REPLY
ANNUAL FINANCIAL REPORT 2017

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CONTENTS

BOARD OF DIRECTORS AND CONTROLLING BODIES

Chairman and Chief Executive Officer

Mario Rizzante

Chief Executive Officer

Tatiana Rizzante

Executive Directors

Daniele Angelucci

Claudio Bombonato

Oscar Pepino

Filippo Rizzante

Fausto Forti (1) (2) (3)

Maria Letizia Jaccheri (1) (2)

Enrico Macii (1) (2)

Board of Statutory Auditors

President

Cristiano Antonelli

Statutory Auditors

Paolo Claretta Assandri

Ada Alessandra Garzino Demo

Auditing firm

EY S.p.A.

(1) Amministratori non investiti di deleghe operative.
(2) Amministratori indipendenti ai sensi del Codice di Autodisciplina elaborato dal Comitato per la 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)	2017	%	2016	%	2015	%
Revenue	884,434	100.0	780,739	100.0	705,601	100.0
Gross operating income	123,244	13.9	106,417	13.6	98,736	14.0
Operating income	113,873	12.9	99,594	12.8	90,558	12.8
Income before taxes	110,310	12.5	97,405	12.5	88,930	12.6
Group net income	77,871	8.8	67,544	8.7	56,748	8.0

FINANCIAL FIGURES (THSD EUROS)	2017	2016	2015
Group shareholders' equity	401,404	337,017	295,425
Non controlling interest	668	520	653
Total assets	871,154	770,575	700,745
Net working capital	167,870	160,404	162,566
Net invested capital	345,041	308,779	267,893
Cash flow	73,202	79,497	44,334
Net financial position	57,030	28,758	28,186

DATA PER SHARE (EUROS) (*)	2017	2016	2015
Number of shares	37,411,428	37,411,428	37,411,428
Operating income per share	3.04	2.66	2.42
Net income per share	2.08	1.81	1.52
Cash flow per share	1.96	2.12	1.19
Shareholders' equity per share	10.73	9.00	7.90

OTHER INFORMATION	2017	2016	2015
Number of employees	6,456	6,015	5,245

(*) For 2016 and 2015 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,

2017 was the year during which the digital revolution firmly asserted itself.

Widespread network access; the diffusion of mobile technology and "smart" devices; the resulting availability of huge amounts of information; the sharing economy; the digitisation of production processes, including 3D-printing; and cloud-based solutions drove the rapid and continuous redefinition of productive and distributive maps. This was all made possible by overcoming entry barriers and the emergence of new collaborative and innovative ecosystems.

This is an evolution that can no longer be stopped, leading to the inevitable crisis of those sectors that are unable to evolve and adapt, find new and different competitive approaches or open themselves up to new business or service models.

Reply worked effectively in this new environment during 2017. We quickly positioned ourselves amongst the leading players in this transformation, offering a complete portfolio of products and services aligned to the evolving needs of companies that increasingly focused on the digitisation of all services and physical goods.

Today, thanks to the investments made in previous years, Reply is one of the leaders in this evolution, both in terms of its portfolio of partnerships and because of our customer ecosystem. In recent months, few companies operating in our industry have received as much recognition from the market as Reply.

In fact, our expertise consolidated in the "core" processes of leading industrial and media sectors allows us to transform technology into relevant and innovative solutions for our customers. At the same time, we support them in the constant search for competitiveness that today's markets demand.

We enjoy leading partner status with all of the major global technology vendors. We also have investment projects under way in research and development, with a focus on emerging technologies, including virtual reality, blockchain and artificial intelligence - areas in which we *are already active with specific expertise and a dedicated portfolio of products and services.*

The implications of what can be referred to as the industrial revolution of the 21st century appear, however, to be extremely profound, even and especially in our sector.

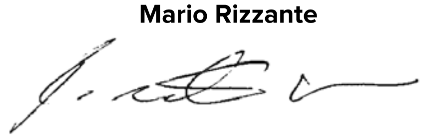
Digital innovation will, in fact, increasingly stem from the fusion between business and technology, which does not readily fit traditional models: smart cities; connected vehicles and products; digital currencies and e-health are just a few examples of these new hybrid scenarios.

Agility and speed will be our key assets in this environment, whilst the ability to be competitive will be closely linked with the capacity to experiment and innovate quickly, learning rapidly from our company's experience, and then just as swiftly bringing new products and services to the market.

Now more than ever, it is imperative that we continue to move forward. Our competitive advantage, reflected in the results recorded in 2017, combined with our financial strength, make Reply's products and services portfolio increasingly better aligned to the demands of a new world. A world, in which innovation linked to technology shifts from an enabler to a strategic lever for corporate success.

Our commitment is and continues to be stronger than ever, ensuring that we can capitalise on this moment of strong distruption, translating it into new value for Reply's shareholders, its employees and its customers.

Chairman of the Board
Mario Rizzante



REPLY LIVING NETWORK


REPLY
REPLY

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.

Composed of a network of companies, Reply partners with key industrial groups in defining business models. This is made possible by the new technological and communication paradigms such as artificial intelligence, big data, cloud computing, digital communication and the internet of things.

REPLY IS CHARACTERISED BY:

- a culture focused on technological innovation;
- a flexible **structure** that can 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 from leading universities;
- a highly experienced **management** team;
- continuous **investment** in research and development;
- and long-term **relationships** with customers.

THE ORGANISATIONAL MODEL

With over 6.400 employees (as of 31 December, 2017), Reply operates through a network of companies that specialise in processes, applications and technologies and are centres of excellence in their respective fields of expertise.

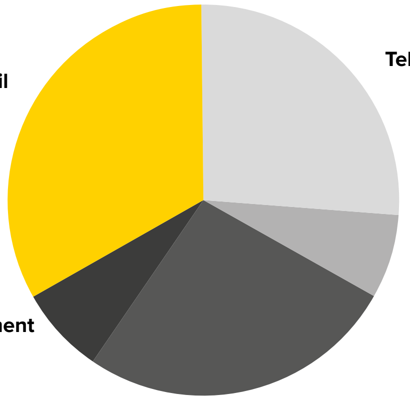
- **Processes** – at Reply, the understanding and use of technology involves introducing a new enabling approach for processes, based on an in-depth knowledge of both the market and the specific industrial contexts of implementation.
- **Applications** – Reply designs and implements application solutions aimed at satisfying companies' core business requirements.
- **Technology** – Reply optimises the use of innovative technologies, implementing solutions capable of ensuring maximum efficiency and operational flexibility for customers.

REPLY'S SERVICES INCLUDE:

- **Consulting** – focusing on strategy, communication, design, process and technology.
- **System Integration** – making the most of the potential offered by technology, combining business consulting with innovative technological solutions and high level value-add.
- **Digital Services** – innovative services based on new communication channels and digital trends.

MARKET FOCUS

For every market segment in which the company operates, Reply combines specific sector expertise with wide experience in the provision of services and a wealth of advanced technological capabilities. In 2017, the breakdown of the Group's sales in its various vertical sectors was as follows:



TELCO & MEDIA

In a world that is evolving towards an increase in digital contacts, the types of relationship with the end customer are drastically changing. The digitalisation of services and the virtualisation of interactions present new challenges in terms of supply, business models and operational processes, often leading to scenarios of cross-industry competition. To counteract this, Reply works with major telecom and media operators to define and implement digital transformation strategies and apply these to the main core processes.

Reply delivers integrated strategic and technological consulting services to support the design, definition and management of the new-generation networks, based on SDN (Software Defining Network) models, capable of integrating and managing virtual networks (Network Virtualisation) through network engineering services and network operations. The solutions developed by Reply are also applied to the network mediation layers used in the automotive world to enable 3G-4G communication between the Service Operations Centre and Network Operations Centre (NOC-SOC) and cars equipped with a "black box".

Reply also collaborates with leading European operators in the renewal of Operations Support systems / Business Support Systems (OSS/BSS) to support increasingly more customer-focused service models and an omnichannel configuration of the portfolio offering.

Finally, Reply is involved in the creation and implementation of services and applications designed for latest generation mobile devices. These include on-demand or linear audio/video content, integration with connected products, customer support services and omnichannel customer engagement solutions.

