REPLY ANNUAL FINANCIAL REPORT 2018

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BOARD OF DIRECTORS AND CONTROLLING BODIES

Chairman and Chief Executive Officer

Mario Rizzante

Chief Executive Officer

Tatiana Rizzante

Executive Directors

Filippo Rizzante
Daniele Angelucci
Claudio Bombonato
Elena Maria Previtera
Fausto Forti (1) (2) (3)
Secondina Giulia Ravera (1) (2)
Francesco Umile Chiappetta (1) (2)

Board of Statutory Auditors

President

Giorgio Mosci

Statutory Auditors

Piergiorgio Re
Ada Alessandra Garzino Demo

Auditing firm

EY S.p.A.

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

This report has been translated into English from the original Italian version, in case of doubt the Italian version shall prevail.

THE GROUP'S FINANCIAL HIGHLIGHTS

ECONOMIC FIGURES (THSD EUROS)	2018	%	2017	%	2016	%
Revenue	1,035,793	100.0	884,434	100.0	780,739	100.0
Gross operating income	144,836	14.0	123,244	13.9	106,417	13.6
Operating income	132,410	12.8	113,873	12.9	99,594	12.8
Income before taxes	139,217	13.4	110,310	12.5	97,405	12.5
Group net income	99,913	9.6	77,871	8.8	67,544	8.7

FINANCIAL FIGURES (THSD EUROS)	2018	2017	2016
Group shareholders' equity	485,297	401,404	337,017
Non controlling interest	1,315	668	520
Total assets	1,076,104	871,154	770,575
Net working capital	145,288	167,870	160,404
Net invested capital	420,060	345,041	308,779
Cash flow	119,835	73,202	79,497
Net financial position	66,552	57,030	28,758

DATA PER SHARE (*) (EUROS)	2018	2017	2016
Number of shares	37,411,428	37,411,428	37,411,428
Operating income per share	3.54	3.04	2.66
Net income per share	2.67	2.08	1.81
Cash flow per share	3.20	1.96	2.12
Shareholders' equity per share	12.97	10.73	9.00

OTHER INFORMATION	2018	2017	2016
Number of employees	7,606	6,456	6,015

(*) For 2016 the number of shares were redetermined following the Stock split resoled by the Extraordinary Meeting held on 13 September 2017, through the allotment of four (4) new ordinary shares per each ordinary shares owned.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

2018 was a significant year for Reply. The Group's turnover exceeded 1 billion Euros for the first time, up more than 17% compared with 2017. We have asserted our standing as a market leader in an extremely competitive environment. This is thanks to a constant commitment to placing innovation at the very centre of our approach, both in terms of skills and expertise, as well as the services offered to our customers.

Over the last few years, we have collaborated to build a solid group that is an acknowledged leader in international markets, driven both by technical excellence and our ability to adapt to change. This has enabled us to compete in an ever-more globalised environment that is now shaped by both physical and digital communications and interactions.

Reply distinguished itself in 2018 thanks to its extensive know-how across the full digital spectrum. These achievements are the result of our investments in research and development and the constant re-engineering and evolution of our products and services, which integrate specialist skills and expertise across artificial intelligence, technology platforms, digital experience and strategic consulting.

Extensive automation, triggered by the interaction between the cloud, big data and the Internet of Things, is affecting and redefining every sector. The use of robot technology will bring efficiency and cost reduction. The continuous development of 3D printing will dramatically affect production and business models, while other fundamental changes will be driven by the emergence of the latest immersive reality and quantum computing frameworks.

As a result of ever-more intelligent machines and systems, along with ecosystems based on collaboration between humans and robots, our lives will soon be supported by new technologies incorporating the internet, smart devices and virtual environments, in turn driven by artificial intelligence.

Soon, we will all face a new reality that will change our way of being, how and what we perceive, our conventions and our current rules. From the automotive sector to banks, from telecommunications to the media, from manufacturing to healthcare, from communication to logistics, everyone will determine their very own digital transformation, which will inevitably lead them to a new service economy.

This shift will not only affect customers, but also consulting firms. Reply is one of the few companies in the market with a unique mix of skills and expertise that extends from strategy to design, from digital technologies (cloud computing, big data, e-commerce, digital experience) to the enabling architecture.

It is, however, imperative not to cease this development and to continue actively investing in knowledge, capitalising on and interpreting this almost daily evolution and expansion of technology. Our ability to be competitive will be closely linked to the capacity to experiment and innovate, enabling us to bring new products and services to the market just as quickly.

Chairman of the Board

Mario Rizzante

REPLY LIVING NETWORK


REPLY IS...
THE PLACE TO BE!
REPLY IS...
COMMIT & PUSH!
REPLY IS...
Human + Tech
REPLY IS...
THE FUTURE! A GOOD PLACE WHERE YOU HAVE TO WORK!

Reply is a group that specialises in consulting, system integration and digital services with a focus on the conception, design and development of solutions based on the new communication channels and digital media.

Comprised of a network of companies, Reply partners with leading industrial groups in defining business models, made possible by new technological and communication paradigms such as artificial intelligence, big data, cloud computing, digital communication and the Internet of Things (IoT).

REPLY IS CHARACTERISED BY:

- a **culture** focused on technological innovation;
- a flexible **structure** able to anticipate market developments and interpret new technological drivers;
- a delivery **method** of proven success and scalability;
- a **network** of companies specialised in specific areas of expertise;
- **teams** composed of specialists, selected from the best universities;
- a highly experienced **management** team;
- continuous **investment** in research and development;
- and long-term **relationships** with its clients.

THE ORGANISATIONAL MODEL

With over 7,600 employees (as of 31 December 2018), Reply operates through a network of companies that specialise in processes, applications and technologies, as well as centres of excellence in their respective fields.

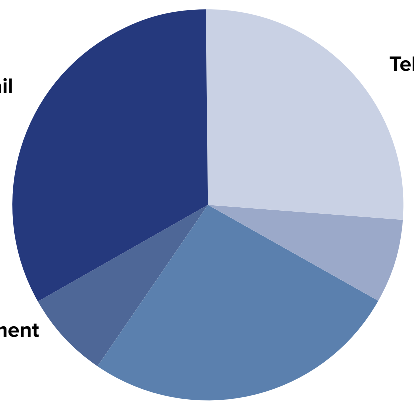
- **Processes** - for Reply, the understanding and use of technology involves the introduction of a new enabling factor for business processes, based on an in-depth knowledge of both the market and the specific industrial contexts of implementation.
- **Applications** - Reply designs and implements application solutions aimed at satisfying core business needs.
- **Technologies** - Reply optimises the use of innovative technologies, implementing solutions capable of ensuring clients maximum efficiency and operational flexibility.

REPLY'S SERVICES INCLUDE:

- **Consulting** - with a focus on strategy, communication, design, processes and technology.
- **System Integration** - Making the best use of potential technology, combining business consulting with innovative technological solutions.
- **Digital Services** - innovative services based on new communication channels and digital trends.

MARKET FOCUS

In every market segment in which it operates, Reply combines sector-specific expertise with a broad experience in the provision of services and a wealth of advanced technological capabilities.
In 2018, the breakdown of the group's sales in its various vertical sectors was as follows:



TELCO & MEDIA

In a world that is continuously evolving towards convergence between the physical and the virtual, the types of relationships companies have with their customers are drastically changing. The digitalisation of services and of interactions impose new challenges on telco and media companies in terms of supply, business models and operating processes, often leading to increasingly competitive scenarios. Against this backdrop, Reply works with leading operators in the sector to define and implement digital transformation strategies. These are based on the renewal of systems that support products and services and to support the development of new service models that are customer-focused and delivered across all channels.

Furthermore, the rising use of the Internet of Things (IoT) requires an increasing reconfiguration of networks that can transport large volumes of data in real time. This data will is no longer solely generated by smartphones and mobile devices, but by a multitude of connected objects with widely different functional characteristics.

This new age of “smart connection” is characterised by a different approach to the network, which must be adapted and reconfigured to meet changing user demands and of the supporting service.

Reply offers integrated strategic and technological consulting services to support the design, definition and management of the new-generation networks, based on SDN (Software Defining Network) technologies, capable of integrating and managing virtual networks (Network Virtualisation) through network engineering services and network operations. The arrival of 5G networks, furthermore, marks the end of the fixed/mobile barrier, eliminating communication-related distances connected to broadband limitations, to latency, and to the receptive capacity of the 3G network.

FINANCIAL SERVICES

Reply is increasingly active in supporting the digital transformation of Europe's financial institutions. In this area, Reply works with some of the major players in the sector on many key issues, from the definition of multi-channel strategies, to the implementation of open banking and open API models and the adoption of AI models and technologies. In particular, in the increasingly relevant fields of big data, robots and artificial intelligence, Reply is investing heavily and collaborating with leading financial institutions (banks and insurance companies) along two lines of development:

- the concrete integration of the new big data technologies and architectures with existing systems; and
- the development of skills, analytics and machine learning models, aimed at extracting tangible business value from available databases.

Reply also boasts a strong and highly specialised presence in mobile payments and related m-commerce services. Reply offers consulting services, as well as a wide range of models and architectural solutions, aimed at the banking/insurance market and at emerging players in the payments industry, while also taking advantage of the opportunities offered by the entry into force of the PSD2 legislation (revised Payment Service Directive).

Reply maintains a strong market presence in the wealth management arena and has developed a wide range of specific skills and solutions. These are focused on the emerging consulting models, on expanding the range of services offered and on "robo advice"-type solutions and platforms. In the area of Governance Risk Control (GRC), Reply operates with a dedicated consulting division highly specialised in issues relating to risk evaluation and risk control. Within this, Reply is working with several leading financial institutions on a broad range of initiatives connected to the implementation of EBU standards and the development of associated models and solutions. Finally, Reply has been involved in numerous projects relating to the most advanced frontiers of innovation, such as in the latest biometric recognition technologies and digital identity, as well as quantum computing.

MANUFACTURING

Native Cloud platforms and applications, together with a focus on the enabling aspects of digital transformation, are at the core of Reply's offering to the manufacturing market. Industry 4.0 and logistics 4.0 are increasingly critical aspects to the strategic development of companies in the sector. Reply has invested heavily to enhance its products and service offer in this area, with the re-engineering in 2017 and 2018 of its proprietary Supply Chain Execution and Manufacturing Execution System solutions. A solution was developed, based on IoT, cloud computing and big data technologies, that can communicate with the latest generation of sensors in production lines and products that create a backbone for the next generation of applications in the logistics and manufacturing sector.

Furthermore, Reply partners with companies to support them in the phases of transformation and management of their information systems, from strategic design to the understanding and redefinition of key processes, and the implementation of solutions that integrate core applications in the manufacturing and distribution sectors. The areas of focus and development of skills involve the support of supplier relationship management processes; the design and implementation of control systems and planning based on the new generation of Cloud ERP solutions; the planning and control of production units through Manufacturing Execution Systems (MES); and the distribution and handling of products across complex logistics networks through Supply Chain Execution (SCE) processes.

RETAIL

The retail industry is experiencing a time of significant change driven by various factors, including the evolution of consumer purchasing behaviour, the entry of new players and the digitisation of products and services. Customer experience, on the other hand, is an increasingly key differentor for retailers. Consumers expect to be able to interact with a brand wherever they are, thereby strengthening the link between physical stores and e-commerce.

In 2018 Reply partnered with various clients to support their digital transformation journeys. This work saw the merging of physical and virtual spaces through the development of multi-channel e-commerce platforms, of marketing automation solutions, of smart boxes and by re-engineering the logistics chain both on supplier and customers ends.

ENERGY & UTILITIES

In 2018 the energy and utilities sector saw the growth of innovative technologies on an industrial scale, across the entire value chain. Cloud Computing has become the leading provisioning tool for companies of all sizes, above all in the implementation of various digital transformation initiatives. The approach based on IoT models is increasingly widespread in the areas of generation, energy management and at the support of efficiency and smart city initiatives.

The first key intelligent process automation and artificial intelligence initiatives were announced in 2018, solutions that are expected to see further consolidation in 2019.

Against this backdrop of extensive transformation, Reply is one of the reference partners in the sector, combining knowledge of the market and of its unique processes, with a distinctive capability to design, implement and manage innovative digital solutions and technological platforms that support the “core business”. The company’s consolidated expertise in the introduction of new digital technologies has been further verticalised, with particular reference to the definition and development of new models in the energy management and downstream services sectors aimed at energy efficiency, areas in which

Reply works with energy sales companies, as well as with end customers.

HEALTHCARE & GOVERNMENT

The increasingly evident need to bridge the gap between citizens and Public Administrations (PA) has led to the introduction of measures aimed not only at restructuring the management and control model (e.g. reorganisation of the national health system) but also the enhancement of existing services through the introduction of increasingly more digital and smarter systems (e.g. new monitoring system for individuals affected by chronic conditions). A public sector that is closer to its citizens implies a greater reach of the services offered, increasing the levels of usability and therefore of supply possibilities.

In the area of digital health, Reply's highly specialised delivery of IoMT (Internet of Medical Things) focuses on two main areas: developing a network of information sharing among the various stakeholders in the field (i.e. patients, professionals and networks of those affected); as well as monitoring and supporting the citizen/patient at each stage of their "care and cure" journey (e.g. healthcare, social care).

TECHNOLOGICAL INNOVATION

Technological innovation forms the basis of Reply's objective: providing its customers with the tools necessary to increase flexibility and efficiency. Reply is involved in a continuous process of research, selection and marketing of innovative solutions for sustaining the creation of value within organisations.

ARTIFICIAL INTELLIGENCE

Artificial intelligence, one of the founding dreams of information technology itself, is a discipline that has existed for a long time. For years a mere fantasy due to the unavailability of systems and data, this technology is now becoming a reality which is capable of bringing about concrete benefits in different contexts. Over the next few years, revolutions are expected in all fields, especially in the industrial sector, but also in areas related to society and to the private life of individuals.

Reply's artificial intelligence offering is based on three key areas: human-machine interaction (with the development of conversation and natural language recognition systems or visual recognition systems), automation (through technologies such as intelligent process automation) and the creation of systems to support business decisions (data prediction). The essential factor for implementing artificial intelligence projects is the availability of data. AI offers effective results, provided that the datasets available are historical and updated in real time. Within this framework, Reply focuses not only on the technology, but also uses advanced models for the management and processing of vast amounts of data required to train the algorithms.

Specifically, Reply applies the results of its research on artificial intelligence to real-world scenarios, creating customised solutions that integrate machine learning, deep learning or reinforcement learning algorithms, with recommendation systems, predictive engines, conversational interfaces or video and image recognition systems. Reply collaborates in these areas with the world's leading AI technology players.

BLOCKCHAIN

In a landscape of emerging technologies, blockchain will increasingly be able to foster new digital ecosystems based on distributed computational infrastructures. Today, the shared nature of blockchain-based digital registers represents an opportunity characterised by multi-industry application, with repercussions for the financial services sector and management of the supply chain. Moreover, the possible synergies with other exponential technologies – such as IoT and artificial intelligence – make blockchain an ideal convergence layer to support the data marketplaces of the future.

Reply has defined a portfolio of services, encompassing consulting, design and the implementation of solutions based on the blockchain and the distributed ledger technology (DLT). Among the major initiatives developed in 2018, Reply, alongside its insurance and academic sector partners, launched the first sandbox for the Italian insurance market. As a founding member of the "Trusted Smart Contract Association", it aims to define standards for the industrial adoption of legally enforceable smart contracts.

CLOUD COMPUTING

The Cloud has permanently established itself as one of the most important areas of transformation that companies have had to face. Virtual environments and services offered by leading, global vendors have modified the concept of IT, transforming it from being a simple commodity to one of the core elements on which to configure an organisation's digital transformation.

At the same time, the ever-increasing maturity of the cloud in its various declinations (IaaS, PaaS or SaaS) is driving service providers and consulting companies to develop offerings to tackle highly strategic issues, such as the coexistence in the cloud with traditional on-premise applications and the challenge of data management security.

In the Cloud Computing field, Reply has defined a products and services offer that combines the following elements:

- consulting support (from the business process to operational management) that can help clients to understand, select and develop the most appropriate technological solutions and applications.
- an end-to-end provider service which, supported by partnerships with major international vendors including Adobe, Amazon Web Services, Google, Microsoft, Oracle, SAP and Salesforce, allows clients to benefit from the most effective solutions for their needs, both in terms of the model and the technology selected.
- SaaS services and solutions, based on Reply's proprietary application platforms.
- a cloud infrastructure management service, with 24/7 availability, able to support customers not only in managing their infrastructure, but also at the application layer, guaranteeing continuity at the highest levels, constant performance monitoring and cost efficiency.

CUSTOMER ENGAGEMENT

The rapid evolution of data analytics tools was triggered by the major innovations of technology companies. These tools use data-driven analysis methodologies made possible both by the large availability of data and the increasing computational capacity for analysis. Specifically, the data-driven approach is defining a new framework for the design and management of customer-focused marketing initiatives. Once the needs of the individual customer have been interpreted, based on data and analysis provided by CRM platforms, it becomes possible to tailor one-to-one marketing campaigns, launched in real time to meet specific needs.

To exploit this competitive advantage and establish a consultative and strategic platform, Reply has created a competence centre focused on the customer robotics approach. Experience from initiatives across various sectors (e.g. automotive, financial services, utilities, retail, etc.), has enabled Reply to develop a framework for the development and implementation of processes related to the direct interaction with the customer, designed to recognise and anticipate needs across the various digital channels. This initiative integrates machine learning, artificial intelligence and cognitive systems models.

Customer robotics facilitates the conception, design and implementation of services aimed at interpreting the data and providing fully data-driven customer service tools. These include recommendation systems for products and conversational services able to understand and interact independently using natural language.

Reply constantly invests in developing its expertise in leading CRM and e-commerce platforms and solutions, thanks to a solid ecosystem of partnerships with world leaders in the industry, including Microsoft, Oracle, SAP and Salesforce.

CYBER SECURITY

Over the years, IT-related risks have increased dramatically in frequency and impact, leading to serious security violations. Millions of client data records have been compromised worldwide, affecting governments and other organisations. As a result, the mounting attention from regulatory bodies concerning the protection of information, personal data and critical infrastructures, requires an ever-increasing commitment from companies to manage their cyber security.

To respond to this increasing complexity, Reply's coherent and complete set of integrated products and services protect the integrity of its customers' systems, from setting the best cybersecurity strategies, to the identification and implementation of the most suitable technological solutions to mitigate risk. Through its extensive network of partnerships, Reply offers wide-ranging expertise on the most innovative and widely used security technologies on the market. Furthermore, the company can help its customers to scout, select and implement protection solutions designed to mitigate advanced risks related to the latest technological drivers (cloud, IoT, Industry 4.0, automation, etc.).

Reply supports businesses throughout the implementation phase of its integrated information protection plan, from the identification of threats and vulnerabilities to the planning, design and employment of appropriate technological, legal, organisational and risk transfer (cyber insurance) countermeasures. Lastly, thanks to its cyber security command centre, Reply assists large organisations with advanced computer security incident management and response action as well as threat intelligence services.

DATA & ANALYTICS

Data and its uses have become a key strategic factor in the digital transformation of businesses.

By combining technological skills in data analysis, data modelling and data process re-engineering, Reply makes it easier for its clients to approach the issue of data, focusing on cultural change and a new approach to data management and to the use of data. In particular, Reply supports its customers in the definition and implementation of data analytics platforms that apply advanced models to core corporate processes.

In 2018, Reply continued to develop a specific offer portfolio in the machine learning field, designed to address growing demand from companies wishing to automate lower impact processes such as invoice reconciliation, while building value-added services based on innovative process automation models through deep learning, image recognition and prescriptive analytics.

DESIGN CONSULTING

In a world increasingly characterised by complex ecosystems, Reply supports its clients to create innovative and distinctive product-service experiences for the B2C and B2B sectors. From analysing needs through to strategic business objectives and technological enablers, Reply can transform them into integrated customer journeys and prototypes that make the results immediately tangible and verifiable. Results are then developed in an iterative and agile way, until they are launched on the market.
At the same time, a customer-centric approach requires a change in the organisation, to enable a successful customer experience journey. Reply supports organisations in managing such changes to make them really customer-centric, receptive to market inputs or feedback, agile in releasing new products and services, as well as mobilising cross-functional teams that operate in full autonomy towards specific objectives.
In 2018, Reply continued to invest in this area through the acquisition of new talent and expertise. Its two studios in Milan and Munich were further expanded enabling support for customers in Europe and globally.

DIGITAL EXPERIENCE

Real time marketing, artificial intelligence and analysis of the customer journey are the three transformation technologies set to impact most on the relationship of brands with customers. The use of these technologies enables brands to increase their marketing results through a continuous improvement of the customer experience in terms of loyalty and growth of its base.

Taking advantage of these emerging capabilities means building a more data-driven vision of the individual customer. The growing interest in cross-device identification tools and account-based marketing solutions (ABM) underlines the increasing interest among brands towards technologies offering targeted and coherent interactions among owned, earned and paid media.

Reply has developed a broad and highly specialised set of skills, including digital storytelling, contextual interaction, omnichannel loyalty, data recognition to capture large quantities of information and subsequent data analysis expertise to create effective market insights. To extend this scenario further, there is a need to ensure coherent communication between the various media involved, through a consolidated strategy that also incorporates a multimedia asset management component.

In recent years, Reply has developed specific expertise and solutions to support companies in the development of immersive experience projects through the application of augmented reality and virtual reality. These technologies are expected to have an increasingly strong impact on the marketing strategies of highly innovative brands.

E-COMMERCE

Physical and digital, in-store and online: these are today's drivers of convergence and digitalisation of companies, reaching far beyond the retail market.

Today, there is an increasing demand that the digital presence of a brand guarantees a purchase experience can be made in just a few clicks, allowing customers to quickly browse an interactive site. There should be no barriers, technological, physical, digital or relating to touch points that limit the user experience. A clear digitisation strategy is essential.

The magnitude of the customers' digital identities is of increasing importance. Now, any strategic decision regarding investments in technology must be supported by increasingly sophisticated mathematical models based on data collected across the distribution chain, the sales chain and in all interactions with consumers. The value of this information is therefore twofold: the data is able to help streamline revenue reporting, quickly exerting influence on stock management, while the purchase conversion rate can be improved thanks to predictive analysis of purchasing behaviour.

Reply supports its customers on their journey, offering the latest technological solutions and helping them to define the best digital transformation strategies for the specific market and budget.

ENTERPRISE ARCHITECTURE & AGILE

The recent paradigm shifts in areas such as cloud computing, the mobile world, IoT and big data, along with more mature models of agile and DevOps delivery, have rendered the IT landscape unrecognisable compared to a few years ago.

In order to excel in the digital economy, characterised by the convergence between the physical and the digital worlds, organisations must remove the boundaries between IT and business. This will allow enterprises to be agile in exploiting the new developments available to them, although they must proceed with caution to avoid damaging existing systems and processes.

This new technological approach requires agile delivery models in which small, highly qualified, multi-disciplinary teams implement a process of end-to-end change in a very short timeframe, working directly with the managers of the various business areas involved. Reply supports its customers in the realm of enterprise architecture through a vast catalogue of architectural frameworks, methods and models, consolidated in many projects completed for large industrial, media and service groups.

GAME STUDIOS

The development of the videogame market is increasingly prevalent, attracting all age groups and remaining equally divided between males and females. The average age of gamers increased in 2018 to around 36 years old.

A culture has developed that allows companies to continually improve the dialogue with customers, with games playing an important role.

In addition to creating internationally acclaimed games, Reply has developed an offer that meets the communication needs of gaming brands within a 360° perspective. Reply is constantly investing in this area so that it can offer, through the use of the latest technologies, increasingly innovative and engaging game experiences.

During 2018, Reply was able to further assert the company's ability to create quality products, with a focus on an international market. In particular, the release of Lone Wolf, a legacy Reply production, on the Nintendo Switch platform has had considerable success both in terms of visibility and sales performance.

INDUSTRY 4.0

The fourth industrial revolution is the combined effect of connectivity, data processing power, latest generation mechanical automation, machine learning and artificial intelligence. Industry 4.0 models are quickly redefining production sites around the world, transforming them into systems closely interconnected with the supply chain, logistics, sales, the products themselves and the support and maintenance chain.

Plants become open ecosystems that need to be able to adapt autonomously to new tasks, to carry out maintenance activities and to predict the best input and output flows through constant communication with supply chains, while attaining levels of efficiency and control that minimise costs and maximise results.

For this new global world of interconnected production, Reply has developed a suite of integrated solutions capable of ensuring its customers are flexible, connected and efficient.
In particular, Reply's mission is to accompany its customers along the entire transformation journey: from the planning and development of solutions that open up the production sites and interconnect them to the entire digital world, to the design and implementation of solutions capable of rendering products "smart", connected and digital.

The digitisation of companies is a transformation expected to take place in the medium term, made possible and concrete by the use of all the vertical and horizontal pillars offered by Industry 4.0 (robotics, digital twin, cloud and fog computing, augmented reality, big data, artificial intelligence and machine learning, etc.).

THE INTERNET OF THINGS

2018 saw the emergence of three main trends which steered the development of Reply's products and services offer in the IoT realm. The first is the growing need for differentiation in insurance, telco and utilities. In response, companies in these industries have consolidated connected objects as a cornerstone of product portfolio extension strategies for creating value and customer loyalty.

The second trend is the growing opportunity for marketing in support of existing products. Through the increasing availability of connectivity, it is now possible to fundamentally transform the market approach of the manufacturing segment.

The third and final trend has seen the exponential spread and popularity of new voice interaction mechanisms, such as smart speakers or voice assistants, as well as new systems of interaction, which are stimulating a different interaction between the physical world and the digital services world.

To tackle these challenges, Reply has designed and developed HI ConnectTM, a platform of services, devices and middleware, on which to base specific vertical applications such as ecosystems for the household appliances sector, advanced logistics, environmental security, contactless payment and product traceability. In 2018, Reply consolidated its position in the areas of home and professional appliances, connected insurance and in new telco offers and utilities for the connected home, as well as in the manufacturing, healthcare, insurance and automotive sectors.

MIXED REALITY

Combining advanced technological skills, experimentation of new technologies and the ability to produce high quality content in its proprietary laboratory, means Reply has developed a products and services offer for implementing augmented reality applications. This design and development offer enables users to enjoy an engaging experience, where they are transported into in a virtual and navigable environment.

AR and VR projects implemented by Reply during the course of the year have covered many areas including in healthcare, where installations aimed at motor rehabilitation and training were created. Numerous projects were also conducted in the marketing sphere, which saw VR and AR become excellent tools to support product presentation and customer engagement.

MOBILE & APPS

In the mobile sector, Reply supports companies' interactions with their users based on omnichannel applications and architectures capable of meeting needs of the new market by increasing the usability and performance of services, integrating new channels and types of devices seamlessly following specific guidelines of each platform.

With reference to the increasingly pervasive phenomenon of mobile video – where the quality and stability of the service are essential to ensuring its success – Reply is engaged in major European projects for the provision of Over The Top services, with design, development, validation and monitoring teams.

Following the latest mobile developments, Reply launched its first experiments on the iOS platform, based on the use of AR Kit for augmented reality solutions, as well as on the Android platform, based on the Android Auto and Android TV tools.

In addition, Reply strengthened the company's own application factory dedicated to mobile apps for both business and consumer worlds. The factory includes a user experience laboratory that closely collaborates with teams of developers specialised in various platforms, which bases its activity on a data-driven approach using tools and methods that focus on users' needs and behaviours.

QUANTUM COMPUTING

A portfolio of innovative technologies – that made possible to look at complex problems from a computational point of view – are entering the market. We are referring to the accelerated computing realm, whose basic purpose is to hasten computational workloads through the use of innovative hardware platforms. Within this framework, quantum computing takes on a role of absolute prominence. In fact, the ability to encapsulate the information within quantum bits (Qubits), taking advantage of the massive parallelisation of quantum algorithms, makes it possible to solve problems typically beyond the reach of classic technologies.

In 2018, Reply launched a centre of excellence dedicated to quantum computing and formed an important alliance with D-wave to enable cloud-based access to their Quantum Annealer. Some of the key achievements during the year include: the identification of use cases providing added-value for potential customers, the definition of guidelines for the development and experimentation of this type of technology, the development of solutions in different areas ranging from cybersecurity (with a particular focus on quantum key distribution) to logistics optimisation and quantum machine learning.

SOCIAL MEDIA

In recent years, social media has profoundly changed the way in which individuals of all age groups communicate and interact, in both their private and professional lives. The Internet has correspondingly transformed itself from a purely informative tool, to an immense space for dialogue and conversation, and for the research, purchase and evaluation of product/service brands.

New opportunities can be capitalised on by brands that are able to analyse and take advantage of the interactions generated on social media, be they customers, prospects, employees, partners or suppliers. The strategic assets in this realm are the ability to observe relevant phenomena, the process of defining the most effective social media marketing activities to meet a brand's business needs, data-driven content curation and social analytics activities.

Social media represents a valuable system of data that makes it possible to better understand users and to generate actionable insight. For example, data on user expectations supports those marketing initiatives focused on anticipating emerging trends; analytics data supports communication teams in defining communication clusters; advertisement interaction data makes it possible to optimise campaigns to decrease the dispersion of communication and to improve the conversion performance.

REPLY SERVICES & PLATFORMS

REPLY SERVICES

Today, networks consist of distributed 'information systems' that provide real-time access to an ever-increasing quantity of complex data, information and content. This use of the internet is creating new competitive service models, based on three fundamental components: the software platforms involved, an understanding of and expertise in the relevant processes, and service management.
Reply supports its clients in this quest for innovation with services and platforms designed to fully exploit new potentials offered by networks and by communication technologies.

BUSINESS PROCESS OUTSOURCING

Reply provides specialist services in three fields of expertise:

- **Finance & Administration** - management of transnational accounting processes, writing of consolidated financial statements, management of tax obligations, dematerialisation of accounting documents and electronic storage.
- **Human Resources** - training, ECM, career profiles, company knowledge, dashboards for directional analysis.
- **Pharmaceutical** - management and control of pharmaceutical expenses.

CFO SERVICES

The role of the CFO is changing dramatically due to the increasing need to use complex reporting and simulation tools to provide timely, adequate information on a business' success and its ability to create value. In its business performance management offering, Reply has identified specific services capable of supporting and developing the CFO –issues that once fell under the responsibility of the CEO:

- definition of the business control model;
- strategic planning and budgeting;
- creation of the consolidated statement;
- IPO support.

