER INFORMATION

Emoluments to Directors and Statutory Auditors

Emoluments to Directors and Statutory Auditors for the year 2002 amounted to 790.000 euros and 56.294 euros respectively.

Detail is as follows:

Name	Office	Term of office (days)	Emoluments
Mario Rizzante	Chairman	365	330.000
Sergio Ingegnatti	Chief Executive Officer	365	210.000
Oscar Pepino	Chief Executive Officer	365	210.000
Marco Mezzalama	Independent Director	365	20.000
Paul de Sury	Independent Director	365	20.000
Total Directors' emoluments			790.000
Piergiorgio Re	Chairman of Statutory Auditors	365	23.654
Giorgio Gianeri	Statutory Auditor	365	2.479
Tommaso Vallenzasca	Statutory Auditor	365	16.733
Paolo Claretta-Assandri (*)	Statutory Auditor	-	13.428
Total Statutory Auditors' emoluments			56.294

(*) Took office on 1 January 2003 in substitution of Statutory Auditor Giorgio Gianeri

REPLY S.p.A.
STATEMENT OF CASH FLOW

(in euros)	2002	2001
Net result for the year	4.156.172	3.641.016
Depreciation and amortization	1.865.646	1.474.277
Accrual for employee termination indemnities	146.008	84.188
Accrual for reserve for risks and charges	2.217.908	1.930.219
Accrual for allowances for doubtful accounts	60.274	45.796
Cash flows from operating activities before working capital movements	8.446.008	7.175.496
Change in trade receivables	(4.586.349)	(8.819.094)
Collection of dividends from subsidiaries	3.431.500	2.040.004
Change in current assets	(5.359.440)	(5.184.377)
Change in trade payables	4.452.645	1.113.911
Change in current liabilities	887.172	930.263
Change in reserve for risks and charges	(1.930.219)	(1.198.095)
Change in employee termination indemnities	(19.540)	(22.433)
Change in working capital	(3.124.231)	(11.139.821)
Cash flows from operating activities (A)	5.321.777	(3.964.325)
Capitalization of intangible assets	(836.039)	(291.469)
Purchase and disposal of tangible assets	(399.101)	(499.920)
Equity investments	(8.194.609)	(4.383.420)
Cash flows used in investing activities (B)	(9.429.749)	(5.174.809)
Change in net financial position (A + B)	(4.107.972)	(9.139.134)
Net financial position at beginning of year	22.871.913	32.011.047
Net financial position at year-end	18.763.941	22.871.913

REPLY S.p.A.
RECLASSIFIED BALANCE SHEET

(in euros)	2002	2001
Intangible fixed assets	3.511.307	4.290.592
Tangible fixed assets	630.482	481.703
Financial fixed assets	15.202.372	7.007.764
Total fixed assets (A)	19.344.161	11.780.059
Inventories	-	-
Trade receivables	15.482.644	10.956.569
Other current assets	8.975.679	7.047.738
Total current assets (B)	24.458.323	18.004.307
Trade payables	(10.158.250)	(5.705.605)
Other current liabilities	(2.089.670)	(1.202.497)
Total current liabilities (C)	(12.247.920)	(6.908.102)
Net current assets (D) (B + C)	12.210.403	11.096.205
Employee termination indemnities (E)	(259.774)	(133.306)
Reserve for risks and charges (F)	(2.217.908)	(1.930.219)
Net invested capital (A + D + E + F)	29.076.882	20.812.739
Shareholders' equity	47.840.823	43.684.652
Medium/long term net financial position	(16.843.370)	(11.481.927)
Short term net financial position	(1.920.571)	(11.389.986)
Shareholders' equity and net financial position	29.076.882	20.812.739

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

Company	Registered office	Share capital	Net Equity at 31/12/02	Net result 2002	Interest	Balance sheet Value at 31/12/02	Valuation pursuant to ex art. 2426 4 c.c.	Difference
@Logistics Reply S.r.l.	Torino	78.000	385.619	276.421	100,0%	759.167	650.668	(108.499)
Acquent Reply S.r.l.	Torino	99.000	183.874	38.676	100,0%	149.000	148.874	(126)
Aktive Reply S.r.l.	Torino	10.000	133.490	98.984	100,0%	56.496	43.490	(13.006)
Atlas Reply S.r.l.	Torino	10.000	25.003	(22.321)	92,5%	39.250	23.128	(16.122)
BeWit Reply S.r.l.	Torino	10.000	118.982	89.501	70,0%	7.000	83.287	76.287
Blue Reply S.r.l.	Torino	10.000	945.259	622.388	85,0%	8.500	803.470	794.970
Business Reply S.r.l.	Torino	78.000	100.234	(142.055)	100,0%	424.461	286.778	(137.683)
Cluster Reply S.r.l.	Torino	55.207	2.723.085	1.858.293	100,0%	540.378	1.203.845	663.467
Creative Reply S.r.l.	Torino	10.000	38.739	(10.738)	100,0%	10.049	38.739	28.690
e*finance consulting Reply S.p.A.	Roma	104.000	891.169	126.799	58,0%	1.905.200	1.638.755	(266.445)
Logistics Reply do Brasil LTDA	San Paolo	286.646	161.884	10.205	80,0%	229.316	129.507	(99.809)
Logistics Reply SL	Barcellona	53.010	208.926	155.915	100,0%	53.010	208.926	155.916
planeT Reply S.r.l.	Torino	10.000	298.709	256.266	80,0%	8.000	238.967	230.967
Santer S.p.A.	Milano	2.209.500	8.289.302	(206.058)	49,0%	5.621.021	5.621.758	737
Spike Reply S.r.l.	Torino	50.000	50.043	45	90,0%	45.000	45.039	39
Sysproject Reply S.r.l.	Torino	10.400	261.469	237.936	100,0%	2.071.022	2.021.469	(49.553)
Sytel Reply S.r.l.	Torino	62.400	1.233.433	952.648	100,0%	592.114	1.098.898	506.784
Sytel Reply Milano S.r.l.	Torino	10.000	539.745	509.090	25,0%	2.500	27.436	24.936
Technology Reply S.r.l.	Torino	79.743	1.425.061	1.179.508	100,0%	241.353	365.061	123.708
XYZ Reply S.r.l.	Torino	10.400	158.683	(28.556)	70,0%	2.349.879	1.887.690	(462.189)
YH Reply S.r.l.	Torino	21.224	189.117	105.808	100,0%	89.657	207.916	118.259
						15.202.373	1.571.329	