FINANCIAL SERVICES

Reply is increasingly active in supporting the digital transformation of Europe's financial institutions. Reply is working with some of the major players in the sector on many key issues, such as the design of complete multi-channel digital experiences and customer engagement strategies. This work includes everything from digital branding to the implementation of application strategies; the development of a new generation of portals and multi-channel touchpoints to the complete redefinition of the underlying technological architecture; and the analysis of new customer journeys, relying on evolved marketing initiatives with a data-driven focus.

In the wealth management area, Reply maintains a strong market presence and has developed a wide range of specific skills and solutions aimed, for example, at emerging consulting models and remote advice solutions and platforms. In the area of Governance Risk Control (GRC), Reply operates with a dedicated consulting division, comprising a European network that is distributed across 13 countries with over 200 business consultants and is highly specialised in risk evaluation and risk control. In this field, Reply is working with several leading financial institutions on a broad range of activities connected with the implementation of European Banking Union standards and on the development of related models and solutions.

Another area in which Reply boasts a strong presence and a high level of specialisation is the mobile payments realm and related m-commerce services. Reply offers consulting services, as well as a wide range of models and architectural solutions based on different standards, technologies and usage profiles, aimed at the banking/insurance market and at emerging players in the payments industry. Where relevant, Reply takes advantage of the new opportunities offered by the PSD2 legislation (revised Payment Service Directive).

IoT solutions represent another theme of great interest to Reply, in particular applied to the auto, home and health insurance sectors in which the company is active with cutting-edge projects for a number of key players.

MANUFACTURING & RETAIL

Reply partners with companies in this sector to support them through the transformation and management of 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 are on 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.

Native Cloud platforms and applications, together with a focus on the enabling aspects of digital transformation, represent the main technological component of Reply's portfolio offering.

Industry 4.0 and Logistics 4.0 are increasingly important elements for the strategic development of companies in the sector. In particular, the introduction of greater levels of flexibility on the shop floor is a new competitive challenge for processing companies. In 2017, Reply significantly increased its product offer in this area. The porting reengineering on the Cloud platform of proprietary SCE and MES solutions was completed. Using IoT, cloud computing and big data models, communication to the latest generation of sensors on production lines and within products was further boosted, creating a backbone for the next generation of applications in the logistics and manufacturing sector.

ENERGY & UTILITIES

In 2017, the energy and utilities sector confirmed the growth of innovative technologies on an industrial scale, across the entire value chain. Driven by market and regulatory pressures, operators are firmly investing in the digitisation, programming optimisation and operation of installations for the generation, transport and distribution of electricity.

Reply is one of the key partners delivering extensive transformation for companies operating in the sector. It combines knowledge of the market and of its unique processes, with a distinctive capability to design, implement and manage applications and technological solutions, supporting the "core business"; trading and risk management; pricing and forecasting; smart metering; billing; and CRM areas.

Moreover, the company's consolidated expertise in the introduction of new technologies (IoT, big data, cloud, mobile, etc.) is vertically applied, with dedicated and highly focused teams, to operating models for the various areas of the energy and utility value chain, and in particular in the definition and development of new smart metering, electric mobility, monitoring and optimisation of systems, smart grid and asset and work management models. Finally, Reply also assists its customers in the adoption of new energy management models aimed at boosting energy efficiency, a field in which it provides a complete portfolio offering, aimed at both energy sales companies and final consumers.

HEALTHCARE & GOVERNMENT

Telemedicine or digital healthcare, a realm that is expected to move therapies and patient monitoring increasingly out of the hospital environment, represents an important area of specialisation for Reply. The key areas that can potentially impact the organisational model are telemonitoring at the patient's home; and electronic prescriptions and healthcare for the management of patients suffering from chronic diseases. Reply has developed a specific platform for these areas, designed to facilitate an integrated network of communications between patients and community operators at various levels: hospitals, nursing homes, healthcare centres, community centres and more.

Lastly, Reply is working with various government agencies in the United Kingdom, including the Ministry of Defence (MOD), for which it has helped define and implement a new approach in the use of IT architecture. Designed to support decision-making processes, this new architecture is capable of integrating flows of heterogeneous information to improve data management and, at the same time, ensure the complete visibility of available resources.

TECHNOLOGICAL INNOVATION

Technological innovation forms the basis for Reply's development. The company has always pursued the objective of 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.

Today artificial intelligence is ready to be used within companies. The machine learning solution is, in fact, already adoptable and can automate processes by improving their quality. Reply applies the results of research on artificial intelligence to real-life scenarios in different sectors, implementing projects that integrate the latest machine learning technologies into company systems, from deep learning to cognitive computing, from recommendation systems to predictive engines, from data robotics to chatbots. Reply collaborates in these areas with the world's leading AI technology players.

Specifically, Reply's solutions within the artificial intelligence realm is based on three key elements: human-computer interaction (with the study of natural language conversation and recognition systems), processes (Intelligent Process Automation) and decisions (Data prediction and Data prescription). The essential factor for implementing artificial intelligence projects is the availability of data because without a wide availability of data, both historical and updated in real time, AI is not able to produce results. With this in mind, Reply works not only with the machine learning and neural networks technologies, but also with the management and treatment of big data through advanced analytics techniques.

BLOCKCHAIN

Blockchain technology represents a new opportunity to profoundly redesign the concepts of trust, property and trade. This is a further leap for web-based systems, which follows the joint statement of social networks and mobile devices. The disruptive potential of blockchain protocols lie in the opportunities they create for cutting out the middleman in virtually any guarantor-regulated trading process or Trusted Third-Party (TTP). The high potential of and the wide range of applications from this technology have been recognised at a cross-industry level.

Reply's Competence Centre, focused on the blockchain technology, is engaged in different countries (Benelux, France, Germany, Italy, the UK) and across various vertical industries (Banking, Insurance, Telco & Media, Energy, Retail, Healthcare, Real Estate, etc.), and works to accelerate the customer adoption of the most pervasive blockchain technologies, such as Bitcoin, Ethereum, Hyperledger and Multichain. Moreover, the company's proven expertise in system integration is reflected in the blockchain world, and in its ability to interface with Blockchain-as-a-Service services offered by major IT vendors, meaning that Reply's blockchain solutions fall within the "enterprise-ready" software product category.

CLOUD COMPUTING

Cloud computing has established itself as one of the most important areas of transformation that companies have had to face. The offer of virtual environments and services by leading vendors worldwide has in fact modified, if not revolutionised the concept of IT as it had been traditionally interpreted, transforming it from being a simple commodity to one of the basic elements on which to configure the digital transformation of an enterprise.

At the same time, the ever increasing maturity of the cloud in its various forms (IaaS, PaaS or SaaS) is leading service providers and system integrators to define specific offer portfolios aimed at highly strategic issues, such as the coexistence of cloud with traditional on-premise applications and the challenge of data management security.

In order to fulfil the requirements for strategic, technological and change management transformation necessary for the implementation of the most effective cloud models based on specific situations, Reply has defined a portfolio of services structured along the following lines:

- consulting support (from the business process to operational management), capable of helping clients to understand, select and develop the most appropriate technological solutions and applications;
- an end-to-end provider service which, supported by the partnership with major vendors worldwide including Amazon Web Services, Google, Microsoft, Oracle, SAP and Salesforce, allows customers to benefit from the most effective solutions for their needs, both in terms of the model and the technology chosen; and
- SaaS services and solutions, based on Reply's proprietary application platforms.

CUSTOMER ENGAGEMENT

The rapid evolution of data analytics tools was triggered by the major innovations of technology companies and is characterised by the use of data-driven analysis methodologies, the benefits of which are the result of a large availability of data and increasing computational capacity for their analysis. Specifically, the data-driven approach is defining a new model for the design and management of marketing initiatives aimed at the customer. Indeed, once the needs of the individual customer have been interpreted, based on data and analysis provided by CRM (Customer Relationship Management) platforms, it becomes possible to define one-to-one marketing campaigns, launched in real time to meet specific needs.

With the aim of exploiting this competitive advantage and establishing a consultative and strategic platform, Reply has created a competence centre focused on the customer robotics approach. Thanks to the experience gained through initiatives carried out in various sectors (e.g. automotive, financial services, utilities, retail, etc.), Reply has defined a framework for the development and implementation of processes related to direct interactions with customers, integrating machine learning, artificial intelligence and cognitive systems models, all aimed at the recognition and anticipation of needs across various digital channels.