APPLICATION MANAGEMENT

Reply has defined an application management model characterised by a:

- modular approach that allows the client to purchase either individual service components (for example, only application maintenance or only operational support) or structured portfolios of services.
- flexible supply model aimed at integrating the Reply service in the best possible way with the client's business processes, while taking account of the specific needs involved.

REPLY PLATFORMS

BRICK REPLY™

Brick Reply™ is Reply's Industry 4.0 manufacturing operations platform, which, thanks to a completely open service-based architecture, makes it possible to coordinate production processes and interface with both machinery and sensors within the factory.

Brick Reply™ aims to digitise business processes in the manufacturing sector, providing flexible services that make it possible to configure and control the end-to-end production process, or parts thereof, improving efficiency and optimising quality levels.

Thanks to the multiple ways in which the platform can be deployed (As-A-Service, IaaS, On-Premise), Brick Reply™ is a comprehensive tool for integrating the technologies already present within the factory, coordinating the data collected from these, while also acting as a driving force for a subsequent evolution of the manufacturing process towards 4.0 and innovation.

DISCOVERY REPLY™

Discovery Reply™, Reply's enterprise digital asset management platform, manages the lifecycle of images, video, audio and documents. The different components on which the platform is based, make it ideal for managing digital business content and producing adverts or newsletters.

Multimedia content is managed based on an advanced model, thanks to the application of machine learning and artificial intelligence technologies and distributed via multi-channel logic. Images and video can be analysed and edited directly on the platform and then published on e-commerce websites or distributed on websites, digital storefronts and social media networks, in compliance with applicable usage rights. The highly modular and scalable cloud architecture means that the platform can be integrated with leading business systems and guarantees performance, security and data confidentiality.

HI CONNECT™

HI Connect™ is Reply's solution for the IoT sphere, which facilitates the acceleration of connected product strategies. HI Connect™ enables objects connected to the network to communicate simply and facilitates the development of vertical applications focused on specific markets or use cases including infomobility, advanced logistics, environmental security or contactless payment.

The solution consists of a platform of services delivered as a 'software-as-a-service solution' and a reference design for the connectivity modules. HI Connect™ also includes two vertical solutions: RMS (Recipe Management System), a connected recipe management system used in the home and professional appliances world and VCP (Value Chain Portal), a system designed to support the transformation of an asset from product to service. HI Connect™ enables the integration of value-added services and supports innovative interaction systems such as voice assistants.

LEA REPLY™

LEA Reply™ is a platform for supply chain execution based on a micro-service driven architecture. This enables the creation of customised solutions for the digitalisation of the supply chain. LEA Reply™ allows the management of warehouse activities, supply chain visibility and collaboration, distribution processes on geographical networks and operational activities in the field.

The next evolution of the platform is expected to support the development of micro-services for the supervision of the yard management functionality. The platform has been designed to run natively on top of a cloud computing service but is also available in hosted mode on a private cloud. LEA Reply™ has been included in the Gartner Magic Quadrant for Warehouse Management Systems (WMS).

TAMTAMY™

TamTamy™ Reply is a platform for creating digital workplaces, enterprise-level social networks and digital communities which, through dynamic social media content and tools, put the employee at the centre of the working environment.

TamTamy™ enables customers to enhance and capitalise on the interaction between companies, brands and people. TamTamy™ provides social media functionality that can be extended and integrated at the enterprise level, and innovative formats that aim to value people, encourage collaboration and stimulate innovation. TamTamy™ is available as a cloud-based and on-premise service.

TICURO REPLY™

Ticuro Reply™ is the Reply solution for the telemonitoring and analysis of behavioural habits. It provides processes designed to guarantee the continuity of care and welfare. Based on the Internet of Things (IoT), Ticuro Reply™ can connect to more than 50 types of devices, from medical devices to wearable and environmental sensors, proving invaluable to patients, caregivers and health professionals during treatment processes.

Certified as a CE medical device, Ticuro Reply™ supports patients in prevention, treatment and postoperative care. The collected data and the possibility of continuous remote assistance, allow professionals to establish an interactive relationship with people, providing them with personalised care and care plans. The use of the solution facilitates the rationalisation of costs and promotes the creation of high added-value services for all users.

PULSE REPLY

Pulse is Reply's data-driven insight solution. Unlike traditional analytics platforms, Pulse Reply combines data science and marketing intelligence activities within an agile dashboard, making it possible to respond to business demands relying on real-time KPIs. The Pulse dashboard can be used to evaluate the success of marketing campaigns or optimisation margins, as well as to analyse KPIs relating to the brand, social media, influencers and product strategies.

Thanks to the integration of machine learning algorithms, Pulse is able to provide automatic notifications to users concerning changes in a KPI indicator, what caused such changes and what the potential impact is.

SONAR REPLY

Sonar is Reply's solution for data-driven trend research, developed in collaboration with the German Institute for Artificial Intelligence (DFKI). Based on environmental scanning methodologies, this data-as-a-service software solution exploits digital data and text mining capabilities to optimise the analysis of trends. Similar to a real sonar, the system sends pulses and stores all relevant articles within a continuously growing database. The signals and trends discovered can be analysed to anticipate future trends.

Thanks to its advanced data display capabilities, Sonar provides a sophisticated user experience and makes it possible to immediately understand trends.

PARTNERSHIP - RESEARCH AND DEVELOPMENT

Reply considers research and continuous innovation to be fundamental assets for the support of its customers as they adopt new technologies.
In order to offer the most appropriate solutions for different business requirements, Reply has established important partnerships with major global vendors. The group has achieved top levels of certification with regard to leading technologies in the enterprise field, including:

ADOBE

Reply, EMEA AEM Specialised Partner, represents a centre of excellence for the design and implementation of digital transformation and multichannel marketing solutions based on the different products available as part of the Adobe Experience Cloud platform.

Reply creates ad-hoc solutions ranging from digital information management (web portals, e-commerce solutions, mobile apps) to digital asset management (management of the end-to-end life cycle of documents and digital assets) and marketing automation (creation, planning, management and optimisation of multichannel marketing campaigns), enabling the development of customer-oriented applications that help improve the targeting, personalisation and content optimisation.

AMAZON WEB SERVICES

Reply ranks among the main partners of Amazon Web Services (AWS), the leading Cloud platform worldwide after completing numerous projects on the platform, in both B2B and B2C. The company provides support in implementation and integration of custom applications and platforms, to the availability of maintenance and management services based on consumption cost models. Reply guides customers through the digital transformation processes, adopting a governance strategy that is secure, flexible and efficient.

In 2018, Amazon Web Services confirmed Reply, for the sixth consecutive year, as Premier Consulting Partner – The highest level of partnership attributable only to a select group of AWS partners worldwide. This recognition goes hand in hand with Reply's other certified AWS skills including DevOps, Oracle, IoT and the managed service programme.

GOOGLE

Reply confirmed its important Google Cloud Managed Service Provider (MSP) certification level. MSP is the certification that Google recognises in relation to a limited number of specialised WW partners, which support customers along their end-to-end cloud journey: from the initial engagement to the Cloud-based migration and execution, all the way to the planning and optimisation of the system. In addition, Google renewed Reply's 2018 Premier Partner certification for the G Suite and Cloud Platform, recognising the company's excellence demonstrated in the support of its Google Cloud products.

Reply has also obtained the specialisation in infrastructure and machine learning, within the scope of the “Google Premier Partners - Specialisation” programme. This achievement puts Reply among the leading companies in Europe able to support customers in the adoption of Google technologies and solutions.

MICROSOFT

Reply, with the acquisition of Valorem, Microsoft’s national solution provider in the United States, has achieved the gold partner status in all the countries where it operates (Brazil, Germany, Italy, the United Kingdom and the United States).

In particular, Reply has engaged in major areas of Microsoft’s portfolio of offers: modern workplace, business applications, applications and infrastructure, data and artificial intelligence. Reply is a member of Microsoft’s Partner Advisory Council for Azure and Data Platforms.

In 2018, Reply obtained Microsoft’s Mixed Reality Partner Program certification in Europe and North America and was recognised by Microsoft as its Worldwide Partner of the Year and as the Best Azure Solution Provider in Italy.

ORACLE

Thanks to its model of highly specialised companies, Reply, an Oracle Platinum Cloud Select partner, was hailed Cloud Partner of the Year in Italy and Germany for the fourth consecutive year. Reply boasts one of the leading European Competence Centres, able to guarantee coverage across the entire suite of Oracle products.

Reply is a point of reference in the three key areas of Oracle’s Cloud Computing offer: Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS).

In 2018, Reply confirmed its leadership position in Oracle’s technological cloud, gaining the Outstanding MSP Innovation Award as Oracle Cloud Managed Service Provider, due to strategic projects which transformed the business and services offered by its customers.

Lastly, in the e-commerce sector, Reply has developed various projects, based on the Xstore and Oracle Commerce Cloud suites, aimed at defining a customer-centric strategy across various channels.

SALESFORCE

Reply, a Salesforce Platinum Consulting Partner, is one of the leading Salesforce.com competence centres in Europe, thanks to over 200 certifications obtained. The company has customers in the automotive, industrial, telecommunications, media, utility and retail sectors.

Reply’s capacity to deliver the highest standard of Salesforce solutions is the result of its expertise in cloud computing technologies based on SaaS and PaaS best practices and its dedicated focus on digital marketing, digital CRM, e-commerce and integration.

In 2018, Reply was among the first Salesforce partners to activate a data management platform that makes it possible to create and manage marketing campaigns according to data-driven logic.

Reply uses an innovative approach to promote projects using solutions such as Salesforce Einstein, the Salesforce extension based on artificial intelligence, big data and IoT.

SAP

With its extensive international experience in the implementation of software solutions based on the SAP product suite, Reply can help develop intelligent businesses, adopting an agile and integrated approach to design and cultivate corporate information systems for the digital age.

Reply's experience covers both traditional business processes, as well as the latest SAP technologies in the field of IoT, machine learning, big data and analytics, including SAP Leonardo, SAP Cloud Platform and SAP C/4 HANA for the development of advanced end-to-end e-commerce and customer engagement solutions.

In 2018, Reply obtained the SAP Quality Award Gold for the fifth consecutive year, in recognition of the quality and relevance of its initiatives. Reply holds the status of SAP Gold Partner and was recognised during the SAP Innovation Awards 2018, thanks to the innovative SAP solutions provided to its customers.

DEVELOPMENT AND EVOLUTION OF PROPRIETARY PLATFORMS

Reply constantly dedicates resources to research and development activities, concentrating them in two areas: development and evolution of proprietary platforms and the definition of a continuous scouting, selection and learning process of new technologies, aimed at bringing onto the market innovative solutions capable of sustaining the creation of value in companies.

BRICK REPLY™

In 2018 the development of Brick Reply™ focused on completing the planning and sequencing module, with new finite capacity optimisation algorithms, the development of the new production maintenance module and extending it across various industrial sectors to enhance the ability of the platform to respond to customer needs. Efforts were increased to expand the integration capabilities of the platform, relying on different gateway technologies and solutions to speed up data exchange in the monitoring of machine parameters.

In 2019 the development emphasis will be on the underlying technology of the Brick platform, in order to position Brick Reply as a digital platform for larger-scale collaborative environments. The platform will be fully containerised. At the same time, new versions of the planning, monitoring and maintenance modules will also be released.

DISCOVERY REPLY™

During the course of 2018 the Discovery Reply Enterprise Digital Asset Management platform (eDAM) was enriched and extended to support the storage and acceleration of digital content and manage company products and their multimedia-related aspects.

Thanks to the extensive use of artificial intelligence applied to image recognition, the eDAM can now automatically associate theme-specific tags to images and video content, facilitating the operation of the individual departments within corporations.

Thanks to recently implemented functionality, it is now possible to associate a geographic location to content, enabling searches based on geo-location parameters. New connectors have also been developed for major e-commerce market solutions and the management of resources and customers, making it more effective to administer the assortments of each website, for example enriching products with marketing attributes and multimedia elements. Major improvements were made to performance, scalability, security and data confidentiality.

HI CONNECT™

During the course of 2018, development on the platform focused on the evolution of vertical applications for industry and saw the addition of verticalisation to connect consumer products. The theme of edge computing continues to be critical to the digital renewal not only of the factory, but also of the human/machine interaction with connected products.

LEA REPLY™

2018 saw the release of the second version of the LEA Reply™ Warehouse Management platform, in which Reply's Supply Chain Execution Suite solutions were merged.

The 2019 roadmap offers a new release phase that includes LEA Yard Management 2.0, LEA Last Mile 2.0 and LEA Visibility 1.0. The features offered by these new solutions have been designed to provide end-to-end benefits in terms of visibility, collaboration and agility and to work effectively with suppliers and customers along the supply chain.

TAMTAMY™

During 2018 Reply continued the development of the TamTamy™ platform, releasing new features and formats designed to help companies cope with change in the way people work and human resource management. TamTamy™ has enhanced the Microlearning, Jam Session, Challenges and Virtual Assistant modules with an innovative management of skills and talents – specific features designed to respond to the smart working phenomenon and to facilitate the effective management of the on-boarding phase.

Further investments are planned in 2019, which will make it possible to design and develop new innovative formats based on emerging technologies. A major strengthening of the TamTamy™ version is also expected, which integrates Google's G Suite productivity services.

TICURO REPLY™

The Ticuro Reply™ platform was enhanced with the addition of digital healthcare components. Specifically, enhancements were made to the patient management module and two new modules were released, making it possible to improve the administration of therapeutic plans and the usability of the system. In parallel, the module that allows the category of doctors working on an individual basis to use the platform was completed, in compliance with applicable legislation.

The module designed to support the treatment of respiratory diseases saw the integration of two innovative devices: one for dispensing and evaluation of the use and compliance of a drug for the treatment of asthma and related diseases; and a second device for the evaluation of respiratory parameters, equipped with an innovative assisted measuring mechanism. The second module developed for the treatment of cognitive disorders such as autism, provides for the use of Bio Sensors integrated with the IoMT Ticuro Reply™ platform, together with the use of a virtual reality system through the support of serious gaming, which enables the delivery of the therapy based on a smart approach.

THE VALUE OF PEOPLE

Reply's reputation is based on the excellence of the people who make up the company – professionals from the best universities in the sector. The men and women within the group bring the Reply brand to life for clients and partners.

Reply invests continuously in human resources by establishing special relationships and partnerships with a number of universities to attract highly skilled individuals.

Recruitment is focused primarily on young graduates. In particular, the areas of interest are: computer science, computer engineering, electronic engineering, telecommunications engineering, managerial engineering and economics and business. The relationship between Reply and universities is fostered by regular collaborations including industrial placements, dissertations and seminars.

The values that characterise Reply's employees are enthusiasm, excellence, a methodical approach, team spirit, communication and an ability to understand the business context. The continuous desire to imagine, experiment and study new solutions allows innovation to transpire more rapidly and efficiently.

Anyone who decides to become a part of the "Reply world" will enjoy the opportunity to express their potential based on an open, honest and ethical culture.

These are indispensable values for continuous improvement and an ever-increasing attention to quality in work.

All of the group's managers are focused on upholding the principles on which Reply has always depended and that have sustained it during its growth.

THE REPLY TEAM

- sharing the customer's objectives;
- professionalism and speed of implementation;
- culture and flexibility.

Excellence: the underlying culture, study, attention to quality, seriousness, the creation of value from results.

Teamwork: collaboration, the transfer of ideas and knowledge, the sharing of objectives and results, respect for personal characteristics.

Customer: the sharing of objectives, client satisfaction, conscientiousness, professionalism, a sense of responsibility, integrity.

Innovation: imagination, experimentation, courage, study, the search for improvement.

Speed: method, experience in the management of projects, collaboration, commitment in achieving results and customer objectives.

ANNUAL FINANCIAL REPORT 2018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REPORT ON OPERATIONS

MAIN RISKS AND UNCERTAINTIES TO WHICH REPLY S.P.A AND THE GROUP ARE EXPOSED

The Reply Group adopts specific procedures in managing risk factors that can have an influence on company results. Such procedures are a result of an enterprise management that has always aimed at maximizing value for its stakeholders putting into place all necessary measures to prevent risks related to the Group activities, furthermore, as per international best practices, the Group has taken measures to assess the risk management activities by a third party.

Reply S.p.A., as Parent Company, is exposed to the same risks and uncertainties as those to which the Group is exposed, and which are listed below.

The risk factors described in the paragraphs below must be jointly read with the other information disclosed in the Annual Report.

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

RISKS ASSOCIATED WITH COMPETITION

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

RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS

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

RISKS ASSOCIATED WITH SEGMENT REGULATIONS

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

INTERNAL RISKS

RISKS ASSOCIATED WITH KEY MANAGEMENT

The Group's success is largely dependent on some key figures that have made a decisive contribution to its development, such as the Chairman and the Executive Directors of the Parent Company Reply S.p.A..

Reply also has a leadership team (Senior Partner, Partner) with many years of experience in the sector with a decisive role in the management of the Group's business.

The loss of any of these key figures without an adequate replacement or the inability to attract and retain new, qualified personnel could therefore have an adverse effect upon the Group's business prospects, earnings and financial position.

Management deems that in any case the Company has a sufficient operational and managerial structure capable of guaranteeing continuity in the running of the business.

RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT

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

RISKS ASSOCIATED WITH INTERNATIONALIZATION

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

RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS

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

FINANCIAL RISKS

CREDIT RISK

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

LIQUIDITY RISK

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

EXCHANGE RATE AND INTEREST RATE RISK

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

REVIEW OF THE GROUP'S ECONOMIC AND FINANCIAL POSITION

FOREWORD

The financial statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated financial statements as at 31 December 2018 to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

TREND OF THE PERIOD

The Reply Group closed 2018 with a consolidated turnover of 1,035.8 million Euros, an increase of 17.1% compared to 884.4 million Euros in 2017.

The EBITDA was 144.8 million Euros (123.2 million Euros in 2017), while the EBIT was at 132.4 million Euros (113.9 million Euros in 2017).

The Group net profit was at 99.9 million Euros, an increase of 28.3% compared to 77.9 million Euros recorded in 2017.

As at 31 December 2018, the Group's net financial position was positive, at 66.5 million Euros (57.0 million Euros at the end of 2017) an increase compared to 56.3 million Euros recorded at 30 September 2018.

2018 was a significant year for the Group, with a turnover that for the first time has exceeded 1 billion euros, a figure that has risen by more than 17% compared to 2017.

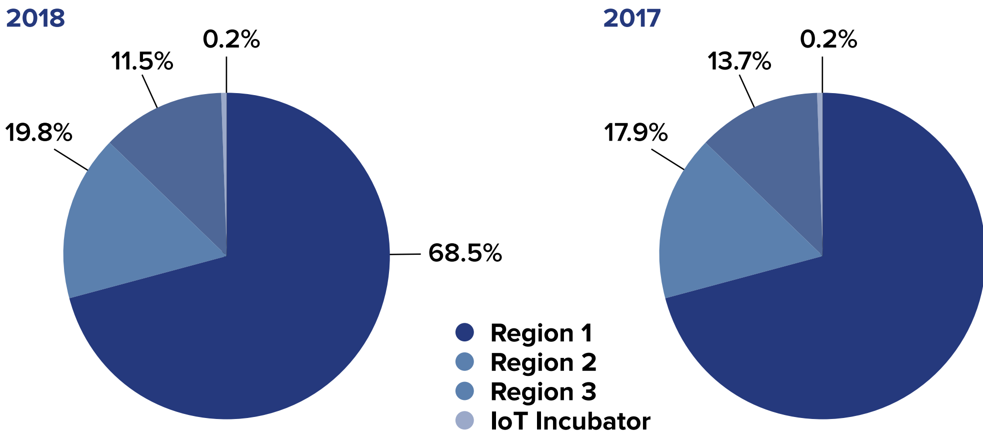
Today big data, cloud computing and internet of things are the building blocks that form the basis for rethinking processes, production plants, logistics chains, services and physical goods. This scenario represents a great opportunity for Reply, which is characterized by a unique mix of skills including artificial intelligence, mixed reality, robotics and the leading cloud platforms.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

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

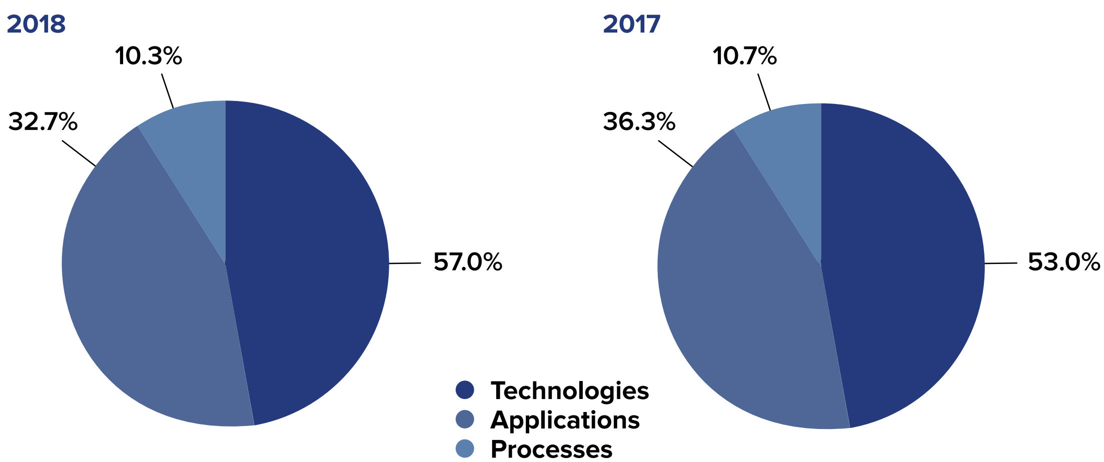
(THOUSAND EUROS)	2018	%	2017	%
Revenues	**1,035,793**	**100.0**	**884,434**	**100.0**
Purchases	(20,513)	(2.0)	(15,269)	(1.7)
Personnel	(508,652)	(49.1)	(431,555)	(48.8)
Services and other costs	(364,734)	(35.2)	(312,253)	(35.3)
Other operating (costs)/income	2,942	0.3	(2,113)	(0.2)
Operating costs	**(890,957)**	**(86.0)**	**(761,190)**	**(86.1)**
Gross operating income (EBITDA)	**144,836**	**14.0**	**123,244**	**13.9**
Amortization, depreciation and write-downs	(13,848)	(1.3)	(12,353)	(1.4)
Other non-recurring (expenses)/income	1,422	0.1	2,982	0.3
Operating income (EBIT)	**132,410**	**12.8**	**113,873**	**12.9**
(Loss)/gain on investments	6,862	0.7	(585)	(0.1)
Financial income/(expenses)	(55)	-	(2,978)	(0.3)
Income before taxes	**139,217**	**13.4**	**110,310**	**12.5**
Income taxes	(38,230)	(3.7)	(31,765)	(3.6)
Net income	**100,987**	**9.7**	**78,545**	**8.9**
Non controlling interests	(1,075)	(0.1)	(674)	(0.1)
Group net income	**99,913**	**9.6**	**77,871**	**8.8**

REVENUES BY REGION (*)



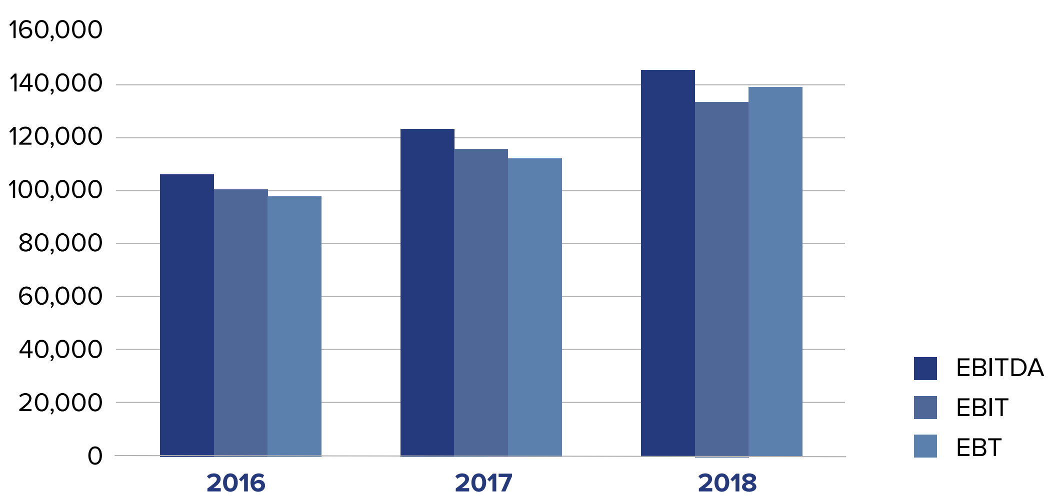
(*) **Region 1:** ITA, USA, BRA, POL, ROU
Region 2: DEU, CHE, CHN, HR
Region 3: GBR, LUX, BEL, NLD, FRA, BLR

REVENUES BY BUSINESS LINES



TREND IN KEY ECONOMIC INDICATORS

(THOUSAND EUROS)



ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2018, compared to 31 December 2017:

(THOUSAND EUROS)	31/12/2018	%	31/12/2017	%	CHANGE
Current operating assets	565,092		496,459		68,633
Current operating liabilities	(419,803)		(328,589)		(91,215)
Working capital, net (A)	**145,288**		**167,870**		**(22,582)**
Non current assets	381,955		263,457		118,498
Non current liabilities	(107,183)		(86,286)		(20,897)
Fixed capital (B)	**274,772**		**177,171**		**97,601**
Invested capital, net (A+B)	**420,060**	**100.0**	**345,041**	**100.0**	**75,019**
Shareholders' equity (C)	486,612	115.8	402,072	116.5	84,541
NET FINANCIAL POSITION (A+B-C)	**(66,552)**	**(15.8)**	**(57,030)**	**(16.5)**	**(9,522)**

Net invested capital on 31 December 2018, amounting to 420,060 thousand Euros, was funded by Shareholders' equity for 486,612 thousand Euros and by available overall funds of 66,552 thousand Euros.

The following table provides a breakdown of net working capital:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Work in progress	77,061	93,651	(16,589)
Trade receivables	434,389	357,082	77,306
Other current assets	53,642	45,726	7,915
Current operating assets (A)	**565,092**	**496,459**	**68,633**
Trade payables	123,387	100,150	23,237
Other current liabilities	296,417	228,439	67,978
Current operating liabilities (B)	**419,803**	**328,589**	**91,215**
Working capital, net (A-B)	**145,288**	**167,870**	**(22,582)**
% return on investments	*14.0%*	*19.0%*	

NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Cash and cash equivalents, net	122,481	86,398	36,084
Current financial assets	997	2,042	(1,045)
Due to banks	(31,990)	(16,365)	(15,626)
Due to other providers of finance	(689)	(942)	253
Short-term financial position	**90,799**	**71,133**	**19,666**
Due to banks	(23,366)	(13,381)	(9,985)
Due to other providers of finance	(881)	(721)	(160)
M/L term financial position	**(24,247)**	**(14,102)**	**(10,145)**
Total net financial position	**66,552**	**57,030**	**9,522**

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

(THOUSAND EUROS)	31/12/2018
Cash flows from operating activities (A)	119,835
Cash flows from investment activities (B)	(94,179)
Cash flows from financial activities (C)	10,428
Change in cash and cash equivalents (D) = (A+B+C)	**36,084**
Cash and cash equivalents at beginning of period (*)	86,398
Cash and cash equivalents at year end (*)	122,481
Total change in cash and cash equivalents (D)	**36,084**

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

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

ALTERNATIVE PERFORMANCE INDICATORS

In addition to conventional financial indicators required by IFRS, presented herein are some alternative performance measures, in order to allow a better understanding of the trend of economic and financial management.
These indicators, that are also presented in the periodical Interim management reports must not, however, be considered as replacements to the conventional indicators required by IFRS.

Set forth below are the alternative performance indicators used by the Group with relevant definition and basis of calculation:

- **EBIT**: corresponds to the "Operating margin"
- **EBITDA**: Earnings before interest, taxes, depreciation and amortization and is calculated by adding to the Operating margin the following captions:
  - › Amortization and depreciation
  - › Write-downs
  - › Other unusual costs/(income)
- **EBT**: corresponds to the Income before taxes
- **Net financial position**: represents the financial structure indicator and is calculated by adding the following balance sheet captions:
  - › Cash and cash equivalents
  - › Financial assets (short-term)
  - › Financial liabilities (long-term)
  - › Financial liabilities (short-term)

SIGNIFICANT OPERATIONS IN 2018

ACQUISITION OF VALOREM LLC

Reply has strengthened its presence in the North American market with the acquisition, through the subsidiary Reply Inc., in the month of April 2018, of 70% of the shares in Valorem, a US-based company that specializes in Digital Strategy consulting and the implementation of Cloud, Analytics, and differentiated User Experiences.
Valorem, with approximately 300 people distributed among the main offices in Kansas City, Seattle St. Louis and Kochi (India) is a leader in the cloud design and value-added Digital Strategy and execution services based on Microsoft's Cloud Offerings, with major international groups such as Boeing, Intel, Jeppesen, Microsoft and Red Bull among its customer portfolio.
The investment further enhances Reply's international growth strategy, particularly in the United States where the Group already has offices in Chicago and Detroit.

ACQUISITION OF MODCOMP GMBH

In July 2018, the subsidiary Reply AG reached an agreement for the acquisition of Modcomp Gmbh and its subsidiaries CSPI GmbH and MCG Systems AG, a company under German law specializing in Security Solutions.
CSPi GmbH, formerly MODCOMP GmbH, has been present on the German market as an IT service provider for "Secure IT" for more than 40 years and is one of the leading IT system integrators for IT security in Germany. The range of services extends from the design and integration of numerous IT security products to the commissioning and operation of complete IT systems. With this portfolio, CSPi acts as a full-service security provider for well-known large companies and medium-sized businesses – from analysis, auditing, conception and the appointment of the data protection officer to the management of a SOC (Security Operation Center).

ACQUISITION OF ELBKIND GMBH

In November 2018, the subsidiary Reply AG reached an agreement for the acquisition of 100% of the share capital of Elbkind GmbH. The company, based in Hamburg, is a digital communication agency specializing in stimulating conversations and placing brands and products on Social channels. The operation was completed in late November, following the approval of the German Antitrust.