STATUTORY AUDITORS' REPORT ON THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE NR. 58/1998 AND ART. 2429, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE IN RELATION TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2002

To the Shareholders,

Pursuant to art. 153 of the Italian Legislative Decree n. 58/98, and in compliance with Italian Civil Code, the Board of Statutory Auditors refers to the Shareholders about the supervision activities carried out in 2002.

With regards to our activities and to the consequent observations arising from them, we inform You that during the year ended as at 31 December 2002, and in accordance with the Auditing firm, we have performed supervision activities pursuant to the Law and in compliance with correct behavior principles set out by the Statutory Auditors and recommended by the National Board of "Dottori Commercialisti and Ragionieri" and also by CONSOB resolutions and recommendations.

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

1. Significant economic, financial and monetary transactions

We obtained, on a quarterly basis, from the Board of Directors, information about the activity of the company and about all transactions incurred in the year 2002, with a significant impact on the Financial Statements, and we can assert that all the above transactions have been made in compliance with the Law and with the Articles of Incorporation.

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

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

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

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

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

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

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

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

Deloitte & Touche Italia S.p.A., the Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2002, issued its report on 23 April 2003, in which it asserts that REPLY S.P.A.'s financial statements as of 31 December 2002 comply with laws governing the criteria for their preparation.

5. Complaints pursuant art. 2408 C.C.

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

6. Petitions.

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

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

No further engagements have been assigned to the Auditing firm Deloitte & Touche Italia S.p.A., apart from:

- the legal audit of the Financial Statements and the Consolidated Financial Statements for the years 2001, 2002 and 2003, and the auditing of the half-year report as of 30 June 2002 e 2003 and for the other activities pursuant to art.155 of Italian Legislative Decree issued on 24 February, 1998 n. 58, for the years 2001, 2002 and 2003;
- due diligence report on Sysproject Reply S.r.l., finalized at its acquisition by the Parent Company.

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

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

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

The Statutory Auditors did not issue opinions pursuant to the law.

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

During 2002 and up to date, the Board of Directors have held 13 meetings and we attended all of them; the Statutory Auditors held 7 meetings and 6 of them were attended by representatives of the Auditing firm, the Internal Control Committee and the Remuneration Committee.

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

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

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

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

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

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

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

During 2002 the Board of Directors approved the Behavioral Code concerning "Internal Dealing", pursuant to the changes brought about to the "Rules and Regulations of the New Market Organized and Managed by Borsa Italiana S.p.A." by the market authorities.

On 17 April 2003, the Board of Directors approved the annual report on the Corporate Governance System and the terms to the adherence to the Self-Disciplinary Code for Listed Companies – "Preda Code", adopted by the company.

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

We have kept up and developed, through meetings and occasions, a systematic relationship with the audit firm Deloitte & Touche Italia S.p.A during 2002, with the purpose of a reciprocal exchange of information and data.

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

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

1) ADMINISTRATION

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

2) ORGANISATIONAL STRUCTURE

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

3) INTERNAL CONTROL SYSTEM

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

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

4) ADMINISTRATIVE AND ACCOUNTING SYSTEM

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

In view of what has been said, the Statutory Auditors, having witnessed that the Financial Statements as at 31/12/2002 and the Directors' Report on Operations comply with existing legislation and with the by-laws, hereby agree to the proposal of approval set out by the Board of Directors, as well as the proposal of the allocation of the result for the year amounting to 4.156.172 euros.

Turin, 22 May 2003

THE STATUTORY AUDITORS

(Prof. Piergiorgio Re)

(Mr. Tommaso Vallenzasca)

(Mr. Paolo Claretta-Assandri)

**REPORT OF THE INDEPENDENT AUDITORS
ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 156
OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998
(Translation from the Original Issued in Italian)**

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

1. We have audited the financial statements of Reply S.p.A. as of and for the year ended December 31, 2002. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The balance sheet as of December 31, 2002 of the affiliate Santer S.p.A., investment purchased at year-end whose carrying value represents the 37% of the caption investments and 9% of total assets, have been audited by other auditors who have provided us their report thereon. Our opinion expressed herein, insofar as it relates to the carrying value of the above mentioned investment is therefore based also on the audit performed by other auditors.

For our opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated April 24, 2002 issued under our firm's former name "Arthur Andersen S.p.A.".

3. In our opinion, the financial statements of Reply S.p.A. as of and for the year ended December 31, 2002 comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company.

DELOITTE & TOUCHE ITALIA S.p.A.
s/Giuseppe Pedone – Partner

Turin, Italy
April 23, 2003

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

CORPORATE INFORMATION

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