The customer robotics approach facilitates the conception, design and implementation of services aimed at providing data-driven customer service tools, such as recommendation systems for products and conversational systems capable of understanding and interacting independently, using natural language.

Finally, Reply is constantly investing 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.

DATA & ANALYTICS

Big data technologies have moved on from being a strictly technological field, to become one of the key levers in the digital transformation of companies. Indeed, significant data projects have been launched to define programmes aimed at improving business performance (e.g. risk management in financial institutions), innovating service models (e.g. passenger car policies in the insurance sector) or to understanding and serving customers better (e.g. loyalty programmes in the retail sector).

By combining technological skills in data analysis, data modelling and data process re-engineering, Reply has made it easier for its customers to approach the issue of big data, favouring the activation of a real and solid pathway of cultural change and introducing a new approach to data management.

In particular, Reply has partnered with companies to support them in the application of big data technologies, by creating architectures based on the new “data lake” concept; and in the development and application of advanced analytics models, bringing together business experts and data scientists to define core business processes with a data-driven focus.

Reply has also initiated the development of a specific offering in the machine learning field, designed to address the growing demand by companies to automate lower impact digitised processes, such as invoice reconciliation. At the same time, Reply works with companies to increase their ability to build value-added services based on innovative process automation models through deep learning, image recognition and prescriptive analytics.

To better support its customers in the introduction of advanced, data-use techniques, Reply has also developed a training programme aimed at establishing a new generation of data scientists capable of capitalising on the latest machine learning and data analysis techniques.

DESIGN CONSULTING

In an increasingly digital and more connected world, the concept of customer experience has become a key differentiating factor, both in B2C and in B2B environments. Reply helps its customers to create innovative and distinctive product-service experiences. This process begins with the analysis of people's needs, strategic business objectives and technological enablers, it then transforms them into integrated customer journeys and prototypes that make the results immediately tangible and verifiable. Finally they are 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, which must be aligned not so much to its internal functions – and to the underlying IT systems – but to the customer journey. Reply supports organisations in managing change to make them more customer-centric; receptive to market inputs and feedback; and agile in releasing new products and services, by mobilising cross-functional teams that operate in full autonomy and towards specific objectives.
Reply continued to invest in the acquisition of skills and expertise in this field in 2017, further expanding the two design studios in Milan and Munich that offer support to customers across Europe.

DIGITAL EXPERIENCE

Real Time Marketing, artificial intelligence and analysis of the customer journey are the three transformation technologies that will have the most impact on the relationships that brands have with their customers and prospects. In fact, the use of these technologies enables brands to improve their marketing results through continuous enhancement in customer experience, customer loyalty and an increase in their customer base.

Taking full advantage of these emerging capabilities also means building a vision of the individual customer that is increasingly more data-driven.
The growing interest in cross-device identification tools and Account-Based Marketing (ABM) solutions underlines the increasing interest among marketers towards technologies and models that are capable of offering targeted and coherent interactions among owned, earned and paid media.

In response, Reply has developed an extended and specialised set of skills. These range from digital storytelling to a multi-platform strategic vision; contextual interaction to omnichannel loyalty; and data recognition components used to capture large quantities of information and subsequent data analysis expertise required to transform the data into powerful and effective market insights.

To extend this scenario further, it is necessary to ensure coherent communication between the various media involved, through a unified consulting, conceptual and productive supply chain that also incorporates a multimedia asset management strategy. In addition to the creation and management of every aspect of the interactive digital brand image, Reply's areas of expertise include creativity and technology as applied to important fields, such as mobile telephony, e-commerce, gaming and the internet of things. These are areas that commercial brands need to master, both now and especially in the future, as already demonstrated by major global communication markets.

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.

Another important field in which Reply supports its corporate customers is communication via digital social media networks. Today, this is a mainstream activity that has expanded significantly over the last few years and is the acknowledged global arena for brand-user relationships. Reply has therefore added to its portfolio an offering aimed at supporting companies in strategic activities that are needed to position a brand correctly, including within social media channels. This includes monitoring and assessment activities; the design and architecture of relational KPIs; promotional activities such as couponing and social gaming; content marketing; CRM; and social caring.

Social networks are increasingly more connected to the digital marketing activities that Reply integrates into a universal relationship model, based on analytical skills and paid, owned and earned media activation designed to enable and optimise a company positioning integrated with its own ecosystem over the relevant relationship channels. These channels include social media networks; search engines; comparison websites; shopping marketplaces and social shopping networks; affiliation networks; email; applications; and lead generation channels.

DIGITAL PAYMENTS

The widespread adoption of mobile devices among consumers and the creation of new payment channels that see the mobile component as a supporting factor, make the payment sector one of the areas with the highest growth rate.

Reply has defined a dedicated offer, based on consultancy services and technological platforms, to assist banks, financial institutions, telecos, utilities and retailers in creating and supplying innovative remote and proximity digital payment services.

One of Reply's key technological assets in this area is HI Credits™, a platform which enables personalised and contextualised payment services by capitalising on the available smartphone technologies. HI Credits™ can handle all major payment card circuits, token-based digital payment solutions (Apple Pay, Samsung Pay and Google Pay) and money transfers based on current accounts in person-to-person (P2P) and person to business (P2B) modes.

The expansion of new payment tools requires the acceptance network to adapt in order to manage new types of digital payments. Reply has developed a range of services that make it possible to manage new digital payment tools including Alipay, Jiify and WeChat, both on the traditional POS network and on a smartphone or tablet.

Another innovation relating to the acceptance network is the introduction, by leading hardware vendors, of POS solutions running on Android, which make it possible to develop new services directly on the POS device and to distribute them using a business model based on proprietary app stores. Reply has developed significant expertise in the planning, design and implementation of payment apps for Android POS devices.

E-COMMERCE

Mobile consumers are increasingly demanding a completely integrated experience from companies, as personalised and as unified as possible through various physical and digital channels. In a similar purchasing scenario, the success of this lies in the ability to invest in services that promote and enrich relations and interaction between sellers and customers, by constantly innovating and extending sales models with new multi-channel strategies capable of offering consumers different touchpoints for purchasing products and delivering a unique experience that is integrated and agile. One example is the increasingly widespread success of purchasing processes based on the “click and collect” models, which are extremely useful in order to avoid additional delivery costs or unexpected events such as delays. Purchases are made online and the product is collected free of charge at the shop.

The growing use of social media to compare prices and products has further enriched and modified purchasing processes. The buying journey is increasingly based on an exchange of information and multi-channel interactions in which the transaction is begun and completed between chats, social media, online stores and physical shops.

This evolution of the traditional purchasing scenario has led Reply to define an omnichannel strategy centered on customer needs. This allows companies to provide the final consumer with a completely unified and integrated experience, through online, mobile and physical channels, where the client feels monitored and supported during the process (e.g. voice assistants, recommendation engine). Reply provides end-to-end management of the entire corporate sales cycle chain, for all business models (B2B, B2C, B2B2C).

Reply’s offering ranges from the management of products and catalogues to promotions and pricing optimisation; warehouse and logistics management to integrated call centre systems; and customer engagement both in physical stores, using proximity commerce techniques, and on online channels, by exploiting the potential of social media. Last but not least, Reply is able to build a digital experience that is not only rich and fluid for the end customer, but is also able to create an emotional relationship with the brand.

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 2018, with the increasingly widespread emergence of 3D printing, virtual reality, artificial intelligence, machine learning and big data, all organisations will need to understand that those who do not know how to seize the opportunity to innovate, will be penalised by the market.

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.

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

The drive to converge the telco, media and consumer electronics sectors is making it necessary to treat objects that currently lack connectivity as “networked devices”. One of the main developments currently underway consists of the gradual interconnection not only of computers and devices, but also of a multiplicity of material objects, giving rise to networks that are increasingly pervasive and integrated with people’s daily lives.

Reply has designed and developed HI ReplyTM, a platform of services, devices and middleware, on which to base specific vertical applications covering advanced logistics, environmental security, contactless payment and product traceability. In 2017, Reply continued to follow the trend of verticalisation started in previous years, consolidating its position in the smart home, healthcare, insurance and automotive sectors.