REPLY ON THE STOCK MARKET

An era begins in which many current competitive scenarios are redefined. The process of far-reaching automation, triggered by the interaction of cloud, big data, artificial intelligence and the Internet of Things, influences every industry.

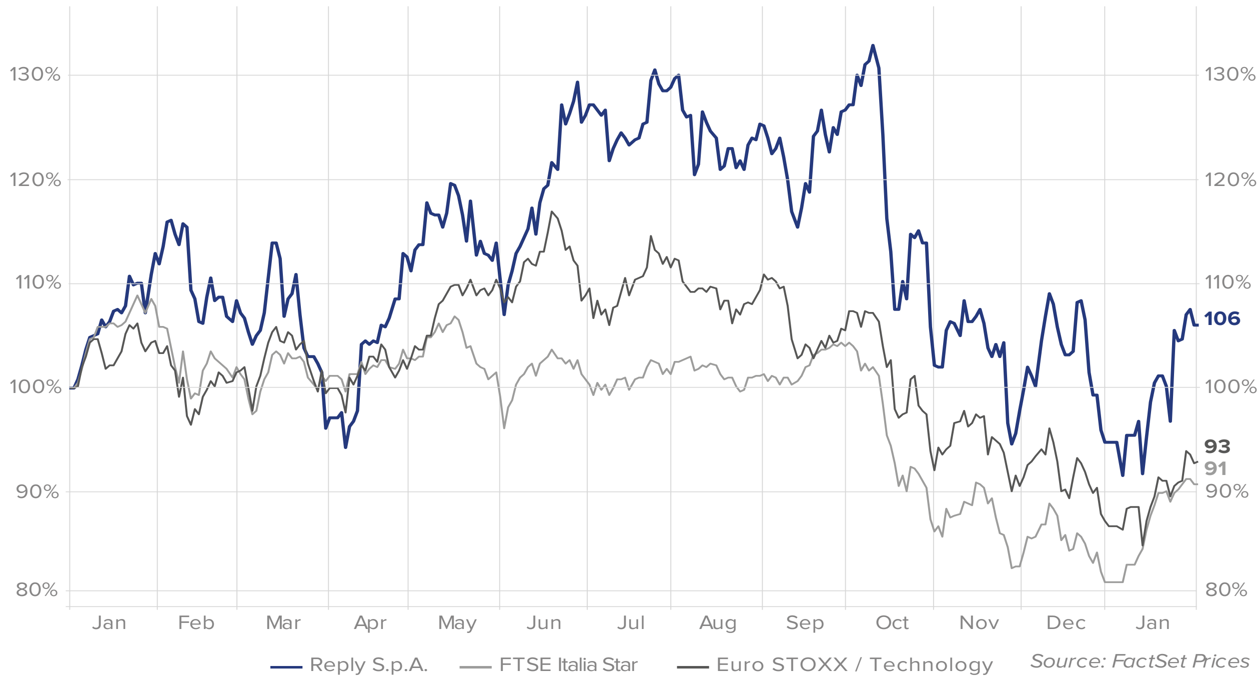
In everyday life, we are supported by increasingly intelligent machines and systems, along with ecosystems based on human-robot collaboration; a new reality is emerging that includes the Inter-net, smart devices, 3D technology and virtual environments.

Reply's goal - in an increasingly global and multinational marketplace - is to remain a benchmark in technology and consulting for companies that are considering innovation and new business models as strategic means to compete on the market. Its expertise enables Reply to quickly translate technology into innovation to support customers in their ongoing quest for greater competitiveness. Reply continues to significantly invest in specific solutions and expertise, to help businesses deal with the digital revolution. We are fully committed to creating sustainable value and to continuing the successful, long-term development of our company and are convinced that our shareholders can derive substantial value from the opportunities ahead and the competitive advantage of Reply.

2018 was a challenging year for European equity markets, as trade tensions, more restrictive central bank policies and geopolitical uncertainty have unexpectedly clouded the macroeconomic environment. Of note, all country indices across Europe were down through 2018, with the vast majority seeing double digit declines. Likewise, all sectors declined, with cyclical sectors underperforming. The surge in trade tensions has been one of the key driving forces behind market weakness, hitting exporters and other sectors reliant on the global supply chain. In terms of developments in Europe, the UK's departure from the EU remains as unclear as ever, with the likelihood of a no-deal Brexit increasing.

From a Reply perspective 2018 was a mixed stock exchange year. Until the end of September, the Reply share was among the best-performing shares in the market, showing an increase of 28% so far. On October 3, 2018 the share reached a new record high with EUR 61.30, implying a market capitalization of EUR 2.3 billion. In the last quarter the Reply share suffered from the deteriorating environment and lost 26% of the value achieved as at September 30, 2018. The year 2018 ended for the Reply share at EUR 44.08, a market capitalization of EUR 1.7 billion and an absolute performance of minus 5%, compared to its values at the beginning of the year.

Different was the relative performance of the Reply share. Throughout the year Reply continued to outperform all relevant indices and the vast majority of the peer group. While the Reply share was down 5% in 2018, the FTSE Italia STAR index fell by 17% and the FTSE Italia MidCap index by 20%. The same is true when looking at the European Techology indices; the EuroSTOXX Technology index e.g. reduced by 11% in 2018.



Taking December 6, 2000, the date of the Reply IPO, as a reference, the Italian main index MIB performed unsatisfactorily. It lost more than 50% of its starting value and never recovered substantially from the lows reached during the financial crisis. In the same period Reply increased its IPO value by more than 1,100%. In 2017 Reply further increased the value creation adding 411 percentage points to the outperformance versus the MIB.

Source: FactSet Prices

In 2018 the trading volume in the Reply share amounted to Euro 591 million, stable compared to the year before. The increased share price (over the first 9 months) offset a reduced number of shares traded. In 2018 11.9 million shares were traded versus 13.8 million shares in 2017.

DIVIDEND

Performance-based compensation is an essential pillar of the partnership-oriented business model of Reply. Like employees the Reply shareholders shall – in form of dividends - participate in the sustainable operational performance of the group. In 2018 Reply achieved earnings per share of Euro 2.67, an increase of 28.4% compared to 2017. For the financial year 2018 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of Euro 0.45 (dividend 2017: Euro 0.3280). Referred to the share price of Reply at the end of 2018 this corresponds to a dividend yield of 1% (0.8% in the previous year).

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

		2018	2017	2016	2015	2014
Share price						
Year-end	Euro	44.08	46.17	29.50	31.48	15.23
High for the year	Euro	61.30	53.50	34.08	32.30	16.98
Low for the year	Euro	42.00	28.93	25.03	14.61	11.93
Trading						
Number of shares traded (year)	# thousand	12,587.7	14,894.2	9,419.3	11,448.2	14,344.0
Number of shares traded (day)	# thousand	48.2	57.1	36.1	43.9	55.2
Trading volume (year)	Euro million	591.0	590.6	282.6	279.5	212.7
Trading volume (day)	Euro million	2.548	2.289	1.095	1.083	0.844
Capital structure						
Number of shares	# thousand	37,411.4	37,411.4	9,352.9	9,352.9	9,352.9
Share capital	Euro million	4.864	4.864	4.864	4.863	4.863
Free Float	%	53.4	52.8	42.0	42.0	43.1
Market capitalization	Euro million	1,650.0	1,727.3	1,103.6	1,177.5	569.6
Allocation of net income						
Earnings per share	Euro	2.67	2.08	1.81	1.52	1.28
Dividend [1)]	Euro	0.450	0.350	0.2875	0.2500	0.2125
Dividend payment	Euro million	16.835	13.092	10.756	9.353	7.950
Dividend yield [2)]	%	1.0	0.8	1.0	0.8	1.4

For comparative purposes the number of shares for fiscal years 2014, 2015 and 2016 were redetermined following the stock split that took place in 2017.

[1)] Amount proposed for shareholder approval for 2018

[2)] Related to year-end closing price

THE SHAREHOLDER BASE

49% of the Reply shares are owned by the founders of Reply. Institutional shareholders owned 42% at the end of 2018 while retail shareholders owned 9% of the shares. The institutional shareholders' base of Reply saw some significant changes. American investors significantly reduced their ownership in Reply to 18% of institutional holdings versus 33% in 2017. French investors now rank number 1, owning around 37%. In parallel Reply saw a remarkable increase of Italian long-only investors who represented 15% of the institutional shareholdings at the end of 2018.

ANALYSTS

2018 saw a substantial increase of the analyst coverage of Reply. 8 European analysts are currently commenting the Reply share. All Reply analysts on average currently see a target price of Euro 56.70.

DIALOG WITH THE CAPITAL MARKETS

An active and open communication policy ensuring prompt and continuous information dissemination is a major component of the Reply IR strategy. In 2018 Reply maintained its high level of activities with the capital markets. During 19 conferences and 6 roadshows Reply actively explained its equity story. Special emphasis was laid on the UK market where Reply increased its investor contacts by 39%. The number of brokers who were involved in the IR activities of Reply was slightly increased in 2018. Our specialist and 2 other brokers were most active in working with Reply on investor targeting and communicating the value of the Reply story for shareholders.

THE PARENT COMPANY REPLY S.P.A.

INTRODUCTION

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2018 to which reference should be made, prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.

RECLASSIFIED INCOME STATEMENT

The Parent Company Reply S.p.A. mainly carries out the operational co-ordination and the technical and quality management services for the Group companies as well as the administration, finance and marketing activities.
As at 31 December 2018 the Parent Company had 86 employees (88 employees in 2017).
Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group's overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Pass-through revenues of the Income Statement set forth below.

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

(THOUSAND EUROS)	2018	2017	CHANGE
Revenues from operating activities	71,625	63,996	7,629
Pass-through revenues	505,272	324,995	180,277
Purchases, services and other expenses	(551,652)	(361,620)	(190,033)
Personnel and related expenses	(20,422)	(19,822)	(600)
Other operating and non-recurring (expenses)/income	344	(3,000)	3,344
Amortization, depreciation and write-downs	(1,188)	(973)	(215)
Operating income	**3,979**	**3,576**	**402**
Financial income/(expenses)	10,800	2,972	7,829
Gain on equity investments	56,830	108,140	(51,311)
Loss on equity investments	(5,990)	(12,230)	6,240
Income before taxes	**65,619**	**102,459**	**(36,840)**
Income taxes	(2,039)	(391)	(1,648)
NET INCOME	**63,580**	**102,068**	**(38,488)**

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 29,638 thousand Euros (25,401 thousand Euros in the financial year 2017);
- shared service activities in favor of its subsidiaries for 31,720 thousand Euros (27,866 thousand Euros in the financial year 2017);
- management services for 8,891 thousand Euros (7,972 thousand Euros in the financial year 2017).

Operating income 2018 marked a positive result of 3,979 thousand Euros after having deducted amortization expenses of 1,188 thousand Euros (of which 911 thousand Euros referred to intangible assets and 277 thousand Euros to tangible assets).

Financial income amounted to 10,800 thousand Euros and included interest income for 9,760 thousand Euros and interest expenses for 651 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net positive exchange rate differences amounting to 1,692 thousand Euros.

Income from equity investments which amounted to 56,830 thousand Euros refers to dividends received from subsidiary companies in 2018.

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

Net income for the year ended 2018, amounted to 63,580 thousand Euros after income taxes of 2,039 thousand Euros.

FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2018, compared to that as at 31 December 2017, is provided below:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Tangible assets	310	478	(167)
Intangible assets	3,059	2,183	875
Equity investments	145,002	143,260	1,742
Other fixed assets	5,022	4,714	308
Non current liabilities	(8,978)	(13,501)	4,523
Fixed capital	**144,415**	**137,134**	**7,281**
Net working capital	**14,479**	**22,191**	**(7,712)**
INVESTED CAPITAL	**158,894**	**159,325**	**(431)**
Shareholders' equity	341,264	292,110	49,153
Net financial position	(182,370)	(132,785)	(49,585)
TOTAL SOURCES	**158,894**	**159,325**	**(431)**

The net invested capital on 31 December 2018, amounting to 158,894 thousand Euros, was funded by Shareholders' equity in the amount of 341,264 thousand Euros from Shareholders' equity and available overall funds of 182,370 thousand Euros.

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

NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2018, compared to 31 December 2017, is detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Cash and cash equivalents, net	67,012	42,075	24,936
Financial loans to subsidiaries	67,655	82,843	(15,188)
Due to banks	(31,535)	(16,250)	(15,285)
Due to subsidiaries	(56,787)	(43,139)	(13,647)
Net financial position short term	**46,345**	**65,530**	**(19,184)**
Long term financial assets	157,096	80,327	76,769
Due to banks	(21,071)	(13,071)	(8,000)
Net financial position long term	**136,024**	**67,256**	**68,769**
Total net financial position	**182,370**	**132,785**	**49,585**

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

RECONCILIATION OF EQUITY AND PROFIT FOR THE YEAR OF THE PARENT COMPANY

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

	31/12/2018		31/12/2017	
(THOUSAND EUROS)	**NET EQUITY**	**NET INCOME**	**NET EQUITY**	**NET INCOME**
Reply S.p.A.'s separate financial statements	**341,264**	**63,580**	**292,110**	**102,068**
Results of the subsidiary companies	226,304	104,708	178,972	84,537
Carrying value of investments in consolidated companies	(68,040)	-	(61,758)	-
Elimination of dividends from subsidiary companies	-	(56,911)	-	(109,064)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(11,600)	(10,392)	(6,585)	1,005
Non controlling interests	(1,315)	(1,071)	(658)	(674)
Net Group consolidated financial statement	**486,612**	**99,913**	**402,072**	**77,871**

CORPORATE GOVERNANCE

The Corporate Governance system adopted by Reply adheres to the Corporate Governance Code for Italian Listed Companies issued by Borsa Italiana S.p.A. in March 2006, which was updated in July 2018, with the additions and amendments related to the specific characteristics of the Group.

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

The Board of Directors, on an annual basis and at the proposal of the Remuneration Committee, establishes a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders’ Meeting called to approve the 2018 financial statements.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

Reply offers high technology services and solutions in a market where innovation is of primary importance.

Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.
Reply dedicates resources to Research and Development activities in order to project and define highly innovative products and services as well as possible applications of evolving technologies. In this context, Reply has developed of its own platforms.

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

HUMAN RESOURCES

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

new solutions enables more rapid and efficient innovation.
The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.
At the end of 2018 the Group had 7,606 employees compared to 6,456 in 2017.

GENERAL DATA PROTECTION REGULATION (GDPR)

The governance model of the Group privacy policy reflects what is required by the existing code for the protection of personal data and the European Regulation 679/16 (GDPR).
Privacy fulfilments are managed uniformly at the Reply Group level in order to maintain adequate levels of internal coherence and to facilitate external relations, in particular with authorities, customers and suppliers.
To ensure compliance in 2018 a GDPR program was implemented, which provided several activities including:

- updating the Group privacy organizational model;
- designation for each Region of a Data Protection Officer;
- GDPR training at all business levels;
- assessment of privacy and security of IT central services;
- drafting of Records of the treatment activities; development and dissemination of new processes.

TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

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

TREASURY SHARES

At the balance sheet date, the Parent Company holds 4,028 treasury shares amounting to 24,502 Euros, nominal value equal to 524 Euros. At the balance sheet item net equity, the company has posted an unavailable reserve for the same amount.
At the balance sheet date, the Company does not hold shares of other holding companies.

FINANCIAL INSTRUMENTS

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

In the notes to the financial statements more detail is provided to the above operations.

EVENTS SUBSEQUENT TO 31 DECEMBER 2018

At the beginning of January 2019 Reply AG acquired Neveling.net GmbH, a company incorporated under the German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies.

OUTLOOK ON OPERATIONS

Reply in the past years has built a solid group, recognized on the market to be a leader not only on technology, but also on the main processes of change that companies are introducing to compete in increasingly global scenarios, characterized by continuous interactions and exchanges between the physical world and the virtual world.

Reply's great competences on the main industrial and commercial sectors allow, in fact, to quickly transform technology in innovation relevant to the customers, supporting them in continuous research of new competitiveness that the markets today are imposing.

An era begins in which many current competitive scenarios are redefined. The process of far-reaching automation, triggered by the interaction of cloud, big data, artificial intelligence and the Internet of Things, influences every industry.

In everyday life, we are supported by increasingly intelligent machines and systems, along with ecosystems based on human-robot collaboration; a new reality is emerging that includes the Inter-net, smart devices, 3D technology and virtual environments.

The upcoming future is overflowing with opportunities, and this allows the Group to look at the future months with reasonable optimism and serenity.

MOTION FOR THE APPROVAL OF THE FINANCIAL STATEMENT AND ALLOCATION OF THE RESULT FOR THE FINANCIAL YEAR

The financial statements at year end 2018 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 63,579,674 Euros and net shareholders' equity on 31 December 2018 amounted to 341,263,668 Euros thus formed:

(EUROS)	**31/12/2018**
Share Capital	4,863,486
Share premium reserve	23,302,692
Legal reserve	972,697
Reserve for treasury shares on hand	24,502
Other reserves	248,520,617
Total share capital and reserves	**277,683,994**
Net income	63,579,674
Total	**341,263,668**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2018 showing a net result of 63,579,674 Euros, proposes that the shareholders resolve:

- to approve the financial statement (Separate Statements) of Reply S.p.A. which records net profit for the financial year of 63,579,674 Euros;
- to approve the motion to allocate the net result of 63,579,674 as follows:
  - › a unit dividend to shareholders amounting to 0,45 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 8 May 2018, coupon cutoff date 6 May 2019 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 7 May 2019;
  - › approving the proposal of attribution to Directors entrusted with operative positions as regards a shareholding in the profits of the Parent Company in accordance with Article 22 of the articles of association, to be established for an overall amount of 3,100,000.00 Euros, corresponding to around 2.1% of the consolidated gross operative margin 2018, (before allocation of the shareholding in profits for Directors invested with operative

positions) calculated at 147,936 thousand Euros, which will be paid taking into account the related reserve funds in the financial statement in compliance with that foreseen in the main IAS/FRS international accounts, ratifying as the related allocation in the statement requires.

Turin, 14 March 2019
For the Board of Directors
The Chairman
Mario Rizzante

CONSOLIDATED FINANCIAL STATEMENT AS AT 31 DECEMBER 2018

CONSOLIDATED INCOME STATEMENT (*)

(THOUSAND EUROS)	NOTE	2018	2017
Revenues	5	1,035,793	884,434
Other income		14,996	17,672
Purchases	6	(20,513)	(15,269)
Personnel	7	(508,652)	(431,555)
Services and other costs	8	(379,730)	(329,924)
Amortization, depreciation and write-downs	9	(13,848)	(12,353)
Other operating and non-recurring (cost)/income	10	4,364	869
Operating income		**132,410**	**113,873**
(Loss)/gain on investments	11	6,862	(585)
Financial income/(expenses)	12	(55)	(2,978)
Income before taxes		**139,217**	**110,310**
Income taxes	13	(38,230)	(31,765)
Net income		**100,987**	**78,545**
Non controlling interest		(1,075)	(674)
Group net result		**99,913**	**77,871**
Earnings per share and diluted	*14*	*2.67*	*2.08*

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 35.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSAND EUROS)	NOTE	2018	2017
Profit of the period (A)		**100,987**	**78,545**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) from employee benefit plans		634	79
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	25	**634**	**79**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		(1,338)	28
Gains/(losses) on exchange differences on translating foreign operations		1,090	(2,155)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**(249)**	**(2,127)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	25	**385**	**(2,049)**
Total comprehensive income (A)+(B)		**101,373**	**76,496**
Total comprehensive income attributable to:			
Owners of the parent		100,298	75,822
Non-controlling interests		1,075	674

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

(THOUSAND EUROS)	NOTE	31/12/2018	31/12/2017
Tangible assets	15	44,452	21,552
Goodwill	16	243,236	166,132
Other intangible assets	17	14,201	15,525
Equity investments	18	47,512	29,201
Other financial assets	19	5,255	6,385
Deferred tax assets	20	27,299	24,661
Non current assets		**381,955**	**263,457**
Inventories	21	77,061	93,651
Trade receivables	22	434,389	357,082
Other receivables and current assets	23	53,642	45,726
Financial assets	19	997	2,042
Cash and cash equivalents	24	128,060	109,195
Current assets		**694,149**	**607,697**
TOTAL ASSETS		**1,076,104**	**871,154**
Share Capital		4,863	4,863
Other reserves		380,521	318,670
Net result of the period		99,913	77,871
Group shareholders' equity	**25**	**485,297**	**401,404**
Non controlling interest	25	1,315	668
NET EQUITY		**486,612**	**402,072**
Due to minority shareholders and Earn-out	26	45,295	22,275
Financial liabilities	27	24,247	14,102
Employee benefits	28	37,738	31,838
Deferred tax liabilities	29	17,128	18,539
Provisions	30	7,021	13,635
Non current liabilities		**131,430**	**100,388**
Financial liabilities	27	38,258	40,105
Trade payables	31	123,387	100,150
Other current liabilities	32	296,109	228,165
Provisions	30	308	274
Current liabilities		**458,061**	**368,693**
TOTAL LIABILITIES		**589,492**	**469,082**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,076,104**	**871,154**

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Statement of Financial Position are reported in the annexed Tables and further described in Note 35.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(THOUSAND EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	TRANSLATION RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	NON-CONTROLLING INTERESTS	TOTAL
On 1 January 2017	**4,863**	**(25)**	**72,836**	**272,007**	**(62)**	**(9,016)**	**(3,586)**	**520**	**337,537**
Dividends distributed	-	-	-	(10,729)	-	-	-	(821)	(11,150)
Total profit (loss	-	-	-	77,871	28	(2,155)	79	674	76,496
Other changes	-	-	-	(707)	-	-	-	296	(411)
On 31 December 2017	**4,863**	**(25)**	**72,836**	**338,442**	**(34)**	**(11,171)**	**(3,508)**	**668**	**402,072**

(THOUSAND EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	TRANSLATION RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	NON-CONTROLLING INTERESTS	TOTAL
On 1 January 2018	**4,863**	**(25)**	**72,836**	**338,442**	**(34)**	**(11,171)**	**(3,508)**	**668**	**402,072**
Dividends distributed	-	-	-	(13,093)	-	-	-	(650)	(13,743)
Total profit (loss	-	-	-	99,913	(1,338)	1,090	634	1,075	101,373
Other changes	-	-	-	(3,312)	-	-	-	222	(3,090)
On 31 December 2018	**4,863**	**(25)**	**72,836**	**421,950**	**(1,372)**	**(10,081)**	**(2,874)**	**1,315**	**486,612**

CONSOLIDATED STATEMENT OF CASH FLOWS

(THOUSAND EUROS)	2018	2017
Group net income	99,913	77,871
Income taxes	38,230	31,765
Amortization and depreciation	13,848	12,353
Other non-monetary expenses/(income)	(12,166)	(5,862)
Change in inventories	16,589	(35,000)
Change in trade receivables	(62,651)	(17,888)
Change in trade payables	8,527	7,414
Change in other assets and liabilities	49,695	24,816
Income tax paid	(31,765)	(21,826)
Interest paid	(696)	(612)
Interest collected	311	171
Net cash flows from operating activities (A)	**119,835**	**73,202**
Payments for tangible and intangible assets	(30,050)	(14,729)
Proceeds/(payments) for financial assets	1,090	(2,165)
Payments for the acquisition of subsidiaries net of cash acquired	(65,219)	(15,918)
Net cash flows from investment activities (B)	**(94,179)**	**(32,812)**
Dividends paid	(13,751)	(11,550)
Proceed from financial liabilities	45,000	-
Repayment of financial liabilities	(20,821)	(19,245)
Other changes	-	291
Net cash flows from financing activities (C)	**10,428**	**(30,504)**
Net cash flows (D) = (A+B+C)	**36,084**	**9,887**
Cash and cash equivalents at the beginning of period	86,398	76,511
Cash and cash equivalents at period end	122,481	86,398
Total change in cash and cash equivalents (D)	**36,084**	**9,887**

DETAIL OF CASH AND CASH EQUIVALENTS

(THOUSAND EUROS)	2018	2017
Cash and cash equivalents at beginning of period:	**86,398**	**76,511**
Cash and cash equivalents	109,195	92,550
Bank overdrafts	(22,798)	(16,039)
Cash and cash equivalents at period end:	**122,481**	**86,398**
Cash and cash equivalents	128,060	109,195
Bank overdrafts	(5,578)	(22,798)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

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

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

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

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

GENERAL PRINCIPLES

The consolidated financial statement is prepared on the basis of the historic cost principle, modified as requested for the appraisal of some financial instruments for which the fair value criterion is adopted in accordance with IFRS 9.

The consolidated financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist with regards its ability to continue as a going concern.

These consolidated financial statements are expressed in thousands of Euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.
Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

FINANCIAL STATEMENTS
The consolidated financial statements include statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.

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

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

BASIS OF CONSOLIDATION

SUBSIDIARIES

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

BUSINESS COMBINATIONS

Acquisition of subsidiary companies is recognized according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company. In addition, any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognized according with IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance with IFRS 5, which are recognized and measured at fair value less selling costs.
The positive difference between the acquisition costs and Group interest of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.

Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognized.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

INVESTMENTS IN ASSOCIATE COMPANIES

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.
Where a group company transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.
With regard to investments in associated companies held, either directly or indirectly through venture capital or similar entities, in order to realize capital gains, these are carried at fair value. This treatment is permitted by IAS 28 "Investments in Associates", which requires that these investments are excluded from its scope and are designated, from the time of initial recognition, at fair value through profit or loss and accounted for in accordance with IFRS 9 " financial instruments: recognition and Measurement "and any change therein is recognized in profit and loss.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

FOREIGN CURRENCY TRANSACTIONS

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

CONSOLIDATION OF FOREIGN ENTITIES

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

The following table summarizes the exchange rates used in translating the 2018 and 2017 financial statements of the foreign companies included in consolidation:

	AVERAGE 2018	ON 31 DECEMBER 2018	AVERAGE 2017	ON 31 DECEMBER 2017
GBP	0.88471	0.89453	0.87615	0.88723
Brazilian Real	4.3085	4.444	3.6041	3.9729
Rumanian Leu	4.654	4.6635	4.5687	4.6585
Belarusian Ruble	2.4057	2.473	2.1837	2.3659
US Dollar	1.181	1.145	1.1293	1.1993
Chinese Yuan	7.8081	7.8751	7.6264	7.8044
Polish Zloty	4.2615	4.3014	4.2563	4.177
Kuna	7.4182	7.4125	7.4644	7.44

TANGIBLE ASSETS

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

Buildings	3%
Equipment	30%
Plants	40%
Hardware	40%
Furniture and fittings	24%

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

GOODWILL

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Group’s interest at the time of acquisition, after having recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their fair value.

Goodwill is not amortized but is (tested for impairment) annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Impairment losses are recognized immediately as expenses that cannot be recovered in the future.
On disposal of a subsidiary or associate, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

OTHER INTANGIBLE ASSETS

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

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

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

development costs are recognized in the statement of income in the period in which they are incurred.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

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

IMPAIRMENT

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

Where the value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any

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

INVESTMENTS IN OTHER COMPANIES

nvestments in other companies that are available-for-sale financial assets are measured at fair value, when this can be reliably determined. Gains or Losses arising from change in fair value are recognized in Other comprehensive income/(losses) until the assets are sold or are impaired, at that time, the cumulative Other comprehensive income/(losses) are recognized in the Income Statement. Investments in other companies for which fair value is not available are stated at cost less any impairment losses.
Dividends received are included in Other income/(expenses) from investments.

In the event of write-down for impairment, the cost is recognized in the income statement; the original value is restored in subsequent years if the assumptions for the write-down no longer exist.

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

CURRENT AND NON CURRENT FINANCIAL ASSETS

Financial assets are recognized in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.
Investments are recognized and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.
At subsequent reporting dates, financial assets that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured and amortized at cost according to the prevailing market interest rate method, less any impairment loss recognized to

reflect irrecoverable amounts.
Investments other than held-to maturity securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where financial assets are held for trading purposes, gains and losses arising from changes in fair value are included in the net profit or loss for the period; for available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired; at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.
This item is stated in the current financial assets.

TRANSFER OF FINANCIAL ASSETS

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

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

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

WORK IN PROGRESS

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

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

CASH

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

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

- **Bank borrowings**
  Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortized cost, using the prevailing market interest rate method.
- **Equity instruments**
  Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.
- **Non current financial liabilities.**
  Liabilities are stated according to the amortization cost.

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

In accordance with IFRS 9, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.
All derivative financial instruments are measured in accordance with IFRS 9 at fair value.
Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately in the Income Statement.
If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For effective hedging against a change in fair value, the hedged item is adjusted by the changes in fair value attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.
Changes in the fair value of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.
Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly related to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the Income Statement.

EMPLOYEE BENEFITS

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the “2007 Finance Law”) and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Consolidated financial statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.
For Italian companies with less than 50 employees, severance pay (“TFR”) remains a “post-employment benefit”, of the “defined benefit plan” type, whose already matured amount must be planned to estimate the amount to settle at the time of annulment of working relations and

subsequently updated, using the “Projected unit credit method”. Such actuarial methodology is based on an assumption of demographic and financial nature in order to carry out a reasonable estimate of the amount of benefits that each employee had already matured based on his employment performances.
Through actuarial valuation, current service costs are recognized as “personnel expenses” in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the interest cost is recognized as “Financial gains or losses” and represents the figurative expenditure the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities (“TFR”).
Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders’ equity without being ever included in the consolidated income statement.

PENSION PLANS

According to local conditions and practices, some employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.

In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.
The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the “ongoing single premiums” method. The portion of net cumulative actuarial gains and losses which exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.

The post-employment benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, arising from the application of the corridor method and past service costs to be recognized in future years, reduced by the fair value of plan assets.

SHARE-BASED PAYMENT PLANS

The Group has applied the standard set out by IFRS 2 “Share-based payment”. Share-based payments are measured at fair value at granting date. Such amount is recognized in the

Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis over the "vesting period". The fair value of the option, measured at the granting date, is measured through actuarial calculations, taking into account the terms and conditions of the options granted. Following the exercise of the options assigned in previous years, the Group has no more stock option plans.
For cash-settled share-based payment transactions, the Group measures the goods and services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with the changes in value recognized in profit or loss for the period.

PROVISIONS AND RESERVES FOR RISKS

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

REVENUE RECOGNITION

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.
Revenue from sales and services is recognized when control over the goods or services is transferred to the customer.
Revenues from sales of products are recognized when control over the goods is transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognized.