Following the incentives promoted at local level (Industry 4.0 in Germany and Calenda Plan in Italy), which have led to a push in the application of the IoT in industry, Reply has designed a proprietary Manufacturing Operation Management solution. Finally, within the IoT ecosystem, Reply has developed specific vertical solutions for the energy sector.

MOBILE

In the mobile sector, Reply supports companies in defining interaction scenarios with their users based on omnichannel applications and architectures capable of meeting the needs that the new market scenario is imposing. These are the appeal of and high usability of services; high performance of services; the creation of architectures that are capable of integrating new channels and types of devices with flexibility to provide services and content suitable for each platform.

With the exponential growth of mobile video, where the quality and stability of the service is essential to ensuring its success, Reply is involved in major European projects for the provision of OTT-TV services, working with design, development, validation and monitoring teams.

In addition, Reply has established its own application factory dedicated to mobile applications for both the business and consumer worlds. The factory includes a user experience laboratory, together 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 and on their needs and behaviours.

AUGMENTED REALITY, VIRTUAL REALITY

The success of virtual reality continued during the course of 2017, both in the pure entertainment market with the release of various high-quality products (including Reply's Theseus-VR), and in the professional field. The different visors launched on the market in recent months (Google Daydream, ACER, ASUS, HP, Lenovo, etc.) which go alongside the most popular products currently available (OCULUS and HTC Vive), together with the general reduction in prices, are proof of a continuously expanding market.

Augmented reality, which in 2017 had as its reference product Microsoft's Hololens headset, also saw an important mobile development with the release of the respective development platforms of two leading players (Google and Apple). The areas in which this technology saw the greatest amount of development are the professional sectors as relating to companies' production processes (training, maintenance support, quality control) and sales support (e-commerce).

By combining experience in the 3D sector, from the gaming world, mobile skills and wearable devices, Reply has been able to develop an offering specifically orientated towards the development of solutions designed to increase user involvement.

This offer portfolio includes the development of augmented reality applications (aimed at visualising a virtual product in a real environment) and immersive reality applications designed specifically to provide users with an unforgettable experience, transporting them into a navigable virtual environment.

RISK MANAGEMENT, PRIVACY & SECURITY

Reply's Risk & Regulatory Management Consultancy division operates at a European level, providing services for risk, finance, treasury and compliance initiatives within the financial services sector. In these areas, Reply has developed a consolidated experience in change and remediation programmes driven by regulatory developments, and has developed programmes aimed at the strategic and operational improvement and optimisation of the same.

Over recent years, IT-related risks have increased dramatically in terms of both their impact and their frequency, leading to serious security violations and causing hundreds of millions of client data records to be compromised worldwide. The parameters that should be considered and monitored are often interconnected and are therefore difficult to catalogue in an orderly manner or to tackle individually.

In order to deal with this increasingly complex environment, Reply has defined an integrated, coherent and comprehensive range of services to support its customers in defining the best possible security governance and security technology strategies.

In particular, Reply provides support across all the implementation phases of an integrated information security plan, from strategic planning and the definition of enterprise security architectures, to the implementation of specific IT countermeasures.

Lastly, thanks to its cyber security command centre, Reply assists large organisations with advanced computer security incident response services.

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.

Reply offers an innovative approach for maximising the value of brands' digital identity on social networks, with a view to integration with other relational touch points, from search engines – nowadays closely interconnected with social media – to television, for second screen interaction analysis.

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.

VIDEO & GAMING GENERATION

The video game market continues to see a strong performance, expanding to all age groups and remaining equally divided between female and male audiences. Mistakenly considered to be a niche phenomenon by some, video gaming is actually a mass phenomenon and one of the main consumer areas in the leisure and entertainment sector.

Video games are also a language of communication, a culture that permeates the whole of society. Companies must continually improve the dialogue with its customers by seeking new forms of "customer engagement", among which games play an important role.

Reply has developed a portfolio offering capable of meeting all of a brand's needs, from the use of virtual reality and augmented reality to the production of educational games (edutainment) or games designed to promote a product or a message (advergames). Reply is constantly investing in this area in order to offer, through the use of the latest technologies, increasingly innovative and engaging game experiences.

During the course of 2017, Reply was able to further assert the company's ability to create quality products, with a focus on the international market. In particular, the release of Theseus-VR, made available on all leading VR videogame marketplaces (VR Playstation, OCULUS Store, Steam VR), achieving good visibility and recognition from critics.

REPLY SERVICES & PLATFORMS

THE 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 models based on service approaches that depend 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 innovation process with services and platforms that are designed to fully exploit the new potentials offered by networks and communication technologies.

BUSINESS PROCESS OUTSOURCING

Reply provides specialist services in three fields of expertise:

- **Finance & Administration** - the management of transnational accounting processes, the writing of consolidated financial statements, the management of tax obligations, the digitisation of accounting documents and electronic storage.
- **Human resources** - training, ECM (enterprise content management), career profiles, company knowledge and dashboards for directional analysis.
- **Pharmaceutical** - the 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 that can provide timely and adequate information on the success of a business and its ability to create value. As part of its business performance management portfolio, Reply has identified specific services that are capable of supporting the development of CFOs, who are increasingly called upon to confront issues that were once the responsibility of CEOs:

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

APPLICATION MANAGEMENT

Reply has defined an application management model characterised by:

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

THE REPLY PLATFORMS

BRICK REPLY™

Brick Reply is Reply's Industry 4.0-ready manufacturing operations platform, focused on the IoT (Internet of Things) and based on a fully open services architecture capable of interfacing with machinery and coordinating production processes within a factory. Brick Reply's objective is the digitisation of business processes in manufacturing, from planning to the execution and monitoring of activities. The platform's flexibility, ease of implementation, focus on Industry 4.0, plus the multiple modes of use and application (As-a-Service, Infrastructure as a Service, On-Premise) means that it is a comprehensive and extremely adaptable solution for integration and use in different industrial sectors.

CLICK REPLY™

Click Reply™ is the Reply supply chain execution suite, intended for the management and optimisation of processes in the production or logistics and distribution sectors. Click Reply™ is one of the leaders in the automotive, retail fashion, grocery and contract logistics (3PL) sectors and is used by more than 400 companies and over 20,000 users worldwide. The suite has obtained important recognition, including a place in the Gartner Group's WMS (warehouse management system) Magic Quadrant.

DISCOVERY REPLY™

Discovery Reply™, Reply's digital asset management and content delivery platform, manages the full life cycle of digital assets (video, audio, images and documents). It places multimedia content at the very centre of processes and applications in order to facilitate a content management approach that is based on integrated multi-channel strategies. Thanks to the organisation of workflows, a high level of interoperability with other business systems and the advanced multi-channel asset distribution services, Discovery Reply™ supports integrated production models and the utilisation and storage of content. The platform is designed to support the purchase, processing, cataloguing, access, research and distribution of digital assets on various delivery channels, both traditional (analogue and digital TV) and IP-based (webTV, over-the-top TV, mobile TV, connected TV and digital signage).

HI REPLY™

HI Reply™, the Reply solution focused on the Internet of Things, is a platform of services, devices and middleware on which specific vertical applications are based, such as infomobility, advanced logistics, environmental security, contactless payment and product traceability. HI Reply™ enables simple and standard communication between web-connected objects. The platform consists of a combination of hardware, firmware and software components distributed on the actual objects, which vary from simple sensors and actuators to more sophisticated systems, such as smartphones and mini-computers. Enhanced by the platform, objects become "smart", acquiring the ability to interact with one another via standard internet technologies and gaining a set of basic functions necessary for them to behave "seamlessly" (auto-configuration, location, discovery and ontology of services exposed).

SIDEUP REPLY™

SideUp Reply™ is the Reply platform providing services for warehouse management and supply chain integration and collaboration. The solution is entirely cloud-based and integrates with both ERP systems and supply chain planning and e-commerce systems. SideUp Reply™ is aimed at companies that need to improve the efficiency and visibility of their supply chain in a short time. SideUp Reply™ can be used directly via the Internet, with a pay-per-use model. The suite has obtained important recognition, including a place in the Gartner Group's WMS (warehouse management system) Magic Quadrant.

STARBYTES™

Starbytes™, the crowdsourcing platform developed by Reply and based on cloud architecture, targets companies that intend to activate an open enterprise model, enabling them to develop projects, services or products through access to the capabilities and skills of a digital community, with a direct channel and without intermediaries. Within traditional mechanisms of engagement, Starbytes™ introduces new dynamics that stimulate interactivity, including the use of gamification, as well as facilitating a comprehensive management of the standards that regulate partnership contracts with freelancers. Starbytes™ is a new model in the workplace where supply and demand meet in a flexible way through contests and tenders and in which, thanks to a sophisticated and transparent feedback system, the best merit-based professionalism emerges.

TAMTAMY™

TamTamy™ is Reply's Digital Workplace and Enterprise Social Network solution, designed to respond to the need for communication, collaboration and education through social media and tools that place the focus on the employees. It is suitable for corporate and public contexts. TamTamy™ provides its customers with a platform designed to facilitate interaction between companies, brands and people. The product offers a variety of social media-focused functionalities, which can easily be extended and integrated at an enterprise level, while also addressing the needs of the consumer, making it possible to create digital workplace communities, communication portals and promote intranet participation. With a customisable front-end that is flexible and responsive that enables immediate and intuitive access, the platform is also accessible in a mobile environment. TamTamy™ is available both as a cloud-based and as an on-premise service.

TICURO REPLY™

Ticuro Reply™ is Reply's healthcare solution focused on telemedicine, telemonitoring and the analysis of behavioural habits. Based on the internet of things, Ticuro Reply™ is able to connect to more than 50 types of devices, from medical devices to wearable and environmental sensors, helping people, patients, caregivers and health professionals during the treatment process. Certified as a CE medical device, Ticuro Reply supports individuals, based on their health conditions, in prevention, treatment and postoperative care. The data collected and managed by Ticuro Reply facilitates processes and solutions focused on continuous remote assistance, allowing doctors to establish an interactive relationship with patients and provide them with a personalised treatment plan.

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. In particular, Reply has achieved top level certifications in leading enterprise technologies, including:

MICROSOFT

In 2017 Reply continued to develop its partnership with Microsoft, achieving Gold Partner status in all the countries in which it operates. Specifically, Reply is engaged in the main areas covered by microsoft's four key solution areas: Modern Workplace, Business Applications, Applications and Infrastructure, Data and Artificial Intelligence.
2017 also saw significant growth in the adoption of cloud solutions by customers. Furthermore, Reply is a member of the Partner Advisory Council for Microsoft's Azure and Data Platform and in 2017 it participated in the exclusive Distinguished Engineer Council held in Redmond, WA (USA). Microsoft awards received by the company include: 'Enterprise HiPo Partners – Emerging Azure Partner of the Year 2016' and 'Cloud Transformation Partner – Azure 2017'.

ORACLE

Reply is an Oracle Platinum Cloud Select partner, and in 2017 was awarded, for the third consecutive year, 'Cloud Partner of the Year' in Italy and Germany. Reply pursues a process of constant innovation and training, aimed at ensuring qualified support for companies. With 49 corporate specialisations and more than 500 resources certified on Oracle products, Reply boasts one of the leading European Competence Centres to date, capable of guaranteeing coverage across the entire suite of Oracle products. Reply is the leading partner in the three key areas of Oracle's Cloud Computing offering: Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS).

Moreover, in 2017, Reply was one of the first partners to successfully bring application solutions to the market within the customer experience, modern marketing, enterprise resource planning, human capital management and budgeting realms, fully based on cloud technology. In recent months Reply has further strengthened its leadership in Oracle's cloud technology - Reply was among the first partners to join the "Managed Service Providers" programme thanks to its expertise, tools and processes designed to create, deploy and manage Oracle and non-Oracle workloads on the Oracle Cloud Platform.

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

SAP

Thanks to its extensive international experience in the implementation of software solutions based on the SAP product suite, Reply is able to support companies with the optimisation of their activities and processes, taking an agile and integrated approach to the design and development of business information systems for the digital age.

In this scenario, Reply relies on the Design Thinking methodology to combine technology with a more human-oriented aspect. This flexible and collaborative approach helps companies to see their business from a different point of view, tackling “weak spots”, exploring unchartered territory and innovating. In particular, in terms of the business components and the specific changes required by the digital transformation process undertaken by companies, Reply’s expertise covers both the traditional enterprise processes, and the latest SAP technologies in the field of IoT, machine learning, big data and analytics, including SAP Leonardo, SAP Cloud Platform and SAP Hybris, for the development of end-to-end e-commerce and customer engagement solutions.

The technology and design domain is significant, extending from SAP cloud architecture to the SAP Fiori and SAP S/4 HANA suites. In 2017 Reply won the “SAP Quality Award Gold” for the fourth consecutive year, obtaining quality and performance recognition from SAP for the innovative SAP solutions implemented. Finally, Reply is a “SAP Hybris Platinum Partner” and became a SAP S/4 HANA Cloud Lighthouse Partner.

AMAZON WEB SERVICES

Reply is now among the main partners of Amazon Web Services (AWS) Partner Network, the division that supplies public cloud infrastructure. In particular, Reply has completed numerous projects on infrastructures and services made available by AWS and supplied to companies, in both the B2B and B2C sectors, complete end-to-end support, from the implementation and integration of custom applications and platforms to maintenance and management services based on consumption cost models. Reply supports its customers through the digital transformation processes, relying on the most appropriate cloud model for the requirements of each individual company, while adopting a governance strategy that is secure, flexible and efficient.

In 2017, Amazon Web Services confirmed Reply, for the fifth consecutive year, as Premier Consulting Partner, the highest level of certification and only awarded to a select group of AWS partners worldwide.

APPLE

Reply is one of the first European partners to be part of Apple’s Mobility Partner Program, a global initiative aimed at leaders in the development of mobile solutions for the business and enterprise worlds. In particular, Reply was selected by Apple with the specific objective to extend the business mobile solutions available on the IoS platform.

Thanks to this partnership, Reply has gained access to specialised training programmes for its development team, with the opportunity to test applications on devices not yet available on the market. Reply can count on Apple's direct support for the design of the most innovative solutions, as well as for the exclusive verification and certification service of the solutions developed, ensuring customer satisfaction.

GOOGLE

Reply has achieved the prestigious Google Cloud Managed Service Provider (MSP) certification level, joining a group of highly specialised Google Cloud partners.

MSP is the certification with which Google recognises its most specialised worldwide partners – they support customers across the end-to-end cloud journey, knowing how to respond to business needs during the different stages of the process, from the initial involvement to the migration and execution in the Cloud, all the way to the planning and optimisation of the system. As a Google Cloud MSP, Reply offers a high level of service to customers who are looking for complete and proactive support, with exclusive services covering not only the migration of a system to the Cloud, but all aspects of the process including the subsequent development and management ensuring full security. In addition to the MSP certification, Google renewed Reply's 2018 Premier Partner certification for G Suite and Cloud Platform, which recognises the company's excellence demonstrated in the offering and technological support on the Google Cloud product suite.

SALESFORCE

With over 150 certifications to its name, Reply is now one of the most prominent Salesforce.com specialists in Europe, counting among its customers leading industrial and media groups. In particular, Reply's expertise in cloud, based on SaaS and PaaS with specific process and market know-how, focusing specifically on the digital marketing, digital CRM and integration areas, makes it a leading specialist in Salesforce.com technologies

DEVELOPMENT AND EVOLUTION OF PROPRIETARY PLATFORMS

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

BRICK REPLY™

In 2017, Brick Reply™'s development focused on the implementation of specific planning optimisation algorithms for various industrial sectors, with the aim of increasing flexibility and the ability to respond to customer requirements. At the same time, efforts were under way to expand the integration capabilities of the platform, relying on different gateway technologies and edge computing solutions to speed up data exchange, both during the plant operation phases, and in the increasingly complex monitoring of machine parameters.
Further developments of the planning module and of the maintenance management component are envisaged for 2018, in order to provide customers with a tool capable of optimising production sequences, taking into account all the key planning factors.