GOVERNMENT GRANTS

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

TAXATION

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the

liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

DIVIDENDS

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

EARNINGS PER SHARE

Basic earnings per share is calculated with reference to the profit for the period of the Group and the weighted average number of shares outstanding during the year. Treasury shares are excluded from this calculation.

Diluted earnings per share is determined by adjusting the basic earnings per share to take account of the theoretical conversion of all potential shares, being all financial instruments that are potentially convertible into ordinary shares, with diluting effect.

USE OF ESTIMATIONS

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

CHANGES IN ACCOUNTING PRINCIPLES

The accounting principles newly adopted by the Group and their outcomes are described in the subsequent paragraph "Accounting principles, amendments and interpretations applied since 1 January 2018. There have been no further changes other than those described in the aforementioned paragraph.

CHANGES IN ACCOUNTING ESTIMATES AND RECLASSIFICATIONS

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

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED SINCE JANUARY 1ST, 2018

The Group adopted for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.
The nature and the impact of each amendment is described below:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.
There is no effect of adopting IFRS 15 over the Group.

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.
Revenue from sales and services is recognized when control over the goods or services is transferred to the customer.
Revenues from sales of products are recognized when control over the goods is transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognized.

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

There are no effects of adopting IFRS 15 over the Group.

a) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Loans included under Other non-current financial assets.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognized under accumulated OCI, was reclassified to Retained earnings.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognized in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group's debt instruments at FVOCI comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 did not result in a significant impact in impairment allowances of the Group's debt financial assets.

c) Hedge accounting

The Group applied hedge accounting prospectively. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing

hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's financial statements.
Under IAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of IFRS 9, the Net gain or loss on cash flow hedges was presented under 'Other comprehensive income not to be reclassified to profit or loss in subsequent periods'. This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the presentation of comparative figures.

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

AMENDMENTS TO IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

AMENDMENTS TO IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES - CLARIFICATION INVESTEES AT FAIR VALUE THROUGH PROFIT OR LOSS IS AN INVESTMENT-BY-INVESTMENT CHOICE THAT MEASURING

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable when they become effective.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets

that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.
The Group will apply these amendments when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Anticipated application is allowed, but not before the entity has adopted IFRS 15. A lessee may choose to apply IFRS 16 using a retrospective approach or a modified retrospective approach. Transitional rules provided by IFRS 16 require some facilities.
The main impacts on the consolidated financial statements of the Group, which are still being assessed and refined, may be summarized as follows:

- Statements of financial position: higher non-current assets due to the recognition of “Right of Use” as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be recognized between 82 and 92 million euros during the transition.
- Separate income statements: a positive impact on EBITDA, due to the different nature, description, and classification of expenses (the amortization of “user rights for the asset” and “financial expense for interest” instead of “Lease and rental costs – payments for operating leases”, as per IAS 17), between 2.0 and 2.5 percentage points. Furthermore, the combination of the straight-line amortization of “user rights for the asset” and the application of the effective interest rate method for lease liabilities will result in higher total income statement expenses in the first few years, compared to IAS 17, and decreasing total expenses in the last years of the lease.
- Statements of Cash Flows: lease payments for the principal of the debt repayment will be reclassified from "Cash flows from operating activities" to "Cash flows from financing activities".

The process of implementing the new accounting standard requires significant updates and modifications on the IT systems, modification and updating of the control and compliance models and of their processes. The impacts are based on the results of the analyses at the date of these financial statements and may change as the implementation process is still ongoing.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is

recognized in profit or loss.
An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.
The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.
These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.
The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

NOTE 3 - RISK MANAGEMENT

CREDIT RISK

For business purposes, specific policies are adopted to assure its clients' solvency.

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

LIQUIDITY RISK

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

The cash flows, funding requirements and liquidity of the Group companies are monitored and centrally managed under the control of the Group Treasury. The aim is to guarantee the efficiency and effectiveness of the management of current and perspective capital resources (maintaining an adequate level of reserves of liquidity and availability of funds via a suitable amount of committed credit lines).

The difficult economic situation of the markets and of financial markets necessitates special attention being given to the management of the liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and maintaining an adequate level of liquid assets. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

EXCHANGE RATE AND INTEREST RATE RISK

The Group entered into most of its financial instruments in Euros, which is its functional and presentation currency. Although it operates in an international environment, it has a limited exposure to fluctuations in the exchange rates.

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

The interest rate risk to which the Group is exposed derives from bank loans; to mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as "cash flow hedges".

The use of such instruments is disciplined by written procedures in line with the Group's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 4 - CONSOLIDATION

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

Change in consolidation compared to 31 December 2017 are related to:

- Valorem LLC, a US-based company acquired in the month of April 2018 and that specializes in Digital Strategy consulting and the implementation of Cloud, Analytics and differentiated User Experiences;
- Modcomp GmbH, and its subsidiaries CSPI GmbH (now named Spike Reply GmbH) and MCG Systems AG, a company acquired in the month of July 2018 under German law specializing in Security Solutions, of which Reply AG holds 100% of the share capital.
- Elbkind GmbH, a company acquired in the month of November 2018 under German law, a digital communication agency specializing in boosting conversations and placing brands and

products on social channels.

Change in the consolidation does not significantly affect the Group's revenues and profits before tax on 31 December 2018 (approximately 3.5% and 2.0% respectively on revenues and profits before tax).

Furthermore, the list of the Reply Group's companies and equity investments, presented as an annex herein, also includes in consolidation the following newly incorporated companies with respect to 31 December 2018:

- Sprint Reply S.r.l., a company incorporated in the month of December 2017 under Italian law of which Reply S.p.A. holds 100% of the share capital;
- Go Reply GmbH, a company incorporated in the month of January 2018 under German law in which the subsidiary Reply AG holds 100% of the share capital;
- Portaltech Reply Sud GmbH, a company incorporated in the month of January 2018 under German law in which the subsidiary Reply AG holds 100% of the share capital;
- Envision Reply S.r.l., a company incorporated in the month of March 2018 under Italian law of which Reply S.p.A. holds 88% of the share capital.

NOTE 5 - REVENUE

Revenues from sales and services, including changes in work in progress on orders, amounted to 1,035,793 thousand Euros (884,434 thousand Euros in 2017).
This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.

The following table shows the percentage breakdown of revenues by geographic area. Moreover, the breakdown reflects the business management of the Group by Top Management and the allocation approximates the localization of services provided:

REGION (*)	2018	2017
Region 1	68.5%	68.2%
Region 2	19.8%	17.9%
Region 3	11.5%	13.7%
IoT Incubator	0.2%	0.2%
Total	**100.0%**	**100.0%**

(*)
Region 1: ITA, USA, BRA, POL, ROU
Region 2: DEU, CHE, CHN, HRV
Region 3: GBR, LUX, BEL, NLD, FRA, BLR

Disclosure required by IFRS 8 (“Operating segment”) is provided in Note 33 herein.

NOTE 6 - PURCHASES

Detail is as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
Software licenses for resale	12,109	8,982	3,127
Hardware for resale	2,686	933	1,752
Other	5,718	5,353	364
Total	**20,513**	**15,269**	**5,244**

Purchases of Software licenses and Hardware licenses for resale are recognized net of any change in inventory.
The item Other includes the purchase of fuel for 2,801 thousand Euros and the purchase of consumption material for 1,259 thousand Euros.

NOTE 7 - PERSONNEL

Detail is as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
Payroll employees	472,132	405,656	66,475
Executive Directors	36,520	25,899	10,621
Total	**508,652**	**431,555**	**77,097**

The increase in the cost of employees, amounting to 77,097 thousand Euros, is attributable to the total registered increase in the Group's business and in the increase in employees.

Detail of personnel by category is provided below:

(NUMBER)	2018	2017	CHANGE
Directors	262	234	28
Managers	847	726	121
Staff	6,497	5,496	1,001
Total	**7,606**	**6,456**	**1,150**

On 31 December 2018 the Group had 7,606, employees compared with 6,456 at the end of 2017.
Change in consolidation brought an increase of 520 employees.
The average number of employees in 2018 was 7,041 marking an increase with respect to 6,291 in the previous year.
Payroll employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Universities.

NOTE 8 - SERVICES AND OTHER COSTS

Services and other costs comprised the following:

(THOUSAND EUROS)	2018	2017	CHANGE
Commercial and technical consulting	227,064	200,952	26,112
Travelling and professional training expenses	37,269	30,922	6,347
Other services costs	65,016	54,365	10,651
Office expenses	27,776	24,979	2,797
Lease and rentals	8,547	8,370	176
Other	14,059	10,336	3,723
Total	**379,730**	**329,924**	**49,806**

The change in Services and other costs, amounting to 49,806 Euros, is attributable to an overall increase in the Group's business.

The item Other services mainly include marketing services, administrative and legal services, telephone and canteen.

Office expenses include services rendered by third parties for 492 thousand Euros and related parties for 1,098 thousand Euros, in connection to service contracts for the use of premises, domiciliation and provision of secretarial services, and rent charged by third parties for 18,220 thousand Euros. This item also includes utility expense for 4,960 thousand Euros.

NOTE 9 - AMORTIZATION, DEPRECIATION AND WRITE DOWNS

Depreciation of tangible assets, calculated on the basis of economic-technical rates determined in relation to the residual useful lives of the assets, resulted in an overall charge as at 31 December 2018 of 8,379 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization of intangible assets for the year ended 2018 amounted to an overall loss of 5,469 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

NOTE 10 - OTHER OPERATING AND NON-RECURRING INCOME/ (EXPENSES)

Other operating and non-recurring income amounted to 4,364 thousand Euros (869 thousand Euros in 2017) and refer to:

- other operating income amounting to 2,942 thousand Euros in relation to write-offs of provision and write-off of provisions made to adjust asset items;
- other non-recurring items amounting to positive 1,422 thousand Euros in relation to the fair value adjustment of the liability referred to the deferred consideration for the acquisition of shareholdings in subsidiary companies (Business combination).

NOTE 11 - (LOSS)/GAIN ON INVESTMENTS

This item amounting to positive 6,862 thousand Euros is related to:

- the fair value of investments resulting in a gain of 11,450 thousand Euros;
- impairment of investments in the amount of 4,588 thousand Euros.

NOTE 12 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
Financial income	361	401	(40)
Interest expenses	(1,224)	(816)	(408)
Other	808	(2,563)	3,371
Total	**(55)**	**(2,978)**	**2,923**

Financial gains mainly include interest on bank accounts amounting to 311 thousand Euros.
Interest expenses mainly include expenses related to loans for M&A operations.

The item Other includes:

- the Exchange rate differences from the translation of balance sheet items not stated in Euros in a net income of 30 thousand Euros;
- the net changes in fair value of Convertible Loans including capitalized interest amounting to 1,024 thousand Euros;
- the changes in fair value of financial liabilities pursuant to IFRS 9 in a net loss of 158 thousand Euros.

NOTE 13 - INCOME TAXES

Income taxes for the financial year ended 2018 amounted to 38,230 thousand Euros and is detailed as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
IRES and other taxes	38,412	35,668	2,743
IRAP (Italy)	5,812	5,376	435
Current taxes	**44,223**	**41,045**	**3,179**
Deferred tax expenses	452	794	(342)
Deferred tax income	(5,997)	(9,841)	3,844
Deferred taxes	**(5,545)**	**(9,046)**	**3,501**
Previous year taxes	(448)	(233)	(215)
Total income taxes	**38.230**	**31.765**	**6.465**

The tax burden on the result before taxes was equivalent to 27.5% (28.8% in the financial year of 2017).

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

PROFIT/(LOSS) BEFORE TAXES FROM CONTINUING OPERATIONS	**139,217**	
Theoretical income taxes	33,412	24.0%
Effect of fiscal permanent differences	(1,973)	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	978	
Other differences	1	
Current and deferred income tax recognized in the financial statement excluding IRAP	**32,418**	**23.3%**
IRAP current and deferred	5,812	4.2%
Current and deferred income recognized in the financial statements	**38,230**	**27.5%**

In order to render the reconciliation between income taxes recognized in the financial statements and theoretical income taxes more meaningful, IRAP tax is not taken into consideration since it has a taxable basis that is different from the result before tax of continuing operations. Theoretical income taxes are therefore calculated by applying only the tax rate in effect in Italy ("IRES"), equal to 24.0%, on the result before tax of continuing operations.

NOTE 14 - EARNINGS PER SHARE

The basic and diluted earnings per share as at 31 December 2018 was calculated on the basis of the Group's net result amounting to 99,913 thousand Euros (77,871 thousand Euros as at 31 December 2017) divided by the weighted average number of shares, net of treasury shares, as at 31 December 2018 which amounted to 37,407,400 (37,407,400 as at 31 December 2017).

(EUROS)	**2018**	**2017**
Group net result	99,913,000	77,871,000
Average no. shares	37,407,400	37,407,400
Earnings per share	2.67	2.08

NOTE 15 - TANGIBLE ASSETS

Tangible assets as at 31 December 2018 amounted to 44,452 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Buildings	18,480	2,067	16,413
Plant and machinery	3,868	3,419	448
Hardware	6,134	4,877	1,258
Other	15,970	11,189	4,781
Total	**44,452**	**21,552**	**22,900**

Change in tangible assets during 2018 is summarized below:

(THOUSAND EUROS)	BUILDINGS	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical Cost	4,469	10,900	31,807	24,958	72,134
Accumulated depreciation	(2,402)	(7,480)	(26,931)	(13,769)	(50,581)
31/12/2017	**2,067**	**3,419**	**4,877**	**11,189**	**21,552**
Historical Cost					
Increases	16,566	1,736	4,269	7,203	29,774
Disposals	-	(104)	(549)	(1,024)	(1,677)
Change in consolidation	-	190	1,802	2,067	4,059
Other changes	6	-	(69)	(47)	(111)
Accumulated depreciation					
Depreciation	(154)	(1,448)	(3,613)	(3,164)	(8,379)
Utilized		63	435	228	726
Change in consolidation	-	-	(1,213)	(482)	(1,694)
Other changes	(5)	11	196	(1)	201
Historical Cost	21,041	12,722	37,260	33,157	104,180
Accumulated depreciation	(2,561)	(8,854)	(31,126)	(17,187)	(59,728)
31/12/2018	**18,480**	**3,868**	**6,134**	**15,970**	**44,452**

During the financial year the Group carried out total investments 29,774 thousand Euros (10,871 thousand Euros at 31 December 2017).

The item Buildings mainly includes the net value of a building owned by the group amounting to 4,073 thousand Euros, located in Gutersloh, Germany. In 2018 the Group has invested approximately 2,304 thousand Euros to extend the office spaces.

In the month of April 2018 Reply finalized the acquisition of the real estate complex located in Turin and called “ex Caserma De Sonnaz” in the amount of 13,100 thousand Euros. The property, after proper innovation, will be used to host the offices of the Group.

Increase in the item Plant and machinery mainly refers to purchases of general devices and to plant systems for the offices in which the Group operates. In addition, this item includes financial leases for 315 thousand Euros.

Change in the item Hardware is due to investments made by companies included in Region 1 for 1,892 thousand Euros, 1,834 thousand Euros for purchases made by the companies included in Region 2 and 543 thousand Euros for purchases made by the companies included in Region 3. Furthermore, this item includes financial leases for 137 thousand Euros (389 at 31 December 2017).

The item Other as at 31 December 2018 mainly includes improvements to third party assets and office furniture. The increase of 7,203 thousand Euros mainly refers to the purchase of furniture and fittings for 3,235 thousand Euros and to improvements made to the offices where the Group’s companies operate for 2,539 thousand Euros. Such item also includes a financial leasing for furniture for a net value amounting to 793 thousand Euros (1,399 thousand Euros at 31 December 2017).

Other changes mainly refer to translation differences.

As at 31 December 2018 tangible assets were depreciated by 57.3% of their value, compared to 70.1% at the end of 2017.

NOTE 16 - GOODWILL

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

Goodwill in 2018 developed as follows:

(THOUSAND EUROS)	
Beginning balance	**166,132**
Increases	75,259
Other changes	2,371
Impairment	-
Total	**243,762**
Exchange rate differences	(526)
Ending balance	**243,236**

Increase in Goodwill compared to 31 December 2017 owes to:

- the acquisition of Valorem, a company incorporated under American law (Region 1) by Reply Inc.;
- the acquisition of Modcomp GmbH, and its subsidiaries CSPi GmbH (now named Spike GmbH) and MCG Systems AG, companies incorporated under German law, acquired by the subsidiary Reply AG;
- the acquisition of Elbkind GmbH, a company incorporated under German law, acquired by the subsidiary Reply AG.

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

(THOUSAND EUROS)	FAIR VALUE [*]
Tangible and intangible assets	5,374
Trade receivables and other current assets	14,656
Cash and cash equivalents	3,807
Financial liabilities, net	36
Trade payables and other current liabilities	(14,710)
Deferred tax liabilities, net	437
Net assets acquires	**9,600**
Transaction value	84,859
Goodwill	**75,259**

[*] book value is equal to fair value

At 31 December 2018 no impairment indicators were emerged.

Goodwill was allocated to the cash generating units ("CGU"), identified in the Region in which the Group operates. Moreover, the breakdown reflects the business management of the Group by Top Management and is summarized as follows:

(THOUSAND EUROS)	AT 31/12/2017	INCREASES	OTHER MOVEMENTS	TRANSLATION DIFFERENCES	AT 31/12/2018
Region 1	48,252	39,351	2,371	-	89,974
Region 2	63,984	35,908		-	99,892
Region 3	53,895	-		(526)	53,369
Total	**166,132**	**75,259**	**2,371**	**(526)**	**243,236**

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

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

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

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

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

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

ASSUMPTION	REGION 1	REGION 2	REGION 3
Terminal value growth rates:	1%	1%	1%
Discount rate, net of taxes:	8.42%	5.91%	7.13%
Discount rate, before taxes:	11.09%	8.44%	8.80%
Multiple of EBIT	10.0	10.0	10.0

As to all CGUs subject to the impairment tests at 31 December 2018 no indications emerged that such businesses may have been subject to impairment.
The positive difference between the value in use thus estimated on the accounting value of the net invested capital on 31 December 2018 of the CGU is equal to 274.2% for Region 1, 223.1% for Region 2 and 49.7% for Region 3.

Reply has also developed a sensitivity analysis of the estimated recoverable value. The Group considers that the growth rate of revenues and the discount rate are key indicators in estimating the fair value and has therefore determined that:

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

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

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

NOTE 17 - OTHER INTANGIBLE ASSETS

Net intangible assets as at 31 December 2018 amounted to 14,201 thousand Euros (15,525 thousand Euros on 31 December 2017) and are detailed as follows:

(THOUSAND EUROS)	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE 31/12/2018
Development costs	28,524	(23,940)	4,584
Software	26,270	(22,459)	3,811
Trademark	537	-	537
Other intangible assets	7,944	(2,675)	5,270
Total	**63,275**	**(49,074)**	**14,201**

Change in intangible assets during 2018 is summarized in the table below:

(THOUSAND EUROS)	NET BOOK VALUE 31/12/2017	INCREASES	AMORTIZATION	CHANGE IN CONSOLIDATION	OTHER CHANGES	NET BOOK VALUE 31/12/2018
Development costs	6,032	1,615	(3,063)	-	-	4,584
Software	3,242	1,381	(1,566)	568	186	3,811
Trademark	537	-	-	-	-	537
Other intangible assets	5,716	136	(841)	436	(178)	5,270
Total	**15,525**	**3,132**	**(5,469)**	**1,004**	**8**	**14,201**

Development costs refer to software products and are accounted for in accordance with provisions of IAS 38.
The item Software mainly refers to software licenses purchased and used internally by the Group companies. This item includes 817 thousand Euros related to software development for internal use.
The item Trademark mainly refers to the value of the “Reply” trademark granted on 9 June 2000 to the Parent Company Reply S.p.A. (at the time Reply Europe Sàrl), in connection with the share capital increase that was resolved and subscribed to by the Parent Company. Such amount is not subject to systematic amortization.
The item Other intangible assets is related to the consolidation difference (Purchase price allocation) following several Business combinations related to previous years.

NOTE 18 - EQUITY INVESTMENTS

The item Equity investments amounts to 47,512 thousand Euros and includes for 9 thousand Euros several subsidiary companies that were not consolidated as they were not operational at the closing date and for 47,503 to investments in start-up companies in the IoT field made by the Investment company Breed Investments Ltd.

Note that the investments in equity investments mainly held through an Investment Entity are designated at fair value and accounted for in accordance with IFRS 9 “Financial Instruments: Recognition and Measurement”. The fair value is determined using the International Private Equity and Venture Capital valuation guideline (IPEV) and any change therein is recognized in profit (loss) in the period in which they occurred.
Detail is as follows:

(THOUSAND EUROS)	VALUE AT 31/12/2017	NEW INCREASES 2018	FOLLOW-ON INVESTMENTS	NET FAIR VALUE ADJUSTMENTS	DECREASES	CONVERTIBLE LOANS CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2018
Investments	29,186	5,644	5,007	6,862	(1,125)	1,994	(66)	47,503

NEW INCREASES 2018

The increases of the period are related to:

TAG SENSORS (1,071 thousand Euros)

Tag Sensors have developed the first low-cost, full visibility solution that ensures and proves that temperature sensitive foods and pharmaceutical products have been stored and transported within the temperature limits, from production to consumption. Through optimal monitoring, data analysis, and management of temperatures and other variables of perishable goods during transportation, TAG Sensors enables food and pharmaceutical corporations to improve quality control and better prevent spoilage.

METRON SAS (1,870 thousand Euros)

The digitalization of industries and the development of fully distributed energy systems foster the emergence of the Internet of Energy. METRON opens the way for this new paradigm by helping industrial clients leverage untapped industrial data and connect to decentralized energy resources. METRON Energy Virtual Assistant analyses data generated by industrial systems in real-time and offers a deep understanding of complex energy patterns. Factories become energy transparent: advanced optimizations are operated directly by the platform according to the context and tangible energy savings ensure robust paybacks in all industries.

CAGE EYE (1,472 THOUSAND EUROS)

CageEye, headquartered in Oslo, has developed a technology that combines a hydroacoustic system that measures the behavior and appetite level of the biomass (fish) with continuous extensive analytics, enabling farmers to make informed decisions based on new insights; the easy-to-install solutions, developed in collaboration with the Norwegian Institute of Marine Research, delivers automated, appetite-controlled feeding that can substantially reduce feed waste - a significant cost for producers. Some of the world's leading salmon producers in Norway are already benefiting from the system and CageEye has identified opportunities to expand the use of the technology in Canada, Chile, Tasmania and Scotland, as well as with other aquaculture species.

UBIRCH (1,231 THOUSAND EUROS)

Ubirch, based in Cologne and Berlin, has built a process that enables a continuous chain of security and confidentiality for the collection, handling, and storage of data. This chain begins with an extreme lightweight blockchain client that can be operated on any IoT sensor, even on batteries. Each sensor that runs this protocol has a private key that generates a digital signature for every measurement that is being transmitted, thus both identity and integrity of the IoT data can be verified by anyone on the receiver side. The Ubirch solution, which is hardware agnostic, enables a wide range of IoT applications for infrastructures, buildings, machines, and devices with clients in the insurance, telecoms and manufacturing industries.

FOLLOW-ON INVESTMENTS

The increase is related to follow-on investments already existing at December 31, 2017.

NET FAIR VALUE ADJUSTMENTS

The net fair value adjustment amounting to 6,862 thousand Euros reflects the market values of the last rounds that took place in 2018 on investments already in portfolio.

CONVERTIBLE LOANS CONVERSION

The increase is related to the conversion of Convertible Loans in shares of several equity investments.

All fair value assessments shall be part of the hierarchy level 3.

NOTE 19 - FINANCIAL ASSETS

Current and non-current financial assets amounted to a total of 6,253 thousand Euros with compared to 8,427 thousand Euros as at 31 December 2017.

Detail is as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Receivables from insurance companies	3,127	3,242	(116)
Guarantee deposits	1,115	1,275	(160)
Financial receivables from not consolidated subsidiaries	300	-	300
Other financial assets	32	15	17
Convertible loans	982	1,853	(871)
Short term securities	697	2,042	(1,345)
Total	**6,253**	**8,427**	**(2,175)**

The item Receivables from insurance companies mainly refers to the insurance premiums paid against pension plans of some German companies and to directors' severance indemnities.

Convertible loans relate to the option to convert into shares of the following start-up company in the field of IoT, detail is as follows:

(THOUSAND EUROS)	VALUE AT 31/12/2017	INCREASES	CAPITALIZED INTERESTS	NET FAIR VALUE ADJUSTMENTS	DECREASES	EQUITY CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2018
Convertible loans	1,853	634	83	941	(502)	(1,994)	(32)	**982**

INCREASES

The amount is referred to new investments in convertible loans during the year.

NET FAIR VALUE EVALUATION

The net fair value adjustments reflect the market value of the activities.

CONVERSION IN EQUITY

The decrease is related to the conversion of the loans into equity investments inclusive of fair value adjustments.

Short term securities mainly refer to Time Deposit investments.

Note that the items Receivables from insurance companies, Convertible loans, guarantee deposits and Other financial assets are not shown in Net financial position.

NOTE 20 - DEFERRED TAX ASSETS

Deferred tax assets, amounting to 27,299 thousand Euros as at 31 December 2018 (24,661 thousand Euros as at 31 December 2017), include the fiscal charge corresponding to the temporary differences originating among the anti-tax result and taxable income relating to entries with deferred deductibility.

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

(THOUSAND EUROS)	31/12/2017	ACCRUALS	UTILIZATION	OTHER MOVEMENTS	31/12/2018
Prepaid tax on costs that will become deductible in future years	6,355	942	(898)	901	7,300
Prepaid tax on greater provisions for doubtful accounts	7,508	978	(2,044)	-	6,442
Deferred fiscal deductibility of amortization	1,714	331	(245)	-	1,799
Consolidation adjustments and other items	9,085	7,517	(2,476)	(2,368)	11,758
Total	**24,661**	**9,768**	**(5,663)**	**(1,467)**	**27,299**

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

There are no deferred tax assets on losses carried forward.

NOTE 21 - WORK IN PROGRESS

Work in progress, amounting to 77,061 thousand Euros, is detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Contract work in progress	131,663	279,489	(147,826)
Advance payments from customers	(54,602)	(185,838)	131,236
Total	**77,061**	**93,651**	**(16,589)**

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

NOTE 22 - TRADE RECEIVABLES

Trade receivables as at 31 December 2018 amounted to 434,389 thousand Euros with a net increase of 77,306 thousand Euros.

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Domestic clients	324,047	271,043	53,004
Foreign trade receivables	120,511	89,519	30,992
Credit notes to be issued	(4,440)	(498)	(3,942)
Total	**440,118**	**360,064**	**80,054**
Allowance for doubtful accounts	(5,729)	(2,982)	(2,748)
Total trade receivables	**434,389**	**357,082**	**77,306**

Trade receivables are shown net of allowances for doubtful accounts amounting to 5,729 thousand Euros on 31 December 2018 (2,982 thousand Euros at 31 December 2017).

The Allowance for doubtful accounts developed in 2018 as follows:

(THOUSAND EUROS)	31/12/2017	ACCRUALS	UTILIZATION	REVERSAL	31/12/2018
Allowance for doubtful accounts	2,982	3,823	(537)	(539)	5,729

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2017, are summarized in the tables below:

AGING AT 31/12/2018

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	440,118	394,432	37,786	2,719	2,281	2,901	45,687
Allowance for doubtful accounts	(5,729)	(229)	(160)	(1,146)	(1,776)	(2,406)	(5,489)
Total trade receivables	**434,389**	**394,203**	**37,625**	**1,573**	**505**	**495**	**40,198**

AGING AT 31/12/2017

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	360,064	319,343	34,490	3,797	1,787	647	40,721
Allowance for doubtful accounts	(2,982)	-	(700)	(399)	(1,287)	(596)	(2,982)
Total trade receivables	**357,082**	**319,343**	**33,790**	**3,399**	**500**	**50**	**37,739**

The carrying amount of Trade receivables is in line with its fair value.
Trade receivables are all collectible within one year.

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Tax receivables	21,486	24,227	(2,741)
Advances to employees	125	349	(224)
Accrued income and prepaid expenses	18,590	11,762	6,828
Other receivables	13,441	9,388	4,053
Total	**53,642**	**45,726**	**7,915**

The item Tax receivables mainly includes:

- credits to the Treasury for VAT (16,812 thousand Euros);
- income tax prepayments net of the allocated liability (1,722 thousand Euros);
- receivables for withholding tax (479 thousand Euros).

The item Other receivables mainly includes the contributions receivable in relation to research projects for 6,742 thousand Euros (6,653 thousand Euros at 31 December 2017).

NOTE 24 - CASH AND CASH EQUIVALENTS

The balance of 128,060 thousand Euros, with an increase of 18,864 thousand Euros compared with 31 December 2017, represents cash and cash equivalents as at the end of the year.

Changes in cash and cash equivalents are fully detailed in the Consolidated statement of cash flow.

NOTE 25 - SHAREHOLDERS' EQUITY

SHARE CAPITAL

On 31 December 2018 the share capital of Reply S.p.A, wholly undersigned and paid up, was amounting to 4,863,486 Euros and is composed of n. 37,411,428 ordinary shares with nominal value of 0.13 Euros each.

CAPITAL RESERVES

The value of the Treasury shares, amounting to 25 thousand Euros, refers to the shares of Reply S.p.A. held by the parent company, that at 31 December 2018 were equal to n. 4,028.

CAPITAL RESERVES

On 31 December 2018 Capital reserves, amounting to 72,836 thousand Euros, were mainly comprised as follows:

- Share premium reserve amounting to 23,303 thousand Euros;
- Treasury share reserve amounting to 25 thousand Euros, relating to the shares of Reply

S.p.A held by the Parent Company;

- Reserve for the purchase of treasury shares amounting to 49,976 thousand Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 23 April 2018 Reply S.p.A. re-authorized it, in accordance with and for the purposes of Article 2357 of the Italian Civil Code, the purchase of a maximum of 50 million Euros of ordinary shares, corresponding to 20% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

EARNING RESERVES

Earnings reserves amounted to 421,950 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 973 thousand Euros;
- Retained earnings amounted to 321,065 thousand Euros (retained earnings amounted to 259,599 thousand Euros on 31 December 2017);
- Profits attributable to shareholders of the Parent Company amounted to 99,913 thousand Euros (77,871 thousand Euros as on 31 December 2017).