CLICK REPLY™

Click Reply™'s 2017 roadmap focused on the release of version 4.10 that included a revised mobile solution, applicable to any product in the suite. The new technological features are designed to ensure the full support of Android devices, offering a greater robustness, more communication security and an optimised use of resources. The new usability features are designed to facilitate a greater customisation of the user experience and to encourage interaction with the field, through easier access to the hardware components of mobile devices. The first version of the Click Reply LEA Edition warehouse management system was released in March 2017. The current WMS version is being further enriched and expanded during the first half of 2018 with functional extensions and the introduction of new process configuration tools.
The migration programme on the LEA platform will continue in 2018, with the complete revisitation of the Click Yard management module.

DISCOVERY REPLY™

During the course of 2017, the platform was extended by further enhancing the integration with traditional digital channels such as digital signage, web and connected TV, thanks to an increasingly cloud-based approach. Within the area of enterprise content management and cataloguing systems, a new feature was developed to facilitate the automatic documentation of images and video. To boost the in-store digital signage systems funcitonality, the platform was integrated with several key monitor and display solutions available on the market, allowing authorised users and user profiles to insert, modify and approve content and listings to be distributed on a digital display network, both in a corporate environment and in-store.

HI REPLY™

In 2017, the platform development focused on vertical applications for the industry sector, particularly with regard to the industry 4.0 paradigm. Within this framework, the Hi Reply™ platform is positioned as a middleware component which, equipped with proprietary modules, facilitates and accelerates the introduction of new models for integrated plant management. One of the main themes was that of the so-called Edge Computing method, namely the part of intelligence positioned closer to the machine. This ability to take field data and intervene with minimal latency, facilitating the optimisation of resources, is a major theme for the digital transformation of the factory.

SIDEUP REPLY™

In 2017 the migration towards the Lea Reply™ platform continued, with the integration of the Appointment Schedule and Transportation Portal modules. Moreover, the first version of the SideUp Reply LEA Edition warehouse management system was released in March 2017. The current WMS version is being further enriched and expanded during the first half of 2018 with functional extensions and the introduction of new process configuration tools. 2017 also saw the release of the new version of a mobile solution geared toward warehouse activities. The new technological features are designed to ensure the full support of Android devices, offering a greater robustness, more communication security and an optimised use of resources. The new usability features are designed to facilitate a greater customisation of the user experience and to encourage interaction with the field, through easier access to the hardware components of mobile devices.

STARBYTES™

The 2017 StarbytesTM development plans anticipate the launch of international initiatives aimed at highlighting crowd talent and tailoring the offer not only towards SMEs, but also to medium and large enterprises. This will be achieved through the launch of a “premium” service that aims to help businesses effectively locate digital professionals, in what has become an increasingly fragmented industry with poor availability of quality resources.

TAMTAMY™

In 2017 Reply continued the development of the platform, releasing TamTamyTM X, the new and latest version of the product that embraces the concepts related to the “digital workplace”, placing the employee at the centre of the proposed formats. TamTamyTM X includes new modules dedicated to short training initiatives (Microlearning), idea generation (Jam Session), the emergence of talent through people challenges (Challenges) and the support of day-by-day work through a virtual assistant (TTGuru). Further investments are planned during the course of 2018, with the aim of continuing to pursue work focused on the “digital workplace”, expanding and consolidating the above modules with onboarding support and proactive suggestions, all based on innovative and emerging technologies.

TICURO REPLY™

In 2017, Ticuro Reply™ continued to develop the digital healthcare components it offers. In particular, the Patient Management and Telerehabilitation modules were released. The Patient Management application facilitates the management of continuity of care processes between the medical institution and the patient, integrating innovative Televisit, Teleconsultation and Healthcare Telecooperation features. The Telerehabilitation module allows rehabilitation sessions to be carried out directly from home, interacting in real time with the physiotherapist and greatly increasing the patient's involvement in the daily process of improvement and recovery.

THE VALUE OF PEOPLE

Reply is based on the excellence of the people who make up its diverse team, professionals from the best universities and polytechnics in the sector. The men and women within the Group bring the Reply "brand" to life for customers and partners, embodying the company's image.

Reply invests continuously in human resources, establishing special relationships and partnerships with a number of universities with the aim of attracting highly skilled individuals to join its team.

Recruitment is focused primarily on young graduates. In particular, the areas of interest are: computer science, computer engineering, electronic engineering, telecommunications engineering, managerial engineering, economics and business. The relationship between Reply and universities is also developed through regular collaboration in the form of industrial placements, dissertations and participation in lectures and seminars.

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

Anyone who decides to become a part of the "Reply world" will find the opportunity to best express their potential in an organisational model based on culture, ethics, trust, honesty and transparency.

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

All Group managers focus daily on upholding the principles on which Reply has always depended and which have sustained the company during its growth.

THE REPLY TEAM

- Sharing the customer's objectives;
- professionalism and speed of implementation; and
- 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.

Client: the sharing of objectives, customer 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 2017

REPORT ON OPERATIONS

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

The Reply Group adopts specific procedures in managing risk factors that can have an influence on company results. Such procedures are a result of an enterprise management that has always aimed at maximizing value for its stakeholders putting into place all necessary measures to prevent risks related to the Group activities.

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

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

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

The informatics consultancy market is strictly related to the economic trend of industrialized countries where the demand for highly innovative products is greater. An 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 2017 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 2017 with a consolidated turnover of 884.4 million Euros, an increase of 13.3% compared to 780.7 million Euros in 2016.

The EBITDA was 123.2 million Euros (106.4 million Euros in 2016), while the EBIT was at 113.9 million Euros (99.6 million Euros in 2016).

The Group net profit was at 77.9 million Euros, an increase of 15.3% compared to 67.5 million Euros recorded in 2016.

As at 31 December 2017, the Group's net financial position was positive, at 57.0 million Euros (28.8 million Euros at the end of 2016). As at September 30, 2017, the net financial position was positive, at 66.0 million Euros.
In 2017, Reply established itself as one of the key players in digital transformation by providing a complete service aligned with companies' new needs and by being increasingly committed to the digitalization of each service or physical asset.

The investments made in the main areas on which companies base their future development, such as Artificial Intelligence, Virtual and Augmented Reality and 3D combined with the ability to provide customers with the best skills to deal with components of basic innovation, such as Cloud Computing, the Internet of Things and Big Data, are able to ensure a distinctive positioning of Reply on the market.

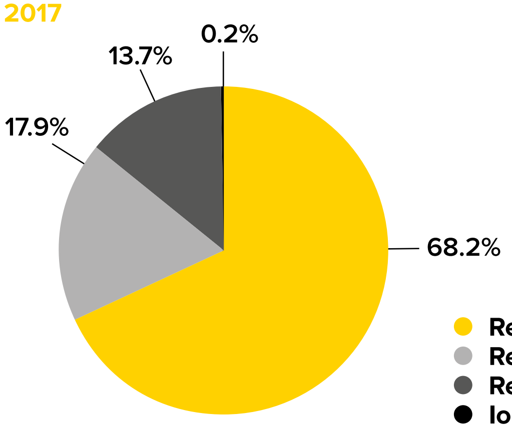
RECLASSIFIED CONSOLIDATED INCOME STATEMENT

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

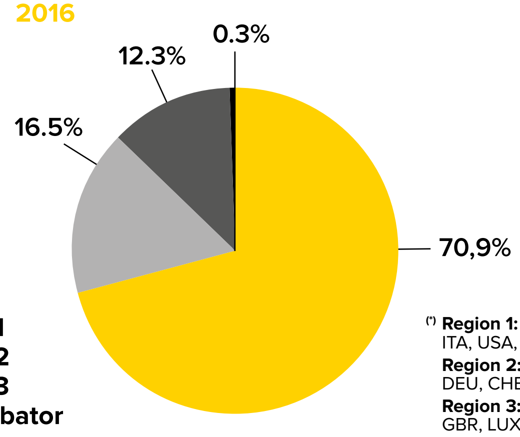
(THOUSAND EUROS)	2017	%	2016	%
Revenues	**884,434**	**100.0**	**780,739**	**100.0**
Purchases	(15,269)	(1.7)	(16,969)	(2.2)
Personnel	(431,555)	(48.8)	(379,713)	(48.6)
Services and other costs	(312,253)	(35.3)	(277,071)	(35.5)
Other operating (costs)/income	(2,113)	(0.2)	(569)	(0.1)
Operating costs	**(761,190)**	**(86.1)**	**(674,322)**	**(86.4)**
Gross operating income (EBITDA)	**123,244**	**13.9**	**106,417**	**13.6**
Amortization, depreciation and write-downs	(12,353)	(1.4)	(11,669)	(1.5)
Other non recurring (expenses)/income	2,982	0.3	4,846	0.6
Operating income (EBIT)	**113,873**	**12.9**	**99,594**	**12.8**
(Loss)/gain on investments	(585)	(0.1)	(668)	(0.1)
Financial income/(expenses)	(2,978)	(0.3)	(1,520)	(0.2)
Income before taxes	**110,310**	**12.5**	**97,405**	**12.5**
Income taxes	(31,765)	(3.6)	(29,698)	(3.8)
Net income	**78,545**	**8.9**	**67,707**	**8.7**
Non controlling interests	(674)	(0.1)	(163)	-
Group net income	**77,871**	**8.8**	**67,544**	**8.7**

REVENUES BY REGION (*)

2017



2016

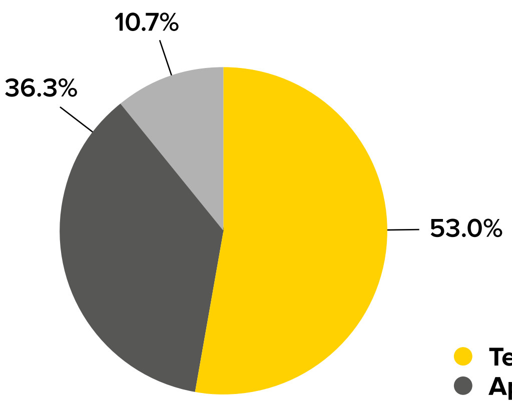


Region 1
Region 2
Region 3
IoT Incubator

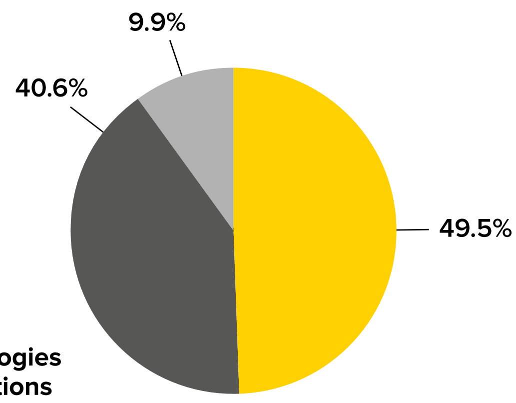
(*) **Region 1:** ITA, USA, BRA, POL, ROU
Region 2: DEU, CHE, CHN, HR
Region 3: GBR, LUX, BEL, NLD, FRA, BLR

REVENUES BY BUSINESS LINES

2017

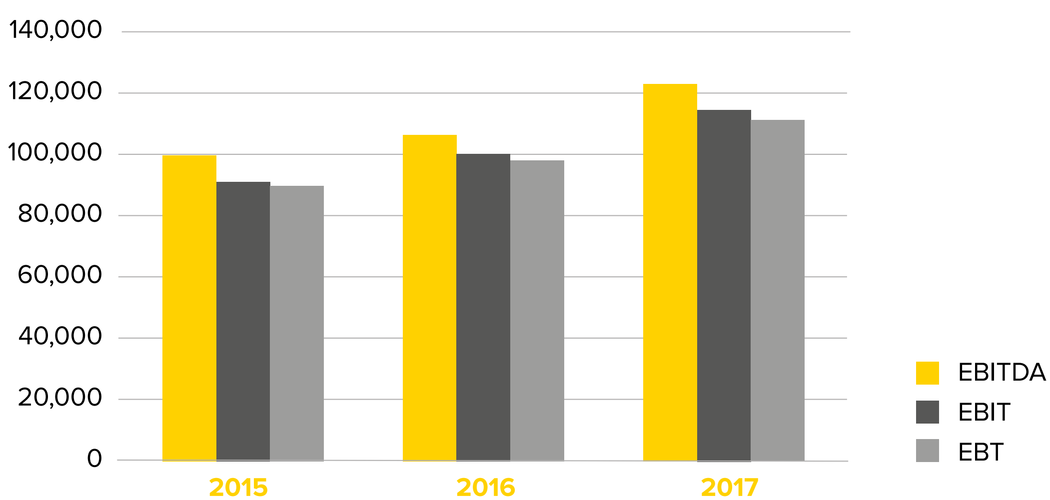


2016



Technologies
Applications
Processes

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 2017, compared to 31 December 2016:

(THOUSAND EUROS)	31/12/2017	%	31/12/2016	%	CHANGE
Current operating assets	496,459		442,655		53,804
Current operating liabilities	(328,589)		(282,251)		(46,338)
Working capital, net (A)	**167,870**		**160,404**		**7,466**
Non current assets	263,457		232,441		31,016
Non current liabilities	(86,286)		(84,067)		(2,219)
Fixed capital (B)	**177,171**		**148,374**		**28,797**
Invested capital, net (A+B)	**345,041**	**100.0**	**308,779**	**100.0**	**36,263**
Shareholders' equity (C)	402,072	116.5	337,537	109.3	64,535
NET FINANCIAL POSITION (A+B-C)	**(57,030)**	**(16.5)**	**(28,758)**	**(9.3)**	**(28,272)**

Net invested capital on 31 December 2017, amounting to 345,041 thousand Euros, was funded by Shareholders' equity for 402,072 thousand Euros and by available overall funds of 57,030 thousand Euros.

The following table provides a breakdown of net working capital:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Work in progress	93,651	58,651	35,000
Trade receivables	357,082	339,194	17,888
Other current assets	45,726	44,810	916
Current operating assets (A)	**496,459**	**442,655**	**53,804**
Trade payables	100,150	92,735	7,414
Other current liabilities	228,439	189,515	38,924
Current operating liabilities (B)	**328,589**	**282,251**	**46,338**
Working capital, net (A-B)	**167,870**	**160,404**	**7,466**
% return on investments	*19.0%*	*20.5%*	

NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Cash and cash equivalents, net	86,398	76,511	9,887
Current financial assets	2,042	2,925	(883)
Due to banks	(16,365)	(18,893)	2,528
Due to other providers of finance	(942)	(738)	(204)
Short-term financial position	**71,133**	**59,805**	**11,328**
Non current financial assets	-	4	(4)
Due to banks	(13,381)	(29,985)	16,604
Due to other providers of finance	(721)	(1,066)	345
M/L term financial position	**(14,102)**	**(31,047)**	**16,944**
Total net financial position	**57,030**	**28,758**	**28,272**

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

(THOUSAND EUROS)	31/12/2017
Cash flows from operating activities (A)	73,302
Cash flows from investment activities (B)	(32,812)
Cash flows from financial activities (C)	(30,504)
Change in cash and cash equivalents (D) = (A+B+C)	**9,887**
Cash and cash equivalents at beginning of period (*)	76,511
Cash and cash equivalents at year end (*)	86,398
Total change in cash and cash equivalents (D)	**9,887**

(*) 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 positio**n: 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 2017

ACQUISITION OF COMSYSTO GMBH

At the end of December 2016, an agreement was signed for the acquisition of the 100% share capital of comSysto GmbH, a company incorporated under German law based in Munich for an initial cash consideration of 6 million Euros. The agreement became effective in January 2017.

The company is specialized in Agile solutions on Open Source technology.