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017
Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax:		
Actuarial gains/(losses) from employee benefit plan	634	79
Total Other comprehensive income that will not be classified subsequently to profit or loss, net of tax (B1):	**634**	**79**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(1,338)	28
Gains/(losses) from the translation of assets in foreign currencies	1,090	(2,155)
Total Other comprehensive income that may be classified subsequently to profit or loss, net of tax (B2):	**(249)**	**(2,127)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**385**	**(2,049)**

SHARE BASED PAYMENT PLANS

There are no stock option plans resolved by the General Shareholders' meetings.

NOTE 26 - DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out owed on 31 December 2018 amount to 45,295 thousand Euros inclusive of an exchange difference amounting to 98 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2017	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	EXCHANGE DIFFERENCES	31/12/2018
Payables to minority shareholders	10,118	16,901	(2,533)	(620)	(50)	23,817
Payables for earn-out	12,157	11,079	291	(2,001)	(48)	21,478
Total due to minority shareholders and Earn-out	**22,275**	**27,980**	**(2,242)**	**(2,621)**	**(98)**	**45,295**

The increase in this item amounting to 27,980 thousand Euros reflects the best estimate of the liability for the option to acquire the minority shares in future reporting periods, subject to the achievement of profitability parameters contractually defined and the best estimate of future considerations for earn-outs in relation to the original contracts signed.

In particular:

- Valorem LLC, a US-based company acquired in the month of April 2018, of which Reply Inc. holds 70% of the share capital.
- Modcomp GmbH, and its subsidiaries CSPI GmbH (now named Spike Reply GmbH) and MCG Systems AG, a company acquired in the month of July 2018 under German law specializing in Security Solutions.
- Elbkind GmbH, a company acquired in the month of November 2018 under German law and located in Hamburg, of which Reply AG holds 100% of the share capital.

The item Fair value adjustments in 2018 amounted to 2,242 thousand Euros with a balancing entry in Profit and loss, reflects the best estimate in relation to the deferred consideration originally posted at the time of acquisition.

Total payments made amounted to 2,621 thousand Euros and refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

NOTE 27 - FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2018			31/12/2017		
(THOUSAND EUROS)	**CURRENT**	**NON CURRENT**	**TOTAL**	**CURRENT**	**NON CURRENT**	**TOTAL**
Bank overdrafts	5,578	-	5,578	22,798	-	22,798
Bank loans	31,990	23,366	55,356	16,365	13,381	29,746
Total due to banks	**37,569**	**23,366**	**60,935**	**39,163**	**13,381**	**52,544**
Other financial borrowings	689	881	1,570	942	721	1,663
Total financial liabilities	**38,258**	**24,247**	**62,505**	**40,105**	**14,102**	**54,207**

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

	31/12/2018				31/12/2017			
(THOUSAND EUROS)	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Bank overdrafts	5,578	-	-	5,578	22,798	-	-	22,798
FM&A loans	30,214	8,571	-	38,786	16,267	13,209	-	29,476
Mortgage loans	455	4,235	10,560	15,250	115	172	-	288
Other financial borrowings	689	881	-	1,570	942	722	-	1,663
Other	1,321	-	-	1,321	(17)	-	-	(17)
Total	**38,258**	**13,687**	**10,560**	**62,505**	**40,105**	**14,102**	**-**	**54,207**

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

Summarized below are the existing contracts entered into for such a purpose:

- On 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan is reimbursed on a half-year basis deferred to commence on 30 June 2016 and is expired on 31 December 2018. Such loan is entirely reimbursed at 31 December 2018.
- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
  - › Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the

credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line was used for 3,000 thousand Euros at 31 December 2018.
    - Tranche B, amounting to 20,000,000 Euros, to be used by 30 December 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 8,571 thousand Euros at 31 December 2018.
- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500,000 was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500 thousand Euros at 31 December 2018.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa San Paolo S.p.A. for a total amount of 49,000 thousand Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. Such credit line was used for 25,714 thousand Euros at 31 December 2018.
- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 28 February 2018. As at December 31, 2018 this line had not been used.

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

As contractually defined, such ratios are as follows:
- Net financial indebtedness/Equity
- Net financial indebtedness/EBITDA

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

The item Mortgages refers to financing granted to Tool Reply GmbH, for the acquisition of the building where the German company has its registered office.
Reimbursement takes place via six monthly instalments (at 4.28%) with expiry on 30 September 2019.
It should be noted that during the year 2018 Tool Reply GmbH entered into a line of credit with

Commerzbank for a total amount of 2,500 thousand Euros to be used by 28 June 2018. The loan is reimbursed on a quarterly basis (at an interest rate of 0.99%).
It should also be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000 thousand Euros and for a maximum duration of 156 months (13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. On 25 May 2018 the first disbursement of 12,500 thousand Euros was made.

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

The item Others mainly refers to the evaluation of derivative hedging instruments. The underlying IRS amounted to 47,000 thousand Euros.

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

NET FINANCIAL POSITION

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's Recommendations for the consistent implementation of the European's regulation on Prospectuses issued on 10 February 2005, the Net financial position of the Reply Group at 31 December 2018.

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Cash and cash equivalents	128,060	109,195	18,864
Current financial assets	997	2,042	(1,045)
Total financial assets	**129,057**	**111,238**	**17,820**
Current financial liabilities	(38,258)	(40,105)	1,847
Non current financial liabilities	(24,247)	(14,102)	(10,145)
Total financial liabilities	**(62,505)**	**(54,207)**	**(8,298)**
Total net financial position	**66,552**	**57,030**	**9,522**

For further details with regards to the above table see Note 24 as well as Note 27.

Change in financial liabilities during 2018 is summarized below:

(THOUSAND EUROS)	
Total financial liabilities 2017	**54,207**
Bank overdrafts	(22,798)
IRS	17
Non current financial liabilities 2017	**31,426**
Cash flows	24,179
Total non current financial liabilities 2018	**55,605**
Bank overdrafts	5,578
IRS	1,322
Total financial liabilities 2018	**62,505**

NOTE 28 – EMPLOYEE BENEFITS

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Employee severance indemnities	25,707	23,748	1,959
Employee pension funds	10,518	6,461	4,057
Directors severance indemnities	1,498	1,613	(115)
Other	16	16	-
Total	**37,738**	**31,838**	**5,901**

EMPLOYEE SEVERANCE INDEMNITIES

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

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or

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

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were from historical data of the company: frequency of advances in 2018: 2.50% frequency of turnover in 2018: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Average annual rate of 1.5%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which fthe company belongs and with reference to the market yield of Federal bonds. An annual constant rate equal to 1.57% was used for the year 2018.
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, Employment severance indemnities at 31 December 2018, are summarized in the table below:

(THOUSAND EUROS)	
Balance at 31/12/2017	**23,748**
Cost relating to current (service cost) work	4,460
Actuarial gain/loss	(270)
Interest cost	325
Indemnities paid during the year	(2,557)
Balance at 31/12/2018	**25,707**

EMPLOYEE PENSION FUNDS

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

(THOUSAND EUROS)	**31/12/2018**	**31/12/2017**
Present value of liability	11,539	7,394
Fair value of plan assets	(1,021)	(933)
Net liability	**10,518**	**6,461**

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

(THOUSAND EUROS)	
Present value at beginning of the year	**7,394**
Change in consolidation	4,710
Service cost	69
Interest cost	157
Actuarial gains/(losses)	(525)
Indemnities paid during the year	(266)
Present value at year end	**11,539**

DIRECTORS SEVERANCE INDEMNITIES

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 115 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2018 and to a partial payment of the indemnity.

NOTE 29 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2018 amounted to 17,128 thousand Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(THOUSAND EUROS)	31/12/2018	31/12/2017
Deductible items off the books	1,870	1,880
Other	15,258	16,659
Total	**17,128**	**18,539**

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

NOTE 30 - PROVISIONS

Provisions amounted to 7,329 thousand Euros (of which 7,021 thousand Euros are non-current).

Change in 2018 is summarized in the table below:

(THOUSAND EUROS)	BALANCE AT 31/12/2017	ACCRUALS	UTILIZATION	REVERSALS	OTHER CHANGES	BALANCE AT 31/12/2018
Fidelity fund	255	19	(31)	-	77	319
Provision for risks	13,655	134	(5,156)	(1,150)	(472)	7,010
Total	**13,909**	**152**	**(5,187)**	**(1,150)**	**(396)**	**7,329**

Employee fidelity provisions refer mainly to provisions made for the employees of some German companies in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.
The Provision for risks represents the best estimate for contingent liabilities. The accrual of the year is referred to the update of this estimate and to new legal ongoing controversies, lawsuits with former employees and other liabilities in Italy and abroad.
The item Utilization is related to the merger by incorporation described in Note 37 where in 2018 the German court took note of the agreement reached between the parties, recognizing to the minority shareholders the payment of the sums established. The expenses arising from this agreement were accrued in previous years.
Other changes mainly refer to translation differences.

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2018 amounted to 123,387 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Domestic suppliers	99,600	84,368	15,233
Foreign suppliers	24,376	16,855	7,521
Advances to suppliers	(590)	(1,073)	483
Total	**123,387**	**100,150**	**23,237**

NOTE 32 - OTHER CURRENT LIABILITIES

Other current liabilities at 31 December 2018 amounted to 296,109 thousand Euros with an increase of 67,944 thousand Euros with respect to the previous financial year.

Detail is as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Income tax payable	8,000	7,448	552
VAT payable	13,802	9,627	4,174
Withholding tax and other	7,423	6,879	544
Total due to tax authorities	**29,224**	**23,954**	**5,270**
National social insurance payable	28,308	25,006	3,302
Other	2,417	1,956	461
Total due to social securities	**30,725**	**26,962**	**3,762**
Employee accruals	80,354	63,754	16,599
Other payables	139,043	105,629	33,414
Accrued expenses and deferred income	16,764	7,865	8,899
Total other payables	**236,160**	**177,248**	**58,912**
Other current liabilities	**296,109**	**228,165**	**67,944**

Due to tax authorities amounting to 29,224 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.

Due to social security authorities amounting to 30,725 thousand Euros, is related to both Company and employees' contribution payables.

Other payables at 31 December 2018 amount to 236,160 thousand Euros and mainly include:

- amounts due to employees that at the balance sheet date had not yet been paid;
- liabilities related to share based payment transactions to be settled in cash to some Group companies. Following agreements signed in previous years with some Directors of subsidiary companies, the liability at year end amounted to 2,598 thousand Euros while the cost in Profit and loss amounted to 1,234 thousand Euros. Such options can be exercised in financial year 2019 upon achievement of some economic-financial parameters.

- remuneration of directors recognized as participation in the profits of the subsidiary companies;
- advances received from customers exceeding the value of the work in progress amounting to 97,895 thousand Euros.

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

NOTE 33 - SEGMENT REPORTING

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

(THOUSAND DI EURO)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2018	%
Revenues	**716,099**	**100**	**207,518**	**100**	**120,661**	**100**	**1,683**	**100**	**(10,167)**	**1,035,793**	**100**
Operating costs	(607,138)	(84.8)	(181,779)	(87.6)	(107,037)	(88.7)	(5,170)	(307.2)	10,167	(890,957)	(86.0)
Gross operating income	**108,961**	**15.2**	**25,738**	**12.4**	**13,624**	**11.3**	**(3,487)**	**(207.2)**	**-**	**144,836**	**14.0**
Amortization, depreciation and write-downs	(9,590)	(1.3)	(2,442)	(1.2)	(1,793)	(1.5)	(23)	(1.4)		(13,848)	(1.3)
Other non-recurring (costs)/income	1,713	-	205	-	(496)	(0.4)	-	-		1,422	0.1
Operating income	**101,084**	**14.1**	**23,501**	**11.3**	**11,335**	**9.4**	**(3,510)**	**(208.5)**	**-**	**132,410**	**12.8**
Gain/(loss) on investments	-	-	-	-	-	-	6,862	408		6,862	0.6
Financial income/(loss)	5,625	1	(715)	(0.3)	(862)	(0.7)	(4,103)	(243.8)		(55)	-
Income before taxes	**106,709**	**14.9**	**22,786**	**11.0**	**10,473**	**8.7**	**(751)**	**(44.6)**	**-**	**139,217**	**13.4**

(THOUSAND EUROS)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2017	%
Revenues	**618,305**	**100**	**162,064**	**100**	**124,720**	**100**	**1,692**	**100**	**(22.348)**	**884,434**	**100**
Operating costs	(523,849)	(84.7)	(144,138)	(88.9)	(110,908)	(88.9)	(4,642)	(274.3)	22,348	(761,190)	(86.1)
Gross operating income	**94,456**	**15.3**	**17,925**	**11.1**	**13,812**	**11.1**	**(2,950)**	**(174.3)**	**-**	**123,244**	**13.9**
Amortization, depreciation and write-downs	(8,979)	(1.5)	(1,920)	(1.2)	(1,428)	(1.1)	(26)	(1.5)		(12,353)	(1.4)
Other non-recurring (costs)/income	-	-	3,198	2	(216)	(0.2)	-	-		2,982	0.3
Operating income	**85,476**	**13.8**	**19,204**	**11.8**	**12,168**	**9.8**	**(2,975)**	**(175.8)**	**-**	**113,873**	**12.9**
Gain/(loss) on investments	-	-	-	-	-	-	(585)	(34.5)		(585)	(0.1)
Financial income/(loss)	2,853	1	(2,246)	(1.4)	(685)	(0.5)	(2,900)	(171.40)		(2,978)	(0.3)
Income before taxes	**88,329**	**14.3**	**16,958**	**10.5**	**11,483**	**9.2**	**(6,460)**	**(381.8)**	**-**	**110,310**	**1.5**

Breakdown of revenues by type is as follows:

(THOUSAND EUROS)	REGION 1		REGION 2		REGION 3		IOT INCUBATOR	
BUSINESS LINE	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
T&M	110,506	96,570	117,932	97,819	63,600	69,392	-	-
FIXED PRICE PROJECTS	605,593	521,735	89,586	64,245	57,061	55,328	-	-
OTHER BUSINESS	-	-	-	-	-	-	1,683	1,692
TOTAL	**716,099**	**618,305**	**207,518**	**162,064**	**120,661**	**124,720**	**1,683**	**1,692**

The following table provides a breakdown of net invested capital by Region:

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2018
Current operating assets	465,884	76,609	45,146	163	(22,710)	565,092
Current operating liabilities	(338,074)	(61,973)	(28,678)	(13,787)	22,710	(419,803)
Net working capital (A)	**127,810**	**14,636**	**16,467**	**(13,625)**	**-**	**145,288**
Non current assets	142,988	122,281	65,914	48,600	-	379,783
Non financial liabilities long term	(56,097)	(42,397)	(6,517)	-	-	(105,011)
Fixed capital (B)	**86,891**	**79,884**	**59,397**	**48,600**	**-**	**274,772**
Net invested capital (A+B)	**214,701**	**94,520**	**75,864**	**34,975**	**-**	**420,060**

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2017
Current operating assets	406,418	56,568	59,377	312	(26,216)	496,459
Current operating liabilities	(260,999)	(41,968)	(43,742)	(8,096)	26,216	(328,589)
Net working capital (A)	**145,419**	**14,600**	**15,635**	**(7,784)**	**-**	**167,870**
Non current assets	88,832	78,867	64,593	31,165	-	263,457
Non financial liabilities long term	(51,341)	(26,587)	(8,358)	-	-	(86,286)
Fixed capital (B)	**37,490**	**52,280**	**56,236**	**31,165**	**-**	**177,171**
Net invested capital (A+B)	**182,910**	**66,881**	**71,870**	**23,381**	**-**	**345,041**

Breakdown of employees by Region is as follows:

REGION	2018	2017	CHANGE
Region 1	5,435	4,769	666
Region 2	1,516	1,090	426
Region 3	642	585	57
IoT Incubator	13	12	1
Total	**7,606**	**6,456**	**1,150**

NOTE 34 - ADDITIONAL DISCLOSURES TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

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

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

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

CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 2018 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

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

LIQUIDITY RISK

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

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

Reply S.p.A. makes use of external funds obtained in the form of financing and invest in monetary and financial market instruments. Changes in market interest rates can affect the cost of the various forms of financing, including the sale of receivables, or the return on investments, and the employment of funds, causing an impact on the level of net financial expenses incurred by the company. To mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as "cash flow hedges".

SENSITIVITY ANALYSIS

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

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

A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2018 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 279 thousand Euros.

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

FAIR VALUE ASSESSMENT HIERARCHY LEVELS

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

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

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2018, according to the fair value hierarchical assessment level.

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Investments	18			47,512
Convertible loans	19			982
Financial securities	19	697		
Total financial assets		**697**	**-**	**48,494**
Derivative financial liabilities (IRS)			1,372	
Liabilities to minority shareholders and earn out	26			45,295
Other financial liabilities	32			2,598
Total financial liabilities		**-**	**1,372**	**47,893**

The valuation of investments in start-up within the Internet of Things (IoT) business, through the acquisition of equity investments and through the issuance of convertible loans, is based on data not directly observable on active stock markets, and therefore falls under the fair value hierarchical Level 3.

The item Financial securities is related to securities listed on the active stock markets and therefore falls under the fair value hierarchical level 1.

The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
Cash settled share-based payments of companies belonging to the Group included within the caption Other financial liabilities, are valued on the basis of profitability parameters. Since these parameters are not observable market parameters (directly or indirectly) such debts fall under the hierarchy of Level 3.

As at 31 December 2018, there have not been any transfers within the hierarchy levels.

NOTE 35 - TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 Related parties are Group companies and persons that are able to exercise control, joint control or have significant influence on the Group and on its subsidiaries.

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

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

(THOUSAND EUROS)

FINANCIAL TRANSACTIONS	31/12/2018	31/12/2017	NATURE OF TRANSACTION
Trade receivables	25	-	Receivables from professional services
Trade payables and other	136	3	Payables for professional services and official rentals offices
Other payables	4,522	4,072	Payables for emoluments to Directors and Managers with strategic responsibilities and Board of Statutory Auditors
ECONOMIC TRANSACTIONS	**2018**	**2017**	**NATURE OF TRANSACTION**
Revenues from professional services	21	-	Receivables from professional services
Services from Parent company and related parties	1,098	769	Service contracts relating to office rental, and office administration
Personnel	8,596	7,819	Emoluments to Directors and Key Management with strategic responsibilities
Services and other costs	122	122	Emoluments to Statutory Auditors

REPLY GROUP MAIN ECONOMIC AND FINANCIAL TRANSACTIONS

In accordance with IAS 24, emoluments to Directors, Statutory Auditors and Key Management are also included in transactions with related parties.

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006 the financial statements present the Consolidated Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption.
Pursuant to Art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no

transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

NOTE 36 - EMOLUMENTS TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT

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

(THOUSAND EUROS)	2018	2017
Executive Directors	6,630	5,877
Statutory auditors	122	122
Total	**6,752**	**5,999**

Emoluments to Key management amounted to approximately 1,966 thousand Euros (1,942 thousand Euros at 31 December 2017).

NOTE 37 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euros). Currently it is not possible to foresee the outcome of the said judgment but Management believes that any future economic-financial effects on the Group are not significant.

- with regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122 of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.

Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure.

On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.

At present, some minority shareholders have commenced the aforementioned procedures. Following exchanges with the minority shareholders and their appointed representative, the Company has reached a settlement agreement where the payment of an additional amount of 4.41 Euros per share of Reply Deutschland was agreed plus legal interest, in addition to the flat-rate reimbursement of proceedings costs. On 18 June 2018, the German court took note of the agreement reached between the parties. The expenses arising from this agreement amounting to approximately 5 million Euros is covered by specific provisions.

CONTINGENT LIABILITIES

As an international company, the Group is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Group financial position and results.

Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Group recognizes specific provision for this purpose.

NOTE 38 - EVENTS SUBSEQUENT TO 31 DECEMBER 2018

At the beginning of January 2019 Reply AG acquired Neveling.net GmbH, a company incorporated under the German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies.

NOTE 39 - APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The Consolidated financial statements at 31 December 2018 were approved by the Board of Directors on March 14, 2019 which authorized the publication within the terms of law.

ANNEXED TABLES

CONSOLIDATED INCOME STATEMENT PREPARED PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(THOUSAND EUROS)	2018	OF WHICH RELATED PARTIES	%	2017	OF WHICH RELATED PARTIES	%
Revenues	**1,035,793**	**21**	**-**	**884,434**		**-**
Other income	14,996	-	-	17,672	-	-
Purchases	(20,513)	-	-	(15,269)	-	-
Personnel	(508,652)	(8,596)	1.7%	(431,555)	(7,819)	1.8%
Services and other costs	(379,730)	(1,220)	0.3%	(329,924)	(891)	0.2%
Amortization, depreciation and write-downs	(13,848)	-	-	(12,353)	-	-
Other non-recurring (cost)/income	4,364	-	-	869	-	-
Operating income	**132,410**	**-**	**-**	**113,873**	**-**	**-**
Income from associate companies	6,862	-	-	(585)	-	-
Financial income/(expenses)	(55)	-	-	(2,978)	-	-
Income before taxes	**139,217**	**-**	**-**	**110,310**	**-**	**-**
Income taxes	(38,230)	-	-	(31,765)	-	-
Net income	**100,987**	**-**	**-**	**78,545**	**-**	**-**
Non controlling interest	(1,075)	-	-	(674)	-	-
Group net result	**99,913**	**-**	**-**	**77,871**	**-**	**-**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(THOUSAND EUROS)	31/12/18	OF WHICH RELATED PARTIES	%	31/12/17	OF WHICH RELATED PARTIES	%
Tangible assets	44,452	-	-	21,552	-	-
Goodwill	243,236	-	-	166,132	-	-
Other intangible assets	14,201	-	-	15,525	-	-
Equity investments	47,512	-	-	29,201	-	-
Financial assets	5,255	-	-	6,385	-	-
Deferred tax assets	27,299	-	-	24,661	-	-
Non current assets	**381,955**	**-**	**-**	**263,457**	**-**	**-**
Work in progress	77,061	-	-	93,651	-	-
Trade receivables	434,389	25	-	357,082	-	-
Other current assets	53,642	-	-	45,726	-	-
Financial assets	997	-	-	2,042	-	-
Cash and cash equivalents	128,060	-	-	109,195	-	-
Current assets	**694,149**	**-**	**-**	**607,697**	**-**	**-**
TOTAL ASSETS	**1,076,104**	**-**	**-**	**871,154**	**-**	**-**
Share capital	4,863	-	-	4,863	-	-
Other reserves	380,521	-	-	318,670	-	-
Group net income	99,913	-	-	77,871	-	-
Group shareholders' equity	**485,297**	**-**	**-**	**401,404**	**-**	**-**
Non controlling interest	1,315	-	-	668	-	-
SHAREHOLDERS' EQUITY	**486,612**	**-**	**-**	**402,072**	**-**	**-**
Due to minority shareholders and Earn-out	45,295	-	-	22,275	-	-
Financial liabilities	24,247	-	-	14,102	-	-
Employee benefits	37,738	-	-	31,838	-	-
Deferred tax liabilities	17,128	-	-	18,539	-	-
Provisions	7,021	-	-	13,635	-	-
Non current liabilities	**131,430**	**-**	**-**	**100,388**	**-**	**-**
Financial liabilities	38,258	-	-	40,105	-	-
Trade payables	123,387	136	0.1%	100,150	3	-
Other current liabilities	296,109	4,522	1.5%	228,165	4,072	1.8%
Provisions	308	-	-	274	-	-
Current liabilities	**458,061**	**-**	**-**	**368,693**	**-**	**-**
TOTAL LIABILITIES'	**589,492**	**-**	**-**	**469,082**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,076,104**	**-**	**-**	**871,154**	**-**	**-**

LIST OF COMPANIES AT 31 DECEMBER 2018

COMPANY NAME	HEADQUARTERS	GROUP INTEREST
Parent company		
Reply S.p.A.	Turin - Corso France, 110 - Italy	
Companies consolidated on a line-by-line basis		
4brands Reply GmbH & CO. KG. (**)	Minden, Germany	51.00%
Air Reply S.r.l. (*)	Turin, Italy	85.00%
Arlanis Reply S.r.l.	Turin, Italy	100.00%
Arlanis Reply AG	Potsdam, Germany	100.00%
Aktive Reply S.r.l.	Turin, Italy	100.00%
Atlas Reply S.r.l.	Turin, Italy	100.00%
Avantage Reply Ltd. (***)	London, United Kingdom	100.00%
Avantage Reply GmbH (formerly Xuccess Reply GmbH)	Munich, Germany	100.00%
Avantage Reply (Belgium) Sprl	Brussels, Belgium	100.00%
Avantage Reply (Luxembourg) Sarl	Itzig, Luxembourg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherlands	100.00%
Avvio Reply Ltd (***)	London, United Kingdom	100.00%
Blue Reply S.r.l.	Turin, Italy	100,00%
Blue Reply GmbH	Guetersloh, Germany	100,00%
Bridge Reply S.r.l.	Turin, Italy	60.00%
Business Reply S.r.l.	Turin, Italy	100.00%
Breed Reply Ltd	London, United Kingdom	100.00%
Breed Reply Investment Ltd	London, United Kingdom	80.00%
Cluster Reply S.r.l.	Turin, Italy	100.00%
Cluster Reply GmbH & CO. KG (**)	Munich, Germany	100.00%
Cluster Reply Informatica LTDA.	San Paolo, Brazil	100.00%
Cluster Reply Roma S.r.l.	Turin, Italy	100.00%
ComSysto Reply GmbH (*)	Munich, Germany	100.00%
Concept Reply GmbH	Munich, Germany	100.00%
Consorzio Reply Energy	Turin, Italy	100.00%
Consorzio Reply Public Sector	Turin, Italy	100.00%
Data Reply S.r.l.	Turin, Italy	100.00%

Data Reply GmbH (*)	Munich, Germany	92.50%
Discovery Reply S.r.l.	Turin, Italy	100.00%
e*finance consulting Reply S.r.l.	Turin, Italy	100.00%
Ekip Reply S.r.l.	Turin, Italy	100.00%
Elbkind GmbH	Hamburg, Germany	100.00%
EOS Reply S.r.l.	Turin, Italy	100.00%
Envision Reply S.r.l.	Turin, Italy	88.00%
First Development Hub, LLC	Minsk, Belarus	100.00%
Forge Reply S.r.l.	Turin, Italy	100.00%
France Reply Ltd (***)	London, United Kingdom	80.00%
Go Reply S.r.l.	Turin, Italy	100.00%
Go Reply GmbH	Guetersloh, Germany	100.00%
Hermes Reply S.r.l.	Turin, Italy	100.00%
Hermes Reply Polska zo.o	Katowice, Poland	100.00%
Implico LLC	Seattle, USA	100.00%
Industrie Reply GmbH (formerly Logistics Reply GmbH)	Munich, Germany	100.00%
Industrie Reply LLC	Michigan, USA	100.00%
InEssence Reply GmbH	Düsseldorf, Germany	100.00%
Infinity Reply GmbH (formerly Healthy Reply GmbH)	Düsseldorf, Germany	100.00%
IrisCube Reply S.p.A.	Turin, Italy	100.00%
Leadvise Reply GmbH	Darmstadt, Germany	100.00%
Lem Reply S.r.l.	Turin, Italy	100.00%
Like Reply S.r.l.	Turin, Italy	100.00%
Live Reply GmbH	Düsseldorf, Germany	100.00%
Logistics Reply S.r.l.	Turin, Italy	100.00%
Lynx Recruitment Ltd (***)	London, United Kingdom	100.00%
Macros Reply GmbH	Munich, Germany	100.00%
MCG Systems AG	Colony, Germany	100.00%
Modcomp GmbH	Colony, Germany	100.00%
Open Reply GmbH	Guetersloh, Germany	100.00%
Open Reply S.r.l.	Turin, Italy	100.00%
Pay Reply S.r.l	Turin, Italy	100.00%
Portaltech Reply Ltd. (***)	London, United Kingdom	100.00%
Portaltech Reply S.r.l.	Turin, Italy	100.00%

Portaltech Reply GmbH	Guetersloh, Germany	100.00%
Portaltech Reply Süd GmbH	Munich, Germany	100.00%
Power Reply S.r.l.	Turin, Italy	100.00%
Power Reply GmbH & CO. KG (**)	Munich, Germany	100.00%
Profondo Reply GmbH	Guetersloh, Germany	100.00%
Protocube Reply S.r.l.	Turin, Italy	55.00%
Reply Consulting S.r.l.	Turin, Italy	100.00%
Reply AG	Guetersloh, Germany	100.00%
Reply GmbH	Zurich, Switzerland	100.00%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte, Brazil	100.00%
Reply Inc.	Michigan, USA	100.00%
Reply Ltd.	London, United Kingdom	100.00%
Reply Belgium Sprl	Mont Saint Guibert, Netherland	100.00%
Reply Digital Experience S.r.l.	Turin, Italy	100.00%
Reply France Sarl	Paris, France	100.00%
Reply Luxembourg Sarl	Sandweiler, Luxembourg	100.00%
Reply NL Ltd. (***)	London, United Kingdom	80.00%
Reply Services S.r.l.	Turin, Italy	100.00%
Reply Verwaltung GmbH	Guetersloh, Germany	100.00%
Retail Reply S.r.l. (formerly Square Reply S.r.l.)	Turin, Italy	100.00%
Ringmaster S.r.l.	Turin, Italy	50.00%
Risk Reply Ltd (***)	London, United Kingdom	80.00%
Riverland Reply GmbH	Munich, Germany	100.00%
Santer Reply S.p.A.	Milan, Italy	100.00%
Security Reply S.r.l.	Turin, Italy	100.00%
Sense Reply S.r.l.	Turin, Italy	90.00%
Solidsoft Reply Ltd. (***)	London, United Kingdom	100.00%
Spark Reply S.r.l.	Turin, Italy	100.00%
Spark Reply GmbH	Germany	100.00%
Spike Reply GmbH	Colony, Germany	100.00%
Sprint Reply S.r.l.	Turin, Italy	100.00%
Storm Reply S.r.l. (*)	Turin, Italy	95.00%
Storm Reply GmbH	Guetersloh, Germany	100.00%
Syskoplan Reply S.r.l.	Turin, Italy	100.00%

Syskoplan Reply GmbH & CO. KG (**)	Guetersloh, Germany	100.00%
Sytel Reply Roma S.r.l.	Turin, Italy	100.00%
Sytel Reply S.r.l.	Turin, Italy	100.00%
Target Reply S.r.l.	Turin, Italy	100.00%
TamTamy Reply S.r.l.	Turin, Italy	100.00%
Technology Reply S.r.l.	Turin, Italy	100.00%
Technology Reply Roma S.r.l.	Turin, Italy	100.00%
Technology Reply S.r.l.	Bucarest, Romania	100.00%
TD Reply GmbH	Berlino, Germany	100.00%
TD Marketing Consultants, Beijing Co. Ltd	China	100.00%
Tool Reply Gmbh	Guetersloh, Germany	100.00%
Triplesense Reply GmbH	Francoforte, Germany	100.00%
Twice Reply S.r.l.	Turin, Italy	98.00%
Twice Reply GmbH	Munich, Germany	100.00%
Valorem LLC (*)	Kansas City, USA	70.00%
Valorem Private Ltd	India	99.99%
Valorem GmbH	Zurich, Switzerland	100.00%
WM Reply Ltd (***)	London, United Kingdom	100.00%
Whitehall Reply S.r.l.	Turin, Italy	100.00%
Xister Reply S.r.l. (*)	Turin, Italy	89.20%

Companies carried at fair value

Amiko Digital Health Ltd	England	22.73%
CageEye AS	Norway	10.16%
Callsign Inc.	England	3.61%
Canard Drones Ltd	Spain	24.06%
Cocoon Alarm Ltd	England	23.58%
Connecterra BV	Belgium	23.06%
enModus Ltd	England	19.18%
FoodMarble Digestive Health Ltd	England	23.45%
iNova Design Ltd	England	34.68%
Iotic Labs Ltd	England	18.31%
Kokoon Technology Ltd	England	38.17%
Metron Sas	France	10.95%
RazorSecure Ltd	England	32.06%

Senseye Ltd	England	14.30%
Sensoria Inc.	USA	24.00%
Sentryo SAS	France	13.30%
TAG Sensors AS	Norway	19.06%
Ubirch GmbH	Germany	25.74%
We Predict Ltd	England	16.64%
Wearable Technologies Ltd	England	18.50%
Yellow Line Parking Ltd	England	10.34%
Zeetta Networks Ltd	England	29.28%

Companies carried at cost

Core Reply S.r.l.	Turin	90.00%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting reflects Management's best estimate as at the closing date of the 2018 Annual Financial Report.

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

(***) As permitted under English law, these subsidiary companies have claimed audit exemption under Companies Act 2006: Avvio Reply Ltd Company No. 02865104, Avantage Reply Ltd Company No. 05177605, Lynx Recruitment Ltd Company No. 04289642, Portaltech Reply Ltd Company No. 03999284, Solidsoft Reply Ltd Company No. 02853022, Risk Reply Ltd Company No. 09030959, France Reply Ltd Company No. 08823238, Reply NL Ltd Company No. 09920476. The parent, Reply S.p.A has given a statement of guarantee under Companies Act Section 479C whereby Reply S.P.A will guarantee all outstanding liabilities to which aforementioned UK registered companies are subject as at 31 December 2018.

INFORMATION IN ACCORDANCE WITH ARTICLE 149-DUODECIES ISSUED BY CONSOB

The following table, prepared in accordance with Art. 149-duodeciesof Consob's Regulations for Issuers reports the amount of fees charged in 2018 for the audit and audit related services provided by the Independent Auditors and by entities that are part of the Independent Auditors' network.

(THOUSAND EUROS)	SERVICE PROVIDER	GROUP ENTITY	FEE 2018
Audit	EY S.p.A.	Parent company - Reply S.p.A.	49
	EY S.p.A.	Subsidiaries	225
	Ernst & Young GmbH	Subsidiaries	307
	Ernst & Young LLP	Subsidiaries	119
	Total		**700**
Audit related services	EY S.p.A.	Parent company - Reply S.p.A. (1)	1
	EY S.p.A.	Parent company - Reply S.p.A. (2)	49
	EY S.p.A.	Subsidiaries (1)	18
	Total		**68**
Other services	EY S.p.A.	Subsidiaries (3)	4
	Ernst & Young GmbH	Subsidiaries (4)	10
	Total		**14**
Total			**782**

(1) Signed tax forms (Modello Unico, IRAP and Form 770)
(2) DNF
(3) Limited audit services
(4) Due Diligence activities

ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

in accordance with article 154-bis of Legislative Decree 58/98

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

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

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2018.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2018 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted reference framework.
The undersigned also certify that:
3.1 the Consolidated Financial Statements

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

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

Turin, 14 March 2019

Chairman
and Chief Executive Officer
Mario Rizzante

Director responsible
of drawing up the accounting documents
Giuseppe Veneziano

REPORT OF THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

related to the financial consolidated financial statements as at 31 December 2018

Dear Shareholders,

The Board of Directors is submitting to you the Consolidated Financial Statements as at 31 December 2018 prepared in conformity with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Changes in Shareholders' Equity, Consolidated Cash Flow Statement, and the Notes to the Financial Statements.

The Consolidated Financial Statements as at 31 December 2018 present a consolidated Shareholders' equity amounting to 495,297 thousand Euros, including a consolidated profit of 99,913 thousand Euros.

The Report on Operations adequately illustrates the financial, economic and earnings position, the trend, at a consolidated level, of Reply S.p.A. and its subsidiaries during the financial year and after its end, as well as the breakdown of the principal business lines and the consolidated results.

The consolidation area is determined in such context, which included as at 31 December 2018 in addition to the Parent Company, 112 companies and 2 consortiums, all of which consolidated on a line-by-line basis.

The controls made by the Independent Auditor EY S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2018 are supported by the Parent Company's accounting records, in the financial statements for the reporting period of the subsidiaries, and in the information that they have formally communicated.

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

The Board of Statutory Auditors did not audit the financial statements of such companies.

EY S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements, has issued its report on March 26, 2019 in which it confirms that, in its opinion:

- the Consolidated Financial Statements of the Reply Group as at 31 December 2018 conform to the International Financial Reporting Standards (IFRS) endorsed by the European Union, as well as to the measures issued to implement Article 9 of Legislative Decree 38/2005 and, therefore, they were prepared with clarity and represent a true and fair view of the financial and economic position, the economic result and the cash flows of the Reply Group as at such date,
- the Report on Operations and some of the information pursuant to Article 123-bis, paragraph 4 of Legislative Decree 58/1998 presented in the Report on Corporate Governance and Ownership Structure are consistent with the Consolidated Financial Statements and are prepared in accordance to the law.

EY S.p.A. has identified the valuation of the goodwill and the valuation of payables to minority shareholders and earn-out as key aspects of the audit.

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

- The consolidation area has been determined in a correct manner;
- The consolidation procedures adopted conform to legal requirements and have been properly applied;
- The review of the Report on Operations demonstrated that it is consistent with the consolidated Financial statements;
- All the information used for the consolidation refers to the entire administrative period represented by the financial year 2018;
- The measurement criteria are homogeneous with those used for the previous reporting period;
- Changes in the consolidation compared to 31 December 2017 consist of the inclusion of the following companies:
  - Envision Reply S.r.l.;
  - Go Reply GmbH;
  - Implico LLC;
  - Industrie Reply LLC;
  - MCG Systems AG;
  - Modcomp GmbH;
  - Portaltech Reply Sud GmbH;

- Spike Reply GmbH;
- Sprint Reply S.r.l.;
- Valorem LLC;
- Valorem Private Ltd;
- Valorem GmbH;

Turin, 28 marzo 2019

THE STATUTORY AUDITORS

(Dott. Giorgio Mosci)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Piergiorgio Re)

Building a better
working world

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ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Reply S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Reply Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of Reply S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Goodwill	
As at 31 December 2018 the goodwill amounted to 243,2 million, and was allocated for € 89.9 million to Region 1, for € 99.9 million to Region 2 and for € 53.4 million to Region 3, which represent the Cash Generating Unit (CGU) identified by the Group. The processes and methods to evaluate and determine the recoverable amount of each CGU, in terms of value in use, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the future cash flow forecasts, to the determination of the normalized cash flows used to estimate terminal value and long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill, such as the growth forecasts and discount rates, we considered that this area represents a key audit matter. The disclosures related to the valuation of goodwill is given in note 2 - Accounting principles and criteria of consolidation and in note 16 - Goodwill.	Our audit procedures in response to this key audit matter included, among others: • analysis of the procedure and of key controls implemented by the company in relation to the valuation of goodwill; • validation of the CGUs perimeter and the allocation of the carrying value of assets and liabilities to each CGU; • analysis of the expert's report who assisted management in the impairment test, as well as the evaluation of its competence, capacity and objectivity; • analysis of the future cash flow forecasts, considering the sector data and forecasts; • assessment of the consistency of the future cash flow forecasts of each CGU with the Group business plan; • comparison of forecasts with previous ones and actual data; • assessing discount and longterm growth rates. In performing our analysis, we involved our experts in valuation techniques, who have independently performed their own calculation and sensitivity analyses of key assumptions in order to determine which changes in assumptions could materially impact the valuation of recoverable amount. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and related to the valuation of goodwill.
Valutation of Payables to minority shareholders and Earn-out	
As at 31 December 2018 the recorded amount of Payables to minority shareholders and Earn-out was € 45.3 million. Such liabilities represent obligations toward minority shareholders and earn-outs in relation to earn out plans or to the variable component of the consideration, within the business combination carried out by the Group, and are re-measured at each balance sheet date.	Our audit procedures in response to this key audit matter included, among others: • analysis of the contracts related to the acquired business, in which are detailed the methods of determining such liabilities, and the assessment of the fair value valuation and; • analysis of the adjustment to the fair value of the liabilities related to the business combinations originated in previous years;

The fair value measurement of these liabilities is based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the profitability forecasts and cash flows of the acquired business.

Considering the level of judgement and complexity of the assumptions applied in the estimation of these liabilities, such as the forecast of future results, we considered that this area represents a key audit matter.

The disclosures related to Payables to minority shareholders and Earn-out is given in Note 2 - accounting principles and basis of consolidation - Use of estimates and in note 26 - Payables to minority shareholders and Earn-out.

- verifying the main assumptions used in the determination of fair value, through the analysis of the future cash flows forecasts of the acquired business.

Finally, we verified the adequacy of the information given in the explanatory notes of the financial statements in relation to the valuation of the Payables to minority shareholders and Earn-out.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Reply S.p.A., in the general meeting held on 29 April 2010, engaged us to perform the audits of the consolidated financial statements of each years ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Reply Group as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Reply Group as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Reply S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Turin, 26 March 2019

EY S.p.A.
Signed by: Alessandro Davi, partner

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

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

INCOME STATEMENT (*)

(EUROS)	NOTE	2018	2017
Revenue	5	565,910,271	378,788,753
Other income	6	10,986,426	10,201,787
Purchases	7	(24,870,993)	(19,198,916)
Personnel	8	(20.421.752)	(19,821,559)
Services and other costs	9	(526,781,333)	(342,420,618)
Amortization, depreciation and write-downs	10	(1,188,197)	(973,395)
Other operating and non-recurring income/(expenses)	11	344,134	(2,999,737)
Operating income		**3,978,556**	**3,576,315**
Gain/(loss) on equity investments	12	50,839,538	95,910,635
Financial income/(expenses)	13	10,800,438	2,971,575
Income before taxes		**65,618,532**	**102,458,525**
Income taxes	14	(2,038,858)	(390,815)
Net income		**63,579,674**	**102,067,710**
Net and diluted income per share	*15*	*1.70*	*2.73*

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

STATEMENT OF COMPREHENSIVE INCOME

(EUROS)	NOTE	2018	2017
Profit of the period (A)		**63,579,674**	**102,067,710**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) from employee benefit plans	26	4,282	2,503
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		**4,282**	**2,503**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges	26	(1,338,190)	28,013
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**(1,338,190)**	**28,013**
Total other comprehensive income, net of tax (B) = (B1) + (B2):		**(1,333,908)**	**30,516**
Total comprehensive income (A)+(B)		**62,245,766**	**102,098,226**

STATEMENT OF FINANCIAL POSITION (*)

(EUROS)	NOTE	31/12/2018	31/12/2017
Tangible assets	16	310,380	477,824
Goodwill	17	86,765	86,765
Other intangible assets	18	2,971,751	2,096,599
Equity investments	19	145,001,792	143,259,963
Other financial assets	20	157,349,863	80,407,079
Deferred tax assets	21	4,767,855	4,634,202
Non current assets		**310,488,406**	**230,962,432**
Trade receivables	22	341,729,412	372,933,805
Other receivables and current assets	23	30,811,220	21,330,897
Financial assets	24	67,655,451	82,843,389
Cash and cash equivalents	25	71,016,284	63,610,242
Current assets		**511,212,368**	**540,718,332**
TOTAL ASSETS		**821,700,774**	**771,680,764**
Share Capital		4,863,486	4,863,486
Other reserves		272,820,509	185,179,297
Net income		63,579,674	102,067,710
SHAREHOLDERS' EQUITY	**26**	**341,263,668**	**292,110,492**
Payables to minority shareholders and Earn-out	27	2,019,980	2,364,114
Financial liabilities	28	21,071,429	13,071,428
Employee benefits	29	571,111	474,932
Deferred tax liabilities	30	1,924,495	1,214,430
Provisions	33	4,462,412	9,448,000
Non current liabilities		**30,049,427**	**26,572,905**
Financial liabilities	28	92,326,466	80,924,097
Trade payables	31	329,992,215	349,998,450
Other current liabilities	32	20,282,998	16,288,820
Provisions	33	7,786,000	5,786,000
Current liabilities		**450,387,679**	**452,997,366**
TOTAL LIABILITIES		**480,437,106**	**479,570,271**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**821,700,774**	**771,680,764**

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

STATEMENT OF CHANGES IN EQUITY

(EUROS)	SHARE CAPITAL	TREASURY SHARE	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	TOTAL
Balance at 1 January 2017	**4,863,486**	**(24,502)**	**79,183,600**	**116,790,222**	**(62,261)**	**(8,815)**	**200,741,730**
Dividends distributed	-	-	-	(10,729,463)	-	-	(10,729,463)
Total profit	-	-	-	102,067,710	28,013	2,503	102,098,226
Balance at							
31 December 2017	**4,863,486**	**(24,502)**	**79,183,600**	**208,128,469**	**(34,248)**	**(6,312)**	**292,110,492**

(EUROS)	SHARE CAPITAL	TREASURY SHARE	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	TOTAL
Balance at 1 January 2018	**4,863,486**	**(24,502)**	**79,183,600**	**208,128,469**	**(34,248)**	**(6,312)**	**292,110,492**
Dividends distributed	-	-	-	(13,092,590)	-	-	(13,092,590)
Total profit	-	-	-	63,579,674	(1,338,190)	4,282	62,245,766
Balance at							
31 December 2018	**4,863,486**	**(24,502)**	**79,183,600**	**258,615,553**	**(1,372,438)**	**(2,030)**	**341,263,668**

STATEMENT OF CASH FLOWS

(EUROS)	2018	2017
Result	63,579,674	102,067,710
Income taxes	2,038,858	390,815
Amortization and depreciation	1,188,197	973,395
Other non-monetary expenses/(income)	(1,523,881)	6,119,235
Change in trade receivables	31,204,392	(68,376,256)
Change in trade payables	(20,006,235)	53,766,509
Change in other assets and liabilities	(8,795,918)	(3,890,654)
Income tax paid	(390,815)	424,935
Interest paid	(651,268)	(567,825)
Net cash flows from operating activities (A)	**66,643,004**	**90,907,864**
Payments for tangible and intangible assets	(1,895,905)	(706,115)
Payments for financial assets	(76,942,784)	(12,268,806)
Payments for the acquisition of subsidiaries net of cash acquired	(557,800)	(20,500)
Net cash flows from investment activities (B)	**(79,396,489)**	**(12,995,420)**
Dividends paid	(13,092,590)	(10,729,463)
Proceeds from financial liabilities	42,500,000	-
Payment of financial liabilities	(20,552,914)	(18,767,200)
Net cash flows from financing activities (C)	**8,854,496**	**(29,496,663)**
Net cash flows (D) = (A+B+C)	**(3,898,989)**	**48,415,780**
Cash and cash equivalents at the beginning of period	81,779,357	33,363,577
Cash and cash equivalents at period end	77,880,368	81,779,357
Total change in cash and cash equivalents (D)	**(3,898,989)**	**48,415,780**

DETAIL OF CASH AND CASH EQUIVALENTS

(EUROS)	2018	2017
Cash and cash equivalents at beginning of period:	**81,779,357**	**33,363,577**
Cash and cash equivalents	63,610,241	50,108,291
Transaction accounts - surplus	82,843,389	62,430,218
Transaction accounts - overdraft	(43,139,346)	(64,428,008)
Bank overdrafts	(21,534,927)	(14,746,924)
Cash and cash equivalents at the end of the year:	**77,880,368**	**81,779,357**
Cash and cash equivalents	71,016,284	63,610,241
Transaction accounts - surplus	67,655,451	82,843,389
Transaction accounts - overdraft	(56,786,827)	(43,139,346)
Bank overdrafts	(4,004,540)	(21,534,927)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

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

The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.
Reply also manages business relations for some of its main clients.

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The 2018 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

In compliance with European Regulation No. 1606 of 19 July 2002, beginning in 2005, the Reply Group adopted the International Financial Reporting Standards ("IFRS") for the preparation of its Consolidated Financial Statements. On the basis of national legislation implementing the aforementioned Regulation, those accounting standards were also used to prepare the separate Financial Statements of the Parent Company, Reply S.p.A., for the first time for the year ended 31 December 2006.
It is hereby specified that the accounting standards applied conform to those adopted for the

preparation of the initial Statement of Assets and Liabilities as at 1 January 2005 according to the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

GENERAL PRINCIPLES

The Financial Statements were prepared under the historical cost convention, modified as required for the measurement of certain financial instruments. The criterion of fair value was adopted as defined by IFRS 9.
The Financial Statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Company's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist relative to its ability to continue as a going concern.

These Financial Statements are expressed in Euros and are compared to the Financial Statements of the previous year prepared in accordance with the same principles.
These Financial Statements have been drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.
The fiscal year consists of a twelve (12) month period and closes on the 31 December each year.

FINANCIAL STATEMENTS

The Financial Statements include statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.
The income statement format adopted by the company classifies costs according to their nature, which is deemed to properly represent the company's business.
The Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.

It is further noted that, to comply with the indications provided by Consob Resolution No. 15519 of 27 July 2006 “Provisions as to the format of Financial Statements”, in addition to mandatory tables, specific supplementary Income Statement and Balance Sheet formats have been added that report significant amounts of positions or transactions with related parties indicated separately from their respective items of reference.

TANGIBLE ASSETS

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

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

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

GOODWILL

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

OTHER INTANGIBLE ASSETS

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

An internally-generated intangible asset arising from the company's e-business development (such as informatics solutions) is recognized only if all of the following conditions are met:

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

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

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

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

IMPAIRMENT

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

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

in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, (the so-called Cash generating unit). With reference to goodwill, Management assesses return on investment with reference to the smallest cash generating unit including goodwill.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately. When the recognition value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.

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

EQUITY INVESTMENTS
Investments in subsidiaries and associated companies are valued using the cost method. As implementation of such method, they are subject to an impairment test if there is any objective evidence that these investments have been impaired, due to one or more events that occurred after the initial measurement if such events have had an impact on future cash flows, thus inhibiting the distribution of dividends. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly negative. If such is the case, impairment is recognized as the difference between the carrying value and the recoverable value, normally determined on the basis of fair value less disposal costs, normally determined through the application of the market multiples to prospective EBIT or to the value in use.

At each reporting period, the Company assesses whether there is objective evidence that a write-down due to impairment of an equity investment recognized in previous periods may be reduced or derecognized. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly positive. In this case, the recoverable value is re-measured and eventually the investment is restated at initial cost.

Equity investments in other companies, comprising non current financial assets not held for trading, are measured at fair value, if it can be determined. Any subsequent gains and losses resulting from changes in fair value are recognized directly in Shareholders' equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized in the Income Statement for the period.
Minor investments in other companies for which fair value is not available are measured at cost, and adjusted for any impairment losses.

Dividends are recognized as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution. If such dividends arise from the distribution of reserves prior to the acquisition, these dividends reduce the initial acquisition cost.

CURRENT AND NON CURRENT FINANCIAL ASSETS

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

TRANSFER OF FINANCIAL ASSETS

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

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

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

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

Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows.

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

CASH AND CASH EQUIVALENTS

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

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

- Bank borrowings
  Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortized cost, using the prevailing market interest rate method.
- Equity instruments
  Equity instruments issued by the Company are stated at the proceeds received, net of direct issuance costs.
- Non current financial liabilities
  Liabilities are stated according to the amortization cost.

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

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

In accordance with IFRS 9, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.
All derivative financial instruments are measured in accordance with IFRS 9 at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For effective hedging against a change in fair value, the hedged item is adjusted by the changes in fair value attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.
Changes in the fair value of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.
Embedded derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not closely related to those of the financial instrument that houses them and the latter are not measured at fair value with recognition of the relative gains and losses in the Income Statement.

EMPLOYEE BENEFITS

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

Employee termination indemnities ("TFR") are classified as a "post-employment benefit", falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "projected unit credit method", an actuarial method based on demographic and finance data that allows the reasonable estimate of the extent of benefits that each employee has matured in relation to the time worked. Through actuarial measurement, interest cost is recognized as financial gains or losses and represents the figurative expenditure that the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR").

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity.

SHARE-BASED PAYMENT PLANS

The Company has applied the standard set out by IFRS 2 "Share-based payment".

Share-based payments are measured at fair value at granting date. Such amount is recognized in the Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis and over the (vesting period). The fair value of the option, measured at the granting date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted. The stock options resolved in the previous financial years have been exercised and therefore the Company does not have existing stock option plans.

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

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

Revenue from sales and services is recognized when control over the goods or services is transferred to the customer.

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable that represents the discounted interest rate of the future estimated proceeds estimated over the expected life of the financial asset in order to bring

them to the accounting value of the same asset.
Dividends from investments is recognized when the shareholders' rights to receive payment has been established.

FINANCIAL INCOME AND EXPENSES

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

TAXATION

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

Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

EARNINGS PER SHARE

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

USE OF ESTIMATIONS

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

CHANGES IN ESTIMATIONS AND RECLASSIFICATIONS

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

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY FROM 1 JANUARY 2018

Reply S.p.A. applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. Reply S.p.A. has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.
The nature and the impact of each amendment is described below:

Ifrs 15 Revenue From Contracts With Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.
There is no effect of adopting IFRS 15 over the Company.

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably.
Revenue from sales and services is recognized when control over the goods or services is transferred to the customer.
Revenues from sales of products are recognized when control over the goods is transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognized.

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.
There are no effects of adopting IFRS 15 over the Company.

a) **Classification and measurement**

Except for certain trade receivables, under IFRS 9, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Company's debt financial assets are, as follows:

- Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Company's Trade and other receivables, and Loans included under Other non-current financial assets.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Company's debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Company's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. The Company classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Company's unquoted equity instruments were classified as AFS financial assets.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Company had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Company's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognized under accumulated OCI, was reclassified to Retained earnings.

The assessment of the Company's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Company's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognized in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Company's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

b) Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit l osses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Company's debt instruments at FVOCI comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure such instruments on a 12-month ECL basis. In all cases, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Company considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The adoption of the ECL requirements of IFRS 9 did not result in a significant impact in impairment allowances of the Company's debt financial assets.

c) Hedge accounting

The Company applied hedge accounting prospectively. At the date of the initial application, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Company has continued to designate the change in fair value of the entire forward contract in the Company's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Company's financial statements.

Under IAS 39, all gains and losses arising from the Company's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of IFRS 9, the Net gain or loss on cash flow hedges was presented under 'Other comprehensive income not to be reclassified to profit or loss in subsequent periods'. This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the presentation of comparative figures.

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

AMENDMENTS TO IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's financial statements.

AMENDMENTS TO IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES - CLARIFICATION INVESTEES AT FAIR VALUE THROUGH PROFIT OR LOSS IS AN INVESTMENT-BY-INVESTMENT CHOICE THAT MEASURING

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Company's consolidated financial statements.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Company will apply these amendments when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Anticipated application is allowed, but not before the entity has adopted IFRS 15. A lessee may choose to apply IFRS 16 using a retrospective approach or a modified retrospective approach. Transitional rules provided by IFRS 16 require some facilities.

The main impacts on the financial statements of the Company, which are still being assessed and refined, may be summarized as follows:

- Statements of financial position: higher non-current assets due to the recognition of "Right of Use" as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be recognized between 1 and 1.5 million euros during the transition.
- Statements of Cash Flows: lease payments for the principal of the debt repayment will be reclassified from "Cash flows from operating activities" to "Cash flows from financing activities".

The process of implementing the new accounting standard requires significant updates and modifications on the IT systems, modification and updating of the control and compliance models and of their processes. The impacts are based on the results of the analyses at the date of these financial statements and may change as the implementation process is still ongoing.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. Since the Company operates in a complex multinational tax environment, applying the Interpretation may affect its financial statements. In addition, The Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment

or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.

These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

NOTE 3 - RISK MANAGEMENT

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

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

CREDIT RISK

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

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

LIQUIDITY RISK

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

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

The difficulties both in the markets and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

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

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

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

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

NOTE 4 - OTHER INFORMATION

EXCEPTION ALLOWED UNDER PARAGRAPH 4 OF ARTICLE 2423 OF THE ITALIAN CIVIL CODE

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

FISCAL CONSOLIDATION

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

NOTE 5 - REVENUE

Revenues amounted to 565,910,271 Euros and are detailed as follows:

(EUROS)	2018	2017	CHANGE
Revenues from services	505,271,709	324,994,951	180,276,758
Royalties on "Reply" trademark	29,637,712	25,400,909	4,236,804
Intercompany services	21,620,527	19,722,944	1,897,583
Other intercompany revenues	9,380,322	8,669,950	710,372
Total	**565,910,271**	**378,788,753**	**187,121,517**

Reply manages business relationships on behalf of some of its major clients, such activities were recorded in the item Revenues from services to third parties which increased by 180,276,758 Euros.

Revenues from Royalties on the “Reply” trademark refer to charges to subsidiaries, corresponding to 3% of the subsidiaries’ turnover with respect to third parties.

Revenues from Intercompany services and Other intercompany charges refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

- operational, co-ordination, technical and quality management;
- administration, personnel and marketing activities;
- strategic management services.

NOTE 6 - OTHER INCOME

Other revenues that as at 31 December 2018 amounted to 10,986,426 Euros (10,201,787 Euros at 31 December 2017) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, telephone and training courses.

NOTE 7 - PURCHASES

Detail is as follows:

(EUROS)	2018	2017	CHANGE
Software licenses for resale	19,916,046	16,589,844	3,326,202
Hardware for resale	4,515,122	2,227,370	2,287,752
Other	439,825	381,702	58,123
Total	**24,870,993**	**19,198,916**	**5,672,077**

The items software and hardware licenses for resale refer to the costs incurred for software licenses for resale to third parties carried out for the Group companies.

The item Other mainly includes the purchase of supplies, e-commerce material, stationary and printed materials (154,541 Euros) and fuel (258,233 Euros).

NOTE 8 - PERSONNEL EXPENSES

Personnel costs amounted to 20,421,751 Euros, with an increase of 600,193 Euros and are detailed in the following table:

(EUROS)	2018	2017	CHANGE
Payroll employees	15,636,465	14,977,542	658,923
Directors	4,785,287	4,844,017	(58,731)
Total	**20,421,752**	**19,821,559**	**600,193**

Detail of personnel by category is provided below:

(NUMERO)	2018	2017	CHANGE
Directors	65	60	5
Managers	7	10	(3)
Staff	14	18	(4)
Total	**86**	**88**	**(2)**

The average number of employees in 2018 was 87 (in 2017 87).

NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

(EUROS)	2018	2017	CHANGE
Commercial and technical consulting	1,900,992	2,185,682	(284,690)
Travelling and training expenses	2,147,938	1,799,415	348,523
Professional services from group companies	489,758,978	315,109,360	174,649,618
Marketing expenses	4,352,769	3,942,874	406,895
Administrative and legal services	1,505,550	1,328,557	176,993
Statutory auditors and Independent auditors fees	182,077	248,356	(66,279)
Leases and rentals	1,454,798	1,302,133	152,665
Office expenses	2,592,515	2,367,859	224,656
Other services from group companies	8,785,806	2,586,691	6,199,114
Expenses incurred on behalf of group companies	10,006,849	8,098,789	1,908,059
Other	4,093,061	3,450,901	642,160
Total	**526,781,333**	**342,420,618**	**184,360,714**

Professional Services from Group companies, which changed during the year by 174,649,618 Euros, relate to revenues from services to third parties.

Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

Office expenses include services rendered by related parties in connection with service contracts for the use of premises, legal domicile and secretarial services, as well as utility costs.

NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2018 to an overall cost of 277,299 Euros, Details of depreciation are provided at the notes to tangible assets.

Amortization of intangible assets amounted in 2018 to an overall cost of 910,898 Euros, Details of depreciation are provided at the notes to intangible assets.

NOTE 11 - OTHER OPERATING AND NON-RECURRING INCOME/ (EXPENSES)

Other operating and non-recurring income amounted to 344,134 Euros and refer to the fair value adjustment of payables to minority shareholders and for Earn-out.

NOTE 12 – GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is a follows:

(EUROS)	2018	2017	CHANGE
Dividends	56,829,538	108,140,467	(51,310,929)
Loss on equity investments	(5,990,000)	(12,229,832)	6,239,832
Total	**50,839,538**	**95,910,635**	**(45,071,096)**

Dividends include proceeds from dividends received by Reply S.p.A. from subsidiary companies during the year.