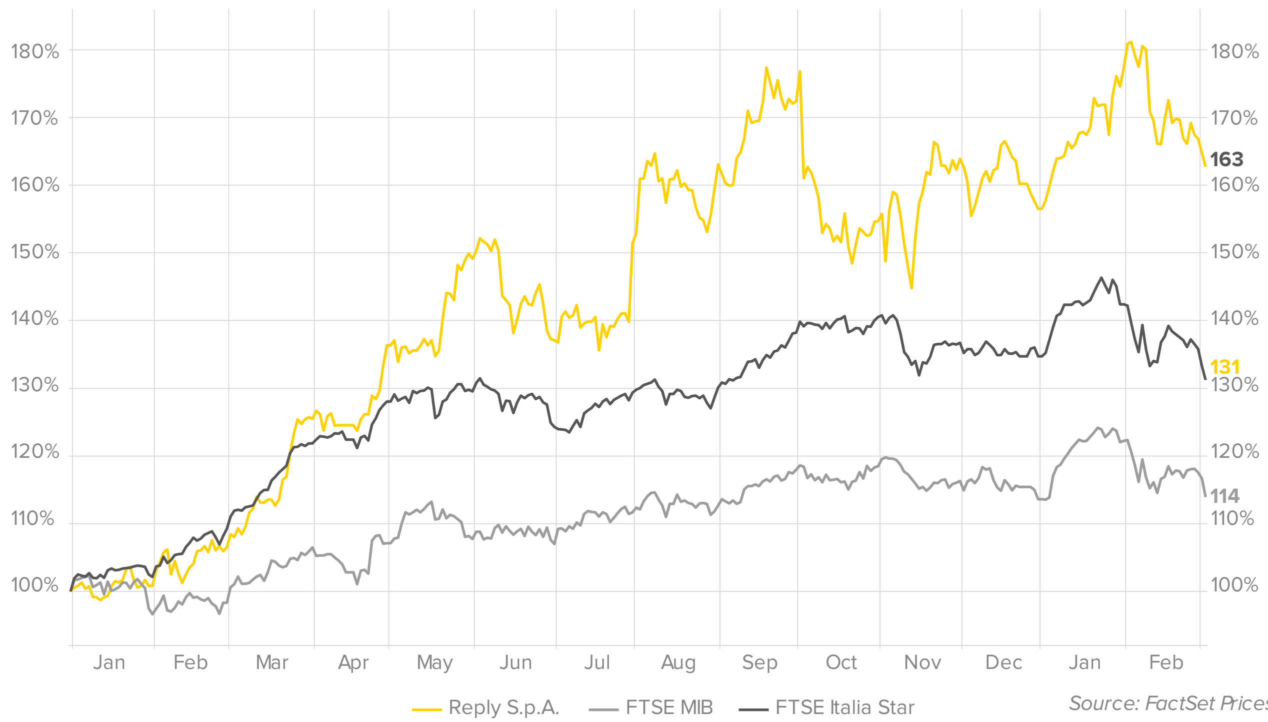
REPLY ON THE STOCK MARKET

The world is radically transforming under the disruptive spur of Internet of Things, Virtual Reality, Artificial Intelligence and the Cloud paradigm. Digital innovation will more and more arise from a blend of business and technology that cannot be framed into traditional models. Reply's goal - in an increasingly global and multinational marketplace - is to be a benchmark in technology and consulting for companies that are considering innovation and new business models as strategic means to compete on the market. Reply's strength is its ability to interpret innovation by making it functional to businesses' requirements.

For years we will be in a phase where innovation and growth lead the way: for our clients accelerating digitalization is the key to successfully growing businesses, strengthening relationships with customers and optimizing the business processes. Reply has for years and continues to significantly invest in specific solutions and expertise, to help businesses deal with the most substantial transformation. Reply is fully committed to creating sustainable value and to continuing the successful, long-term development of the company and is convinced that the shareholders can derive substantial value from the opportunities ahead and the competitive advantage of Reply.

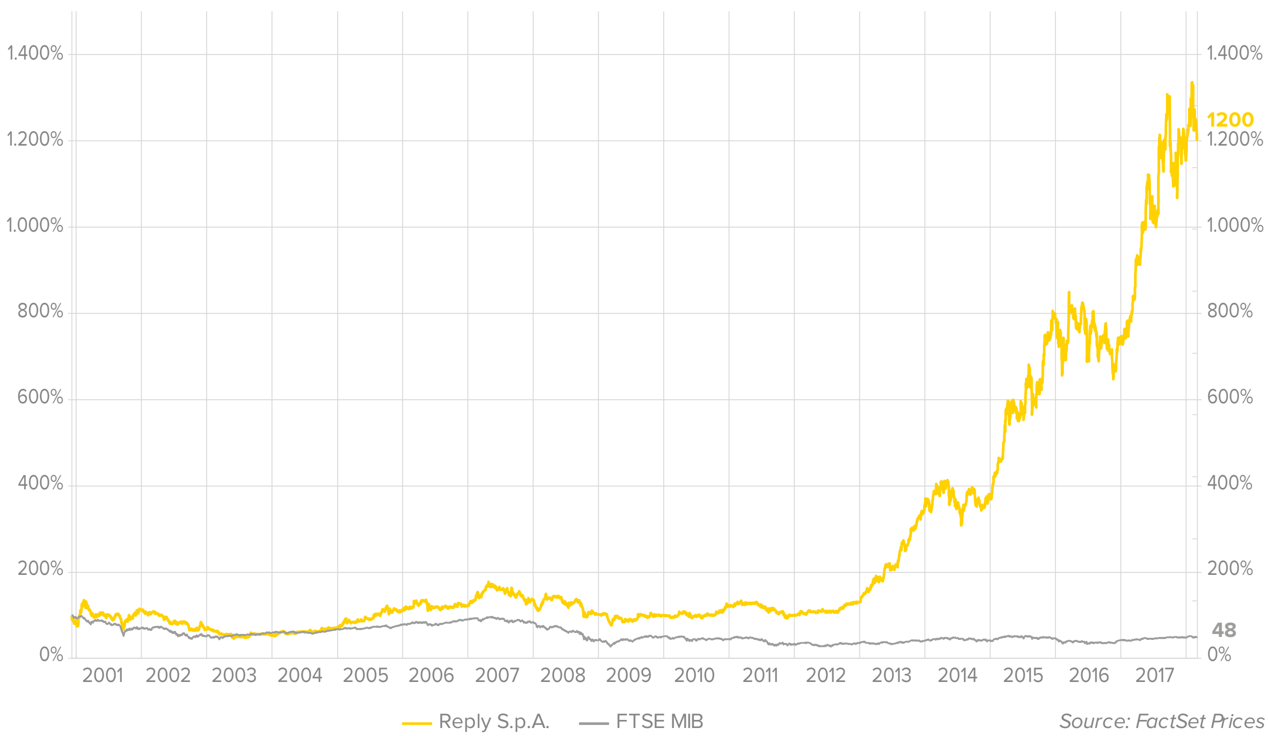
REPLY SHARE PERFORMANCE

2017 has been a fantastic year for the equity markets showing record highs in equity combined with a lot of resiliency. Economic growth is robust and above the long-term average, not just in some parts of the world, but globally. Inflation remains low and interest rates are low for the foreseeable future. European markets were widely supported by a decrease in political uncertainty, with centrist politicians winning in both the Netherlands and France, which saw international institutional enthusiasm rise across the continent. Macroeconomic data was very positive on the continent, with unemployment at 8.8% in the Eurozone, its lowest since 2009. Meanwhile the Eurozone Economic sentiment indicator was at its highest since October 2000. The positive economic framework and the excellent positioning of Reply clearly affected its share price during 2017. From March onwards the Reply share entered a steady upward trend, outperforming every relevant index and the share price development of peers. Following the implementation of a share split and a private placement of 7.7% of the Reply shares by Iceberg, the main shareholder of Reply, the share price saw a gradual correction. From November onwards, the share reentered the continuous upward development bringing the market capitalization to 1.7 billion Euros at the end of the year. Reply outperformed the Italian MIB index by 43 percentage points; compared to the STAR and the Italian Mid Cap index the performance was 22 percentage points and 25 percentage points respectively better.



Source: FactSet Prices

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.



CAPITAL MARKET POSITION

Financial year 2017 was also characterized by the measures Reply took to improve the liquidity of the share following the repeated requests of existing and potential shareholders, more specifically:

1. **Share Split**
   On Oct. 16, 2017 a share split in the ratio of 1:4 became effective, reducing the nominal value of a Reply share from 0.52 Euro to 0.13 Euro while leaving the share capital of the company unchanged.
   The Company's constant growth has brought the shares to record an extremely positive trend over time achieving a significant rise in market value compared to