Detail is as follows:

(EUROS)	2018
Air Reply S.r.l.	65,000
Aktive Reply S.r.l.	1,280,000
Arlanis Reply S.r.l.	495,000
Blue Reply S.r.l.	6,655,000
Bridge Reply S.r.l.	150,000
Business Reply S.r.l.	2,115,000
Cluster Reply Roma S.r.l.	915,000
Cluster Reply S.r.l.	8,375,000
Data Reply S.r.l.	1,315,000
Discovery Reply S.r.l.	1,335,000
E*finance Consulting S.r.l.	1,745,000
Ekip Reply S.r.l.	65,000
Eos Reply S.r.l.	338,982
Go Reply S.r.l.	100,000
Hermes Reply S.r.l.	1,070,000
Hemes Reply Polska	475,556
Iriscube Reply S.p.A.	4,525,000
Like Reply S.r.l.	35,000
Logistics Reply S.r.l.	1,400,000
Open Reply S.r.l.	1,940,000
Pay Reply S.r.l.	100,000
Portaltech Reply S.r.l.	730,000
Power Reply S.r.l.	950,000
Reply Consulting S.r.l.	940,000
Retail Reply S.r.l.	150,000
Ringmaster S.r.l.	550,000
Security Reply S.r.l.	3,940,000
Syskopan Reply S.r.l.	725,000
Sytel Reply Roma S.r.l.	1,640,000
Sytel Reply S.r.l	4,770,000
Tamtamy Reply S.r.l.	435,000
Target Reply S.r.l.	1,460,000
Technology Reply S.r.l.	5,080,000
Technology Reply Roma S.r.l.	460,000
Whitehall Reply S.r.l.	505,000
Total	**56,829,538**

Losses on equity investments refer to write-downs and the year-end losses of several subsidiary companies that were prudentially deemed as non-recoverable with respect to the value of the investment.

For further details see Note 19 herein.

NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(EUROS)	2018	2017	CHANGE
Interest income from subsidiaries	9,740,870	6,942,047	2,798,823
Interest income on bank accounts	18,825	9,207	9,618
Oneri finanziari	(651,268)	(567,826)	(83,442)
Other	1,692,012	(3,411,853)	5,103,865
Total	**10,800,438**	**2,971,575**	**7,828,863**

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

Interest expenses refer to the interest expenses on the use of credit facilities with Intesa Sanpaolo and Unicredit.

The item Other mainly includes a loss on exchange rate differences amounting to 1,134 thousand Euros and a gain on exchange rate differences amounting to 2,826 thousand Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 - INCOME TAXES

The details are provided below:

(EUROS)	2018	2017	CHANGE
IRES	1,385,050	2,146,714	(761,664)
IRAP	-	166,000	(166,000)
Corporate tax - previous years	77,397	(398,461)	475,858
Current taxes	**1,462,447**	**1,914,253**	**(451,806)**
Deferred tax liabilities	710,065	93,283	616,781
Deferred tax assets	(133,654)	(1,616,722)	1,483,068
Deferred taxes	**576,411**	**(1,523,438)**	**2,099,849**
Total income taxes	**2.038.858**	**390.815**	**1.648.044**

IRES THEORETICAL RATE

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

(EUROS)	AMOUNT	TAXATION
Result before taxes	**65,618,532**	
Theoretical tax rate	**24.0%**	**15,748,448**
Temporary differences, net	(59,808,672)	
Taxable income	**5,809,860**	**1,394,366**
Total IRES		**1,399,000**
Benefit arising from the National Fiscal Consolidation	13,950	
Total current IRES		**1,385,050**

Temporary differences, net refer to:

- deductible differences amounting to 70,231 thousand Euros arising mainly from the non-taxable share of the dividends received in the financial year (53,988 thousand Euros) and from the subsidized taxation (Patent box) on the Reply trademark related to the fiscal year 2018 (10,447 thousand Euros);
- non-deductible differences amounting to 10,422 thousand Euros owing mainly to write-

down/losses of equity investments (5,990 thousand Euros), Directors' fees to be paid (3,100 thousand Euros) and the exchange rate losses related to foreign currency interest-free loans (560 thousand Euros).

CALCULATION OF TAXABLE IRAP

(EUROS)	AMOUNT	TAXATION
Difference between value and cost of production	**3,978,556**	
IRAP net	(5,181,346)	
Taxable IRAP	**(1,202,790)**	
Total IRAP		-

Temporary differences, net refer to:

- non-deductible differences amounting to 5,704 thousand Euros mainly due to emoluments to Directors (4,678 thousand Euros);
- deductible differences amounting to 10,885 thousand Euros mainly due to the subsidized taxation (Patent Box) on the Reply trademark related to the fiscal year 2018 (10,447 thousand Euros).

NOTE 15 - EARNINGS PER SHARE

Basic earnings and diluted earnings per share as at 31 December 2018 was calculated with reference to the net profit which amounted to 63,579,674 Euros (102,067,710 Euros at 31 December 2017) divided by the weighted average number of shares outstanding as at 31 December 2018, net of treasury shares, which amounted to 37,407,400 (37,407,400 at 31 December 2017).

(EUROS)	2018	2017
Net profit of the year	63,579,674	102,067,710
Weighted number of shares	37,407,400	37,407,400
Basic earnings per share	1.70	2.73

The Group does not have any financial instruments potentially convertible in shares (stock options) therefore the basic earnings per share corresponds to the diluted earnings per share.

NOTE 16 - TANGIBLE ASSETS

Tangible assets as at 31 December 2018 amounted to 310,380 Euros are detailed as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Plant and machinery	113,414	230,242	(116,828)
Hardware	72,959	83,500	(10,541)
Other tangible assets	124,007	164,083	(40,076)
Total	**310,380**	**477,824**	**(167,444)**

The item Other mainly includes furniture and costs for improvements to leased assets.

Change in Tangible assets during 2018 is summarized below:

(EUROS)	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical cost	1,714,159	1,680,978	1,686,789	5,081,926
Accumulated depreciation	(1,483,918)	(1,597,478)	(1,522,706)	(4,604,102)
31/12/2017	**230,242**	**83,500**	**164,083**	**477,824**
Historical cost				
Increases	3,525	58,940	48,948	111,413
Disposals/write off	-	(5,468)	(1,624)	(7,092)
Accumulated depreciation				
Depreciation	(120,353)	(68,822)	(88,124)	(277,299)
Disposals/write off	-	4,809	724	5,534
Historical cost	1,717,684	1,734,449	1,734,114	5,186,247
Accumulated depreciation	(1,604,270)	(1,661,491)	(1,610,106)	(4,875,867)
31/12/2018	**113,414**	**72,959**	**124,007**	**310,380**

During the year under review the Company made investments amounting to 111,413 Euros, which mainly refer to hardware and mobile phone.

NOTE 17 - GOODWILL

Goodwill as at 31 December 2018 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000.

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

NOTE 18 - OTHER INTANGIBLE ASSETS

Intangible assets as at 31 December 2018 amounted to 2,971,751 Euros (2,096,599 Euros at 31 December 2017) and are detailed as follows:

(EUROS)	HISTORICAL COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE ATL 31/12/2018
Software	8,865,849	(6,430,162)	2,435,687
Trademark	536,064	-	536,064
Total	**9,401,913**	**(6,430,162)**	**2,971,751**

Change in intangible assets in 2018 is summarized in the table below:

(EUROS)	NET BOOK VALUE AT 31/12/2017	INCREASES	DECREASES	DEPRECIATION	NET BOOK VALUE AT 31/12/2018
Software	1,560,535	2,322,702	(536,652)	(910,898)	2,435,687
Trademark	536,064	-	-	-	536,064
Total	**2,096,599**	**2,322,702**	**(536,652)**	**(910,898)**	**2,971,751**

The item Software is related mainly to software licenses purchased and used internally by the company, the increase is related to software licenses purchased and used internally by the company.

The item Trademark expresses the value of the “Reply” trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the

Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA, such amount is not subject to systematic amortization, and the expected future cash flows are deemed adequate.

NOTE 19 - EQUITY INVESTMENTS

The item Equity investments at 31 December 2018 amounted to 145,001,792 Euros, with an increase of 1,741,829 Euros compared to 31 December 2017.

(EUROS)	BALANCE AT 31/12/2017	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	BALANCE AT 31/12/2018	INTEREST
Air Reply S.r.l.	558,500		170,000	(170,000)	558,500	85.00%
Aktive Reply S.r.l.	512,696				512,696	100.00%
Arlanis Reply S.r.l.	588,000		269,000	(269,000)	588,000	100.00%
Atlas Reply S.r.l.	12,575				12,575	100.00%
Avantage Ltd	7,322,484				7,322,484	100.00%
Blue Reply S.r.l.	527,892				527,892	100.00%
Breed Reply Ltd.	12,477				12,477	100.00%
Breed Reply Investment Ltd.	103				103	80.00%
Bridge Reply S.r.l.	6,000				6,000	60.00%
Business Reply S.r.l.	268,602				268,602	100.00%
Cluster Reply S.r.l.	2,540,848				2,540,848	100.00%
Cluster Reply Roma S.r.l.	296,184				296,184	100.00%
Consorzio Reply Public Sector	32,500				32,500	35.91%
Consorzio Reply Energy	1,000				1,000	25.00%
Core Reply S.r.l.	-	9,000			9,000	90.00%
Data Reply S.r.l.	317,662				317,662	100.00%
Discovery Reply S.r.l.	1,311,669				1,311,669	100.00%
e*finance Consulting Reply S.r.l.	3,076,385				3,076,385	100.00%
Ekip Reply S.r.l.	30,000				30,000	100.00%
Envision Reply S.r.l.	-	8,800	455,000		463,800	88.00%
Eos Reply S.r.l.	155,369	340,000			495,369	100.00%
Forge Reply S.r.l.	12,000		640,000	(640,000)	12,000	100.00%
Go Reply S.r.l.	1,920,000				1,920,000	100.00%
Hermes Reply Polska zoo	10,217				10,217	100.00%

(EUROS)	BALANCE AT 31/12/2017	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	BALANCE AT 31/12/2018	INTEREST
Hermes Reply S.r.l.	199,500				199,500	100,00%
IrisCube Reply S.p.A.	6,724,952				6,724,952	100.00%
Lem Reply S.r.l.	400,012		130,000	(170,000)	360,012	100.00%
Like Reply S.r.l.	132,317			(45,000)	87,317	100.00%
Logistics Reply S.r.l.	1,049,167				1,049,167	100.00%
Open Reply S.r.l.	1,417,750				1,417,750	100.00%
Pay Reply S.r.l.	10,000				10,000	100.00%
Portaltech Reply S.r.l.	106,000				106,000	100.00%
Power Reply S.r.l.	2,500,850				2,500,850	100.00%
Protocube Reply S.r.l.	287,000		421,000	(696,000)	12,000	100.00%
Reply Consulting S.r.l.	3,518,434				3,518,434	100.00%
Reply AG	57,835,781				57,835,781	100.00%
Reply Digital Experience S.r.l.	4,227,019				4,227,019	100.00%
Reply do Brasil Sitemas de Informatica Ltda	206,816				206,816	98.50%
Reply Inc	40,596		2,774,029		2,814,625	100.00%
Reply Ltd.	11,657,767				11,657,767	100.00%
Reply Services S.r.l.	95,212				95,212	100.00%
Retail Reply S.r.l. (formerly Square)	100,000				100,000	100.00%
Ringmaster S.r.l.	5,000				5,000	50.00%
Santer Reply S.p.A.	11,386,966				11,386,966	100.00%
Sense Reply S.r.l.	15,700				15,700	90.00%
Security Reply S.r.l.	392,866				392,866	100.00%
Spark Reply S.r.l.	672,500	200,000	170,000		1,042,500	100.00%
Sprint Reply S.r.l.	10,000		145,000		155,000	100.00%
Storm Reply S.r.l. (*)	986,000				986,000	95.00%
Syskoplan Reply S.r.l.	949,571				949,571	100.00%
Sytel Reply S.r.l.	4,991,829				4,991,829	100.00%
Sytel Reply Roma S.r.l.	894,931				894,931	100.00%
Tamtamy Reply S.r.l.	263,471				263,471	100.00%
Target Reply S.r.l.	600,338				600,338	100.00%
Technology Reply Roma	10,000				10,000	100.00%
Technology Reply S.r.l.	216,658				216,658	100.00%
Technology Reply S.r.l. (Romania)	9,919				9,919	100.00%
Twice Reply S.r.l.	521,203				521,203	98.00%

(EUROS)	BALANCE AT 31/12/2017	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	BALANCE AT 31/12/2018	INTEREST
Whitehall Reply S.r.l.	160.212				160,212	100.00%
Xister Reply S,r,l,(*)	11,150,465			(2,000,000)	9,150,465	89.20%
Total	**143,259,963**	**557,800**	**5,174,029**	**(3,990,000)**	**145,001,792**	

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

ACQUISITIONS AND SUBSCRIPTIONS

Envision Reply S.r.l.

In the month of March 2018 Envision Reply S.r.l. was constituted, a company in which Reply S.p.A. holds 88% of the share capital.

Core Reply S.r.l.

In the month of October 2018 Core Reply S.r.l. was constituted, a company in which Reply S.p.A. holds 90% of the share capital.

FINANCIAL LOAN REMISSION

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

WRITE-DOWNS

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

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

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

NOTE 20 - NON CURRENT FINANCIAL ASSETS

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Guarantee deposits	241,063	80,125	160,938
oans to subsidiaries	157,095,800	80,326,954	76,768,846
Loans to third parties	13,000	-	13,000
Total	**157,349,863**	**80,407,079**	**76,942,784**

Guarantee deposits are mainly related to deposits on lease contracts.

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

COMPANY	AMOUNT
Breed Reply Investments Ltd.	36,945,417
Breed Reply Ltd.	5,393,894
Cluster do Brasil (ex Mind Services Informàtica LTDA)	1,215,000
Core Reply S.r.l.	300,000
Hermes Reply Polska Sp Zoo	519,481
Implico LLC	262,009
Reply AG	29,959,000
Reply do Brasil Sitemas de Informatica Ltda	2,181,740
Reply Inc.	31,019,448
Reply Ltd	35,949,803
Reply Services S.r.l.	12,500,000
Sense Reply S.r.l.	300,000
Technology Reply S.r.l. Romania	550,000
Total	**157,095,800**

NOTE 21 - DEFERRED TAX ASSETS

This item amounted to 4,767,855 Euros at 31 December 2018 (4,634,202 Euros at 31 December 2017) and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductible items.

TEMPORARY DEDUCTIBLE DIFFERENCES	TAXABLE AMOUNT	TAX
Total deferred tax assets at 31/12/2017	**18,298,423**	**4,634,202**
Accrued	3,739,717	897,532
Utilization	(3,182,825)	(763,878)
Total deferred tax assets at 31/12/2018	**18,855,314**	**4,767,855**
Of which:		
- directors fees and employee bonuses accrued but not yet paid	6,548,000	1,700,220
- unrealized foreign exchange losses	8,915,782	2,139,788
- taxable amounts greater than book value	3,391,532	927,848
Total	**18,855,314**	**4,767,855**

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

There are no deferred tax assets on losses carried forward.

NOTE 22 - TRADE RECEIVABLES

Trade receivables at 31 December 2018 amounted to 341,729,413 Euros and are all collectible within 12 months.

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Third party trade receivables	229,623,113	197,571,158	32,051,955
Credit notes to be issued	(4,145,023)	(65,529)	(4,079,494)
Allowance for doubtful accounts	(340,157)	(264,883)	(75,274)
Third party trade receivables	**225,137,933**	**197,240,746**	**27,897,187**
Receivables from subsidiaries	116,566,702	175,692,624	(59,125,922)
Receivables from Parent Company	24,778	435	24,343
Trade receivables from subsidiaries and Parent Company	**116,591,480**	**175,693,058**	**(59,101,579)**
Total trade receivables	**341,729,413**	**372,933,805**	**(31,204,392)**

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third Party Receivables which increased by 27,897,187 Euros.

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

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

In 2018 the provision for doubtful accounts was increased by 75,274 Euros following a specific risk analysis of all the trade receivables.

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

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Tax receivables	7,448,675	10,566,546	(3,117,871)
Other receivables from subsidiaries	15,124,356	5,650,457	9,473,899
Other receivables	523,562	262,848	260,715
Accrued income and prepaid expenses	7,714,628	4,851,046	2,863,581
Total	**30,811,220**	**21,330,897**	**9,480,324**

The item Tax receivables includes VAT receivables net (6,936,777 Euros) and IRAP and IRES tax prepayments (441,694 Euros).

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

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

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

NOTE 24 - CURRENT FINANCIAL ASSETS

This item amounted to 67,655,451 Euros (82,843,389 Euros at 31 December 2017) and refers to the total of interest yielding cash pooling accounts of subsidiaries included in the centralized pooling system of the Parent Company Reply S.p.A.; the interest yield on these accounts is in line with current market conditions.

NOTE 25 - CASH AND CASH EQUIVALENTS

This item amounted to 71,016,284 Euros, with an increase of 7,406,042 Euros compared to 31 December 2017 and is referred to cash at banks and on hand at year-end.

NOTE 26 - SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2018 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,863,486 Euros and is made up of no. 37,411,428 ordinary shares having a nominal value of euro 0.13 each.

Treasury shares

The value of the Treasury shares, amounting to 24,502 Euros, refers to the shares of Reply S.p.A. that at 31 December 2018 were equal to no. 4,028.

Capital reserves

At 31 December 2018 amounted to 79,183,600 Euros, and included the following:

- Share premium reserve amounting to 23,302,692 Euros.
- Treasury share reserve amounting to 24,502 Euros, relating to the shares of Reply S.p.A which at 31 December 2018 were equal to no. 4,028.
- Reserve for the purchase of treasury shares amounting to 49,975,498 Euros.
- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
  - › Share swap surplus reserve amounting to 3,445,485 Euros;
  - › Surplus annulment reserve amounting to 2,902,479 Euros.

Earnings Reserve

Earning reserves amounted to 258,615,553 Euros and were comprised as follows:

- The Legal reserve amounting to 972,697 Euros (972,697 Euros at 31 December 2017);
- Extraordinary reserve amounting to 191,240,481 Euros (102,265,360 Euros at 31 December 2017);

- Retained earnings amounting to 2,822,701 Euros (2,822,701 Euros at 31 December 2017);
- Net result totaling 63,579,674 Euros (102,067,710 Euros at 31 December 2017).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(EUROS)	31/12/2018	31/12/2017
Other comprehensive income that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) from employee benefit plans	4,282	2,503
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**4,282**	**2,503**
Other comprehensive income that may be reclassified subsequently profit or loss:		
Gains/(losses) on cash flow hedges	(1,338,190)	28,013
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	**(1,338,190)**	**28,013**
Total Other comprehensive income, net of tax (B) = (B1) + (B2)	**(1,333,908)**	**30,516**

NOTE 27 - DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out at 31 December 2018 amounted to 2,019,980 Euros (2,364,114 Euros on 31 December 2017) and are detailed as follows:

(EUROS)	31/12/2017	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	31/12/2018
Due to minority shareholders and Earn-out	2,364,114	-	(344,134)	-	2,019,980

The item Fair value adjustments in 2018 amounted to 344,134 Euros with a balancing entry in Profit and loss, reflects the best estimate in relation to the deferred consideration originally posted at the time of acquisition.

NOTE 28 - FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2018			31/12/2017		
(EUROS)	CURRENT	NON CURRENT	TOTAL	CURRENT	NON CURRENT	TOTAL
Bank overdrafts	4,004,540	-	4,004,540	21,534,927	-	21,534,927
Bank loans	30,214,285	21,071,429	51,285,714	16,267,199	13,071,428	29,338,628
Transaction accounts	56,786,827	-	56,786,827	43,139,346	-	43,139,346
Other	1,320,814	-	1,320,814	(17,376)	-	(17,376)
Total financial liabilities	**92,326,466**	**21,071,429**	**113,397,895**	**80,924,097**	**13,071,428**	**93,995,525**

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

	31/12/2018				31/12/2017		
(EUROS)	DUE IN 12 MONTHS	FROM 1 TO 5 YEARS	OVER 5 YEARS	TOTAL	DUE IN 12 MONTHS	FROM 1 TO 5 YEARS	TOTAL
Bank overdrafts	4,004,540	-	-	4,004,540	21,534,927	-	21,534,927
Bank loans	30,214,285	8,571,429	-	38,785,714	16,267,199	13,071,428	29,338,628
Mortgage loans	-	3,125,000	9,375,000	12,500,000	-	-	-
Transaction accounts	56,786,827	-	-	56,786,827	43,139,346	-	43,139,346
Other	1,320,814	-	-	1,320,814	(17,376)	-	(17,376)
Total	**92,326,466**	**11,696,429**	**9,375,000**	**113,397,895**	**80,924,097**	**13,071,428**	**93,995,525**

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

Following and summarized by main features the ongoing contracts entered into for such a purpose:

- On 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan is reimbursed on a half-year basis deferred to commence on 30 June 2016 and is expired on 31 December 2018. Such loan is entirely reimbursed at 31 December 2018.

- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
  - Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line was used for 3,000 thousand Euros at 31 December 2018.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 December 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 8,571,000 Euros at 31 December 2018.
- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500,000 was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500,000 Euros at 31 December 2018.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa San Paolo S.p.A. for a total amount of 49,000 thousand Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. Such credit line was used for 25,714,000 Euros at 31 December 2018.
- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 28 February 2018. As at December 31, 2018 this line had not been used.

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

As contractually defined, such ratios are as follows:
- Net financial indebtedness/Equity
- Net financial indebtedness/EBITDA

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

It should be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000,000 Euros and for a maximum duration of 156 months

(13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. On 25 May 2018 the first draft of 12,500,000 Euros was made.

The item Other refers to the valuation of derivative hedging instruments. The underlying IRS amounted to 47,000,000 Euros.

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

Net financial position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's "Recommendations for the consistent implementation of the European's regulation on Prospectuses" issued on 10 February 2005 the Net financial position at 31 December 2018 was as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Cash and cash equivalents	71,016,284	63,610,242	7,406,042
Transaction accounts, asset	67,655,451	82,843,389	(15,187,938)
Total current financial assets	**138,671,735**	**146,453,630**	**(7,781,896)**
Loans to subsidiaries	157,095,800	80,326,954	76,768,846
Total non current financial assets	**157,095,800**	**80,326,954**	**76,768,846**
Total financial assets	**295,767,535**	**226,780,584**	**68,986,951**
Due to banks	(35,539,639)	(37,784,750)	2,245,111
Transaction accounts	(56,786,827)	(43,139,346)	(13,647,480)
Current financial liabilities	**(92,326,466)**	**(80,924,097)**	**(11,402,369)**
Due to banks	(21,071,429)	(13,071,428)	(8,000,000)
Non current financial liabilities	**(21,071,429)**	**(13,071,428)**	**(8,000,000)**
Total financial liabilities	**(113,397,895)**	**(93,995,525)**	**(19,402,369)**
Total net financial position	**182,369,641**	**132,785,059**	**49,584,581**
of which related parties	*167,964,424*	*120,030,996*	*47,933,428*

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

Change in Financial liabilities during 2018 is summarized below:

(EUROS)	
TOTAL FINANCIAL LIABILITIES 2017	**93,995,525**
Bank overdrafts	(21,534,927)
Transaction accounts, liability	(43,139,346)
Fair value IRS	17,376
Non current financial liabilities 2017	**29,338,628**
Cash flows	21,947,086
NON CURRENT FINANCIAL LIABILITIES 2018	**51,285,714**
Bank overdrafts	4,004,540
Transaction accounts, liability	56,786,827
Fair value IRS	1,320,814
TOTAL FINANCIAL LIABILITIES 2018	**113,397,895**

NOTE 29 - EMPLOYEE BENEFITS

The Employee severance indemnity represents the obligation to employees under Italian law (amended by Law no. 296/06) accrued by employees up to 31 December 2006 which will be paid when the employee leaves the company. In certain circumstances, a portion of the accrued liability may be given to an employee during his working life as an advance. This is an unfunded defined benefit plan, under which the benefits are almost fully accrued, with the sole exception of future revaluations.

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

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

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

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2018: 2.50% frequency of turnover in 2018: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Constant average annual rate equal to 1.50%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2018 was 1.57%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% o of the inflation rate plus a spread of one and a half percentage point
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company’s market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, Employment severance indemnities at 31 December 2018 is summarized in the table below:

31/12/2017	**474,932**
Actuarial gains/(losses)	16,052
Interest cost	6,952
Indemnities paid	(3,550)
Transfers	76,725
31/12/2018	**571,111**

NOTE 30 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2018 amounted to 1,924,495 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

TEMPORARY TAXABLE DIFFERENCES	TAXABLE	TAX
Balance at 31/12/2017	**4,958,912**	**1,214,430**
Accruals	2,978,815	714,916
Utilization	(20,212)	(4,851)
Total at 31/12/2018	**7,917,515**	**1,924,495**
- deduction allowance for doubtful accountsi	718,805	172,513
- different goodwill/trademark measurements	622,828	173,769
- gains on unrecognized differences and other minor differences	6,575,882	1,578,213
Total at 31/12/2018	**7,917,515**	**1,924,495**

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2018 amounted to 329,992,215 Euros with a decrease of 20,006,235 Euros.

(EUROS)	31/12/2018	31/12/2017	CHANGE
Due to suppliers	13,815,457	18,032,095	(4,216,639)
Due to suppliers	243,342,900	196,329,834	47,013,066
Due to Parent company	128,100	-	128,100
Advance payments from customers - asset	72,705,758	135,636,521	(62,930,762)
Total	**329,992,215**	**349,998,450**	**(20,006,235)**

Due to suppliers mainly refers to services from domestic suppliers.

Due to subsidiary companies recorded a change of 47,013,066 Euros, and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

Advance payments from customers include advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.
The carrying amount of trade payables is deemed to be in line with its fair value.

NOTE 32 - OTHER CURRENT LIABILITIES

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Income tax payable	847,337	-	847,337
Withholding tax and other	675,634	680,461	(4,827)
Total payable to tax authorities	**1,522,971**	**680,461**	**842,510**
INPS (National Italian insurance payable)	965,616	928,410	37,206
Othe	309,040	292,441	16,598
Total social security payable	**1,274,656**	**1,220,852**	**53,804**
Employee accruals	2,071,859	1,874,052	197,806
Payable to subsidiary companies	7,093,771	7,374,233	(280,463)
Miscellaneous payables	3,384,611	3,393,086	(8,475)
Accrued expenses and deferred income	4,935,132	1,746,136	3,188,996
Total other payables	**17,485,371**	**14,387,507**	**3,097,864**
Total other current liabilities	**20,282,998**	**16,288,820**	**3,994,179**

Due to tax authorities mainly refers to payables due for withholding tax on employees and free lancers' compensation.

Due to social security authorities is related to both Company and employees' contribution payables.

Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.

Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2018 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

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

NOTE 33 - PROVISIONS

The item Provisions amounting to 12,248,412 Euros is summarized as follows:

(EUROS)	31/12/2017	ACCRUALS	UTILIZED	31/12/2018
Provision for risks	9,448,000	-	(4,985,588)	4,462,412
Provision for losses on equity investments	5,786,000	2,000,000	-	7,786,000
Total	**15,234,000**	**2,000,000**	**(4,985,588)**	**12,248,412**

The item Provision for risks reflects the best estimate of contingent liabilities deriving from ongoing legal litigations; at 31 December 2018 a utilization of 4,985,588 euros was made.
The item Utilization is related to the merger by incorporation described in Note 37 where in 2018 the German court took note of the agreement reached between the parties, recognizing to the minority shareholders the payment of the sums established. The expenses arising from this agreement were accrued in previous years.
The item Provision for losses on equity investments has been adjusted following the impairment test related to the value of the equity investments.

NOTE 34 - TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2018 Financial Statements related to such transactions are summarized below.
Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiaries and associate companies are carried out at normal market conditions.

REPLY S.P.A. MAIN ECONOMIC AND FINANCIAL TRANSACTIONS

(THOUSAND EUROS)	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	NATURE OF TRANSACTION
FINANCIAL TRANSACTIONS	**31/12/2018**		**31/12/2017**		
Financial receivables	157,096	-	80,327	-	Financial loans
Garantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	10,869	-	39,704	-	Transaction accounts held by the Parent company
Trade receivables and other	131,701	25	181,348	-	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	250,437	128	203,720	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	3,100	-	2,950	Compensation paid to Directors and Key Management
ECONOMIC TRANSACTIONS	**2018**		**2017**		
Revenues from Royalties	29,638	-	25,401	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	37,04	22	33,165	13	Administrations services, marketing, quality management and office rental
Revenues from management services	7,382	-	7,071	-	Strategic management services
Costs for professional services	523,320	-	337,191	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,561	420	1,497	420	Services related to office rental and office of the secretary
Personnel	-	6,630	-	5,877	Emoluments to Directors and Key Management
Interest income, net	9,741	-	6,942	-	Interest on financial loans: 3 month Euribor + spread of 3 percentage points

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, in the annexed tables herein, the Statement of income and the Statement of financial position reporting transactions with related parties separately, together with the percentage incidence with respect to each account caption has been provided.

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

NOTE 35 - ADDITIONAL DISCLOSURE TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 2018 is represented by the carrying amounts stated for financial assets in the balance sheet.

Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down

takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the fair value of any guarantees received. General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience.
Refer to the note on trade receivables for a quantitate analysis.

LIQUIDITY RISK

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The two main factors that determine the company's liquidity situation are on one side the funds generated by or used in operating and investing activities and on the other the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

Reply S.p.A. makes use of external funds obtained in the form of financing and invest in

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

SENSITIVITY ANALYSIS

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2018 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 266 thousand Euros.
This analysis is based on the assumption that there is a general and instantaneous change of 50 basis points in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

FAIR VALUE HIERARCHY LEVELS

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

- Level 1 inputs are prices quoted (not rectified) in markets active for identical assets and liabilities which the entity can access on the date of assessment;

- Level 2 inputs are variable and different from the prices quoted included in Level 1 observable directly or indirectly for assets or liabilities;
- Level 3 inputs are variable and not observable for assets or liabilities.

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2018, according to the fair value hierarchical assessment level.

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Financial securities		-	-	-
Other assets		-	-	-
Total Assets		**-**	**-**	**-**
Derivative financial liabilities (IRS)	28	-	1,372	
Liabilities to minority shareholders and earn out	27	-	-	2,020
Total Liabilities		**-**	**1,372**	**2,020**

The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
As at 31 December 2018, there have not been any transfers within the hierarchy levels.

NOTE 36 - SIGNIFICANT NON-RECURRING TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non-recurring transaction during 2018.

NOTE 37 - TRANSACTIONS RESULTING FROM UNUSUAL AND/OR ABNORMAL OPERATIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, in 2018 Reply S.p.A. has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the Financial Statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

NOTE 38 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euro). Currently it is not possible to foresee the outcome of the said judgment but Management believes that any future economic-financial effects on the Company are not significant.
- with regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122j of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.

Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure.

On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.
At present, some minority shareholders have commenced the aforementioned procedures. Following exchanges with the minority shareholders and their appointed representative, the Company has reached a settlement agreement where the payment of an additional amount of 4.41 Euros per share of Reply Deutschland was agreed plus legal interest, in addition to the flat-rate reimbursement of proceedings costs. On 18 June 2018, the German court took note of the agreement reached between the parties. The expenses arising from this agreement amounting to approximately 5 million Euros total is covered by specific provisions.

CONTINGENT LIABILITIES

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

NOTE 39 - EMOLUMENTS TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT

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

NOTE 40 - EVENTS SUBSEQUENT TO 31 DECEMBER 2018

No significant events have occurred subsequent to 31 December 2018.

NOTE 41 - APPROVAL OF THE FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The Financial statements at 31 December 2018 were approved by the Board of Directors on March 14, 2019 which authorized the publication within the terms of law.

ANNEXED TABLES

REPLY S.P.A.
STATEMENT OF INCOME PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(EUROS)	2018	OF WHICH WITH RELATED PARTIES	%	2017	OF WHICH WITH RELATEDI PARTIES	%
Revenues	565,910,271	65,397,321	11.6%	378,788,753	58,321,419	15.4%
Other income	10,986,426	10,170,354	92.6%	10,201,787	8,084,930	79.3%
Purchases	(24,870,993)	(24,214,860)	97.4%	(19,198,916)	(18,817,214)	98.0%
Personnel	(20,421,751)	(6,630,000)	32.5%	(19,821,559)	(5,877,000)	29.6%
Personnel	(526,781,333)	(510,672,593)	96.9%	(342,420,618)	(327,970,367)	95.8%
Amortization and depreciation	(1,188,197)			(973,395)		
Other operating and non-recurring income/(expenses)	344,134			(2,999,737)		
Operating income (EBIT)	**3,978,556**			**3,576,315**		
Gain/(loss) on equity investments	50,839,538			95,910,635		
Financial income/(loss)	10,800,438	9,740,870	90.2%	2,971,575	6,942,047	233.6%
Income before taxes	**65,618,532**			**102,458,525**		
Income taxes	(2,038,858)			(390,815)		
Net income	**63,579,674**			**102,067,710**		
Net and diluted income per share	*1.70*			*2.73*		

REPLY S.P.A.
STATEMENT OF FINANCIAL POSITION PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(EUROS)	31/12/2018	OF WHICH WITH RELATED PARTIES	%	31/12/2017	OF WHICH WITH RELATED PARTIES	%
Tangible assets	310,380			477,824		
Goodwill	86,765			86,765		
Other intangible assets	2,971,751			2,096,599		
Equity investments	145,001,792			143,259,963		
Other financial assets	157,349,863	157,095,800	99.8%	80,407,079	80,326,954	99.9%
Deferred tax assets	4,767,855			4,634,202		
Non current assets	**310,488,406**			**230,962,432**		
Trade receivables	341,729,413	116,591,480	34.1%	372,933,805	175,692,870	47.1%
Other receivables and current assets	30,811,220	15,134,083	49.1%	21,330,897	5,655,321	26.5%
Financial assets	67,655,451	67,655,451	100.0%	82,843,389	82,843,389	100.0%
Cash and cash equivalents	71,016,284			63,610,242		
Current assets	**511,212,368**			**540,718,332**		
TOTAL ASSETS	**821,700,774**			**771,680,764**		
Share Capital	4,863,486			4,863,486		
Other reserves	272,820,509			185,179,297		
Net income	63,579,674			102,067,710		
SHAREHOLDERS' EQUITY	**341,263,668**			**292,110,492**		
Due to minority shareholders	2,019,980			2,364,114		
Financial liabilities	21,071,429			13,071,428		
Employee benefits	571,111			474,932		
Deferred tax liabilities	1,924,495			1,214,430		
Provisions	4,462,412			9,448,000		
Non current liabilities	**30,049,427**			**26,572,905**		
Financial liabilities	92,326,466	56,786,827	61.5%	80,924,097	43,139,346	53.3%
Employee benefits	329,992,215	243,235,580	73.7%	349,998,450	196,329,645	56.1%
Other current liabilities	20,282,998	7,031,731	34.7%	16,288,820	7,418,873	45.5%
Provisions	7,786,000			5,786,000		
Current liabilities	**450,387,679**			**452,997,366**		
TOTAL LIABILITIES	**480,437,106**			**479,570,271**		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**821,700,774**			**771,680,764**		

REPLY S.P.A.
EQUITY INVESTMENTS IN SUBSIDIARIES WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION NO. 6064293 OF 28 JULY 2006)

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2018
Air Reply S.r.l.	Turin	€	10,000	20,446	(169,920)	85.00%	558,500
Arlanis Reply S.r.l.	Turin	€	10,000	21,276	(328,279)	100.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	1,586,121	1,490,335	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	338,859	325,957	100.00%	12,575
Avantage Ltd	London	GBP	5,086	3,139,556	65,262	100.00%	7,322,484
Blue Reply S.r.l.	Turin	€	10,000	9,976,316	9,917,164	100.00%	527,892
Breed Reply Ltd.	London	GBP	10,000	(7,546,840)	(2,973,492)	100.00%	12,477
Breed Reply Investment Ltd.	London	GBP	100	1,531,062	2,309,263	80.00%	103
Bridge Reply S.r.l.	Turin	€	10,000	306,955	273,847	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	3,362,471	3,217,608	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	10,926,297	10,692,542	100.00%	2,540,848
Cluster Reply Roma S.r.l.	Turin	€	10,000	1,489,634	1,453,625	100.00%	296,184
Consorzio Reply Public Sector	Turin	€	92,500	24,320	-	35.91%	32,500
Consorzio Reply Energy	Turin	€	4,000	4,000	-	25.00%	1,000
Core Reply S.r.l.	Turin	€	10,000	-	-	90.00%	9,000
Data Reply S.r.l.	Turin	€	10,000	2,131,655	2,095,748	100.00%	317,662
Discovery Reply S.r.l.	Turin	€	10,000	2,135,870	2,033,024	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	3,327,946	3,185,441	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	124,621	83,376	100.00%	30,000
Envision Reply S.r.l.	Turin	€	10,000	11,336	(453,664)	88.00%	463,800
Eos Reply S.r.l.	Turin	€	200,000	1,047,745	838,259	100.00%	495,369
Forge Reply S.r.l.	Turin	€	10,000	11,331	(639,861)	100.00%	12,000
Go Reply S.r.l.	Turin	€	50,000	1,838,662	347,260	100.00%	1,920,000
Hermes Reply Polska zoo	Katowice	ZLT	40,000	7,071,675	1,710,375	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,241,276	1,180,273	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	9,153,100	8,275,443	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	51,668	(127,242)	100.00%	360,012
Like Reply S.r.l.	Turin	€	10,000	88,070	74,361	100.00%	87,317
Logistics Reply S.r.l.	Turin	€	78,000	1,044,236	870,770	100.00%	1,049,167

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2018
Open Reply S.r.l.	Turin	€	10,000	3,936,750	3,905,677	100.00%	1,417,750
Pay Reply S.r.l.	Turin	€	10,000	2,738,638	2,706,207	100.00%	10,000
Portaltech Reply S.r.l.	Turin	€	10,000	1,070,492	1,054,050	100.00%	106,000
Power Reply S.r.l.	Turin	€	10,000	1,537,629	1,425,148	100.00%	2,500,850
Protocube Reply S.r.l.	Turin	€	10,200	12,431	(420,537)	100.00%	12,000
Reply Consulting S.r.l.	Turin	€	10,000	1,922,474	1,875,861	100.00%	3,518,434
Reply AG	Guetersloh	€	100,200	54,097,567	(8,535,431)	100.00%	57,835,781
Reply Services S.r.l.	Turin	€	10,000	710,353	654,767	100.00%	95,212
Reply Inc	Michigan	$	3,406,420	(503,728)	(2,595,056)	100.00%	2,814,625
Reply Ltd.	London	GBP	54,175	3,814,985	(2,787,856)	100.00%	11,657,767
Reply Digital Experience S.r.l.	Turin	€	29,407	869,284	833,786	100.00%	4,227,019
Reply do Brasil Sitemas de Informatica Ltda	Belo Horizonte	R$	650,000	702,043	615,792	98.50%	206,816
Ringmaster S.r.l.	Turin	€	10,000	1,450,432	1,358,639	50.00%	5,000
Santer Reply S.p.A.	Milano	€	2,209,500	6,911,388	(3,187,424)	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	5,324,491	5,167,632	100.00%	392,866
Sense Reply S.r.l.	Turin	€	10,000	281,436	271,351	90.00%	15,700
Retail Reply S.r.l. (formerly Square)	Turin	€	10,000	223,563	196,458	100.00%	100,000
Spark Reply S.r.l.	Turin	€	10,000	15,349	(165,738)	100.00%	1,042,500
Sprint Reply S.r.l.	Turin	€	10,000	10,177	(144,823)	100.00%	155,000
Storm Reply S.r.l.	Turin	€	10,000	7,530,486	3,086,937	95.00%	986,000
Syskoplan Reply S.r.l.	Turin	€	32,942	1,675,497	1,562,904	100.00%	949,571
Sytel Reply S.r.l.	Turin	€	115,046	12,017,966	11,790,568	100.00%	4,991,829
Sytel Reply Roma S.r.l.	Turin	€	10,000	2,843,212	2,777,263	100.00%	894,931
TamTamy Reply S.r.l.	Turin	€	10,000	414,618	385,259	100.00%	263,471
Target Reply S.r.l.	Turin	€	10,000	2,472,758	2,397,155	100.00%	600,338
Technology Reply Roma	Turin	€	10,000	1,276,842	950,382	100.00%	10,000
Technology Reply S.r.l.	Turin	€	79,743	8,617,785	8,322,033	100.00%	216,658
Technology Reply S.r.l. (Romania)	Romania	RON	44,000	(575,482)	1,262,003	100.00%	9,919
Twice Reply S.r.l.	Turin	€	10,000	3,954,746	215,298	98.00%	521,203
Whitehall Reply S.r.l.	Turin	€	21,224	426,682	299,604	100.00%	160,212
Xister Reply S.r.l.	Roma	€	10,000	3,350,706	458,904	89.20%	9,150,465

DETAILS OF SHAREHOLDERS' EQUITY STATED ACCORDING TO ORIGIN, POSSIBILITY OF UTILIZATION, POSSIBILITY OF DISTRIBUTION, AVAILABILITY AND THE UTILIZATION IN THE PREVIOUS THREE FISCAL YEARS.

				SUMMARY OF THE AMOUNTS USED IN THE PRIOR THREE FISCAL YEARS	
NATURE/DESCRIPTION	**AMOUNT**	**POSSIBILITY OF UTILIZATION**	**AVAILABLE**	**FOR COVERAGE OF LOSSES**	**OTHER**
Capital	**4,863,486**				
Capital reserve					
Reserve for treasury shares	24,502				
Share premium	23,302,692	A,B,C	23,302,692		
Reserve for treasury shares	29,990,873	A,B,C	29,990,873		
Income reserves					
Legal reserve	972,697	B			
Extraordinary reserve	191,240,480	A,B,C	191,240,480		
Surplus merger reserve	6,347,964	A,B,C	6,347,964		
Retained earnings	674,740	A,B,C	674,740		
Reserve for purchases of treasury shares	19,984,625	A,B,C	19,984,625		
Total			**271,541,374**		
Not available amount			-		
Residual available amount			**271,541,374**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,147,961				
Reserve for cash flow hedge	(1,372,438)				
Reserve for treasury shares	(24,502)				
IAS reserve	(2,030)				
Accounting expenses according to IAS 32	(770,448)				
	281,936				

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

DISCLOSURES PURSUANT TO ARTICLE 149-DUODECIES BY CONSOB

The following table, prepared in accordance with Art. 149-duodecies of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2018 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

(EUROS)	SERVICE PROVIDER	2018 FEES
Audit	EY S.p.A.	49,100
Audit related services	EY S.pA. [1]	1,400
	EY S.p.A. [2]	49,000
Total		**99,500**

[1] Attestation of tax forms (tax return, IRAP and Form 770)
[2] DNF

ATTESTATION OF THE FINANCIAL STATEMENTS

in accordance with article 154 bis of Legislative Decree 58/98

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

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

of the administration and accounting procedures applied in the preparation of the financial statements for the year ended 2018.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2018 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Financial Statements

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

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

Turin, 14 March 2019

Chairman
and Chief Executive Officer
Mario Rizzante

Director in charge of signing
the financial statements
Giuseppe Veneziano

REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to article 153 of the Legislative Decree 58/1998 on the financial statements as at 31 December 2018

Dear Shareholders,
pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activities performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
We remind you that the Board of Statutory Auditors currently in office was nominated by the General Shareholders' Meeting on April 23, 2018 approving the 31 December 2017 Financial statements as the term of office had expired for the previous mandate.
During the year ended 31 December 2018 the Board of statutory Auditors carried out the supervisory activities provided for by the law (in particular by art. 149 of Legislative Decree No. 58/1998 and art. 19 of legislative Decree 39/2010), by the Rules of Conduct issued by the National Council of Chartered Accountants and accounting Experts, from Consob recommendations in the field of corporate controls and activities of the Board of Statutory auditors and the indications contained in the Code of Conduct and We note the following:

1. THE MOST SIGNIFICANT OPERATIONS FROM AN ECONOMIC, FINANCIAL AND EARNINGS STANDPOINT.

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2018 or subsequent to the end of the financial year, among which we note:

- In the month of February 2018 Reply Services S.r.l. acquired a building in Turin, the former Caserma De Sonnaz.

In order to finance the purchase of this property and the subsequent restructuring, Reply S.p.A. and Reply Services S.r.l., the latter as "third-party guarantor", have concluded a loan agreement with Unicredit S.p.A., assisted by mortgage guarantee.

- in the month of April 2018, Reply Inc., a subsidiary of Reply S.p.A., acquired 70% of the US company Valorem LLC;
- in the month of July 2018, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Modcomp GmbH and its subsidiaries CSPi GmbH and MCG Systems AG, a company incorporated under German law;
- in the month of November 2018, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Elbkind GmbH, a company incorporated under German law;
- in the month of January 2019, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Neveling GmbH a company constituted under German law.

2. ANY UNUSUAL AND/OR ATYPICAL TRANSACTIONS, INCLUDING INTRA-GROUP OR WITH RELATED PARTIES.

On the basis of meetings held with the Directors and with representatives of the Independent Auditing firm, it did not appear that any atypical or unusual transactions occurred during the financial year, nor following the year ended.
With reference to intercompany transactions, we give notice that:

- Reply S.p.A. obtained professional services from Group companies related to revenues connected to contracts undersigned with major clients;
- Reply S.p.A. gave bank guarantees in favor of subsidiaries;
- Reply S.p.A. has granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:
  - › Core Reply S.r.l. and Sense Reply S.r.l. – non-interest bearing loan;
  - › Breed Investments Ltd, Breed Reply Ltd, Reply Ltd., Hermes Reply Polska Sp Zoo, InEssence Reply Gmbh, Cluster Reply Informatica Ltda, Portaltech Reply GmbH, Reply do Brazil Sistemas de Informatica Ltda, Reply Inc., Reply Ltd, Technology Reply S.r.l. (Romania), Reply AG and Reply France Sarl– interest bearing loans;
- Reply S.p.A. provided subsidiaries with management, administrative, commercial and marketing services, the lease of premises, as well as services to manage the corporate internet network, electronic mail and web;
- Reply S.p.A. centrally managed the Group's treasury by means of correspondence bank accounts held by the individual subsidiaries;
- Reply S.p.A. granted Group companies the use of its proprietor trademark "REPLY";
- Reply S.p.A. acquired "office services" (general services and the availability of office space).

Transactions with related parties in 2018, which took place in accordance with market conditions, are related to Emoluments to Directors and Key Management and to "office services", in particular to the office situated in Corso Francia, 110 Turin, provided by Alika S.r.l.. For these operations the Procedure for Related party transactions was not applied as these transactions are exempt as defined by art. 4.1 and 4.4. of the Procedure.

3. INFORMATION PROVIDED IN THE REPORT ON OPERATIONS ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTERCOMPANY TRANSACTIONS AND THOSE WITH RELATED PARTIES.

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2018 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2018 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.

The Report on Operations, the information received by the Board of Directors and those received by the Chairman and the managing Directors, by management, by the supervisory bodies of the subsidiaries and the auditors have not revealed the existence of atypical and/or unusual transactions, including intercompany or related parties, which have been perfected during the year or at the date following the closure of the same.

4. COMMENTS AND PROPOSALS ON THE NOTES AND REQUESTS FOR INFORMATION CONTAINED IN THE REPORT OF THE INDEPENDENT AUDITOR.

The Directive 2014/56/EU amended Directive 2006/43/EC concerning the statutory audit; the directive was implemented in Italy with Legislative Decree 135/2016 which amended Legislative Decree 39/2010. The regulation (EU) 537/2014 of 16 April 2014, art. 10, defines the specific requirements of the audit report for public interest entities.

Pursuant to art. 19 of Legislative Decree 39/2010, during 2018 and up to the date of this Report, the Board of Statutory Auditors carried out a continuous monitoring process of the activities carried out by the auditing firm through a series of meetings during which among other things, has examined: the purpose of the audit, materiality and significant risks and the audit plan.

The Board of Statutory Auditors analyzed the methodological framework adopted by the auditor and acquired the necessary information going forward, receiving updates on the progress of

the audit engagement and on the main aspects brought to the auditor's attention.
The Board of Statutory Auditors examined the following reports prepared by the independent auditor EY S.p.A :

- the reports on the audit of the financial statements and the audit of the consolidated financial statements issued on March 26, 2019 pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of the Regulation (EU) n. 537/2014;
- the additional report issued on March 26, 2019, pursuant to Article 11 of the aforementioned Regulation, to the Board of Statutory Auditors in capacity of the Internal Control and Auditing Committee;
- the annual confirmation of independence, issued March 26, 2019, pursuant to art. 6 par. 2) let. a) of the Regulations and pursuant to paragraph 17 of ISA Italia 260.

The aforementioned annual audit reports of the consolidated financial statements show that the individual financial statements and the consolidated financial statements of the Group provide a true and fair view of the balance sheet and financial situation of Reply S.p.A. and of the Reply Group at December 31, 2018, of the economic result and cash flows for the year ended on that date, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

Furthermore, in the opinion of the auditor, the management report and some specific information disclosed in the report on corporate governance and ownership structure indicated in art. 123-bis, paragraph 4, of Legislative Decree 58/1998, is consistent with the financial statements of Reply S.p.A. and with the consolidated financial statements of the Reply Group at December 31, 2018 and are prepared in accordance with the law. With reference to the possible identification of significant errors in the management report (Article 14, paragraph 2, letter e) of Legislative Decree 39/2010), the auditor declared that nothing had emerged.
The audit reports on the financial statements and the consolidated financial statements describe, according to professional judgement, the most significant audit aspects of the individual and consolidated financial statements for the year under exam.

More specifically, EY S.p.A. has identified the following key aspects:

- the valuation of investments, with regard to the financial statements and
- the valuation of the goodwill and the valuation of payables to minority shareholders and corporate transactions, with regard to the consolidated financial statements.

Regarding the aforementioned key aspects, for which the auditor's reports illustrate the related audit procedures adopted, the auditor does not express a separate opinion, since the auditors themselves were involved in the audit and in the assessment of the financial statements as a whole. The aforementioned key aspects were the subject of detailed analysis and updating during the periodic meetings that the Board of Statutory Auditors had with the auditors.

5. COMPLAINTS PURSUANT TO ARTICLE 2408 OF THE ITALIAN CIVIL CODE.

No complaints have been acknowledged pursuant to Article 2408 of the Italian Civil Code in 2018 and at present.

6. FILED COMPLAINTS/LAWSUITS.

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

7. THE GRANTING OF ANY FURTHER APPOINTMENTS TO THE INDEPENDENT AUDITOR AND RELATIVE COSTS.

During 2018, in addition to the engagement of auditing the Financial Statements as at 31 December 2018, EY S.p.A. received the following engagements:

- The signing of Reply S.p.A.'s various tax forms (Modelli Unico, IRAP, 770)
  The consideration for such engagement was 1 thousand Euros;
- The signing of various tax forms of Reply S.p.A.'s Italian subsidiaries (Modelli Unico, IRAP, 770)

The consideration for such engagement was 18 thousand Euros.

- Limited review of the financial and earning position of EOS Reply S.r.l. as at 30 September 2018.

The fee for this engagement was agreed at 4 thousand Euros.

8. ANY APPOINTMENTS OF PARTIES CONNECTED TO THE INDEPENDENT AUDITOR BY ONGOING RELATIONSHIPS, AND THE RELATIVE COSTS.

Beyond what has already been reported in the report of the Board of Statutory auditors on the financial statements closed on 31 December 2018, during the financial year the following professional assignments were conferred to persons linked to EY S.p.A. by continuous and /or to persons belonging to the network thereof.

In 2018 EY GmbH was assigned to perform a Due Diligence on a target acquisition company incorporated under German law.

The consideration for such engagement was 5 thousand Euros.

9. INDICATION OF WHETHER OPINIONS WERE ISSUED IN ACCORDANCE WITH LAW DURING THE FINANCIAL YEAR.

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

In particular, on 24 April 2018 the Board of statutory Auditors delivered a favorable opinion on the appointment of Dr. Giuseppe Veneziano as Manager in the drafting of accounting and company documents.

10. INDICATION OF THE FREQUENCY AND NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND BOARD OF STATUTORY AUDITORS.

During the financial year, the Board of Directors met 5 times, and the Board of Statutory Auditors 6 times.

The Internal Control and Risk Management Committee 4 times, whereas the Remuneration Committee met once, and the Committee for Related Party Transactions did not meet.

The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

11. INSTRUCTIONS GIVEN BY THE COMPANY TO SUBSIDIARIES PURSUANT TO ARTICLE 114(2) OF LEGISLATIVE DECREE 58/1998.

The instructions given by Reply S.p.A. to subsidiaries, pursuant to the second paragraph of Article 114 of Legislative Decree 58/1998 appear to be adequate; similarly, the subsidiaries provided the Parent Company with the necessary information for its timely knowledge of the business situation.

We advise you that in order to guarantee the timely communication of the information requested, Mr. Daniele Angelucci, Executive Director and Chief Financial Officer of Reply S.p.A., also acts as advisor within all of the administrative bodies of the Italian subsidiaries, with the exeption of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries and is also a member of the Supervisory Board of Reply AG.

We further advise you that:

- the Chairman of Reply S.p.A.'s Board of Directors, Mr. Mario Rizzante, is the Director of the English subsidiaries Reply Ltd., Breed Reply Ltd, Breed Reply Investments Ltd. and is also a member of the Supervisory Board of Reply AG;
- Tatiana Rizzante, Chief Executive Officer is Director of the English subsidiary Reply Ltd and Director in the American subsidiary Reply Inc. and is also the Managing Director of the German subsidiaries, InEssence Reply GmbH and Reply AG.;
- Filippo Rizzante, Executive Director holds office as Vice President of Ringmaster S.r.l. among other offices as Director in several English companies.

12.SIGNIFICANT ISSUES THAT EMERGED DURING THE MEETINGS HELD WITH THE INDEPENDENT AUDITOR PURSUANT TO ARTICLE 150(3) OF LEGISLATIVE DECREE 58/1998.

During the meetings held with representatives of the Independent Auditors, no deeds or facts deemed to be reprehensible or relevant emerged or are worthy of mention pursuant to art. 155, paragraph 2, of Legislative Decree 58/1998.

13. THE COMPANY'S COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTED COMPANIES' CORPORATE GOVERNANCE COMMITTEE.

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A., and revised in July 2018.

On 14 March 2019 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

14. FINAL CONSIDERATIONS ON THE SUPERVISORY ACTIVITY CARRIED OUT, AS WELL AS WITH RESPECT TO ANY OMISSIONS, CENSURABLE EVENTS OR IRREGULARITIES DISCOVERED DURING SUCH ACTIVITY.

The Board's supervisory activity was carried out through:

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

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

In particular, we advise the Shareholders that:

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently modified on 14 May 2015 and on 2 August 2018, as well as compliance to it;

- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the “independent Directors”;
- we monitored the financial reporting process and its integrity;
- we have verified the effectiveness of the company's internal control, quality and risk management systems, with regard to financial reporting;
- we monitored the statutory audit of the financial statements and of the consolidated financial statements;
- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- we monitored compliance with the provisions of art. 17, paragraph 4, of Legislative Decree 39/2010 and in this regard, we inform you that the new key manager for the review of the financial statements of Reply S.p.A. is Mr. Alessandro Davi;
- we verified and monitored the independence of the independent auditing firm EY S.p.A. pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010 and article 8 of Regulation (EU) 537/2014;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers’ Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body’s violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on “Market abuse” and “Protection of savings” in matters of corporate disclosures of information and “Internal Dealings” based on the information provided by the Company. In this regard, we note on 14 March 2019 the Board of Directors approved the new text of Section I of the "Procedure for the management and communication to the market of privileged information, for the compilation of the Register of persons having access to insider information and concerning "Internal Dealing", whose Sections II and III had already been approved by the Board of Directors on 2 August 2018;
- we verified the fulfillment of the obligations related to the regulations pursuant to Legislative Decree 254/2016 of the national implementation of the Directive 2014/95 / EU, on the basis of which the Consolidated Disclosure of Non-Financial information was approved by the Board of Directors on March 14, 2019.

In this regard, we acknowledge that EY S.p.A., specifically appointed, issued on March 26, 2019 its opinion pursuant to art. 3, c. 10 of Legislative Decree 254/2016, regarding the compliance of the information provided in the Consolidated Disclosure of the Non-Financial information with respect to the requirements set forth in Legislative Decree 254/2016.

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

1) ADMINISTRATION

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

2) ORGANISATIONAL STRUCTURE

Within the scope of the responsibilities bestowed on us by the rules set forth in Legislative Decree 58/1998 and in compliance with the Governance Rules of the Board of Statutory Auditors, we met periodically with the Independent Auditors and the organizational department, to gather the necessary information.

This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure also with reference to the procedures, processes and structures that preside over the production, reporting, measurement and representation of results and information of a non-financial nature and to arrive at a judgment of overall adequacy with respect to its size.

3) INTERNAL CONTROL SYSTEM

Within the Board of Directors there is a Committee for Internal Control and Risk Management and a Committee for Transactions with Related Parties, whose activities are carried out according to a program in line with the needs of the Company.

The participation of the Director in charge of the Internal Control, as well as our participation at the meetings of the Internal Control and Risk Management Committee, allowed us to coordinate our functions as the Internal Control and Audit Committee, assumed pursuant to Article 19 of Legislative Decree 39/2010, with the activities of the Internal Control and Risk Management Committee, and, in particular, to carry out the supervisory activities provided by Article 19 of

Legislative Decree No. 39/2010.
On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.
We have received from EY S.p.A. the report pursuant to in art. 11 of Regulation (EU) 537/2014, which stated tha, during the audit of the financial statements of Reply S.p.A. and the consolidated financial statements of the Group as at 31 December 2018, there were no significant aspects giving rise to discussions or correspondence with Management, and no significant gaps have been identified in the internal control system in relation to the financial reporting process, nor have significant difficulties been reported to bring to the attention of the Committee for Internal Control and Risk Management.
On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

4) ADMINISTRATIVE- ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive; these procedures have also been implemented throughout the Group companies.
We therefore deem that the administrative-accounting system is suitable to represent and monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.
The Chairman and the Director in charge of drawing up the Company's Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements, the attestation required by Article 154-bis (5) of TUF (Legislative Decree 58/1998).

15.PROPOSALS TO MAKE TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/1998.

In relation both to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998 and the general supervisory obligation pursuant to Article 149(1) of such Decree, as well as the agenda of the Shareholders' meeting which includes discussion of the Financial Statements for the reporting period, the Board of Statutory Auditors states that it has supervised compliance with the procedural rules and law with respect to their preparation.
We note that the Financial Statements as at 31 December 2018 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).

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

Similarly, with specific reference to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998, the Board does not have any proposals to make with respect to the other matters within its scope of expertise with the exception of the renewal of the Independent Auditor engagement following term of office, for which we refer to specific recommendations.

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

Turin, 28 March 2019

THE STATUTORY AUDITORS

(Dott. Giorgio Mosci)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Piergiorgio Re)

Building a better
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Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Reply S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reply S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Equity investments	
As at 31 December 2018, the equity investments amounted to € 145 million. Management assesses the presence of impairment indicators for each equity investment at least annually, consistent with its strategy to manage the legal entities within the Group and, if they occur, performs impairment test on such assets; in particular, in the current year a loss in equity investments € 6 million was recorded, mainly related to the investments in Breed Reply Ltd and Xister Reply Srl. The processes and methods to evaluate and determine the recoverable amount of each individual equity investment are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by management, in particular with reference to the identification of impairment indicators, the forecast of future profitability, the definition of the market multiples and to the determination of the normalized cash flows used to estimate terminal value and long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in the estimation of the recoverable amount of the equity investments, we considered that this area represents a key audit matter. The disclosures related to the valuation of investments is given in note 2 - Accounting principles, in note 19 - Investments, and in note 33 - Provisions.	Our audit procedures in response to this key audit matter included, among others: • analysis of the procedure and of the key controls implemented by the company in relation to the identification of possible losses and the valuation of equity investments; • analysis of the expert's report who assisted management in the impairment test as well as of the evaluation of its competence, capacity and objectivity; • analysis of the forecast of future results, used in the determination of fair value; • assessment of the consistency of the forecast of expected results with the Group budget; • comparison of forecasts with previous ones and actual data. In performing our analysis, we involved our experts in valuation techniques, who have performed an independent evaluation according to market multiples and verified the discount rates. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and related to the valuation of equity investments.

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Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Reply S.p.A., in the general meeting held on 29 April 2010, engaged us to perform the audits of the financial statements of each year ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Reply S.p.A. as at 31 December 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Reply S.p.A. as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Reply S.p.A. as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Reply S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Turin, 26 March 2019

EY S.p.A.
Signed by: Alessandro Davi, partner

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

CORPORATE INFORMATION

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CORPORATE DATA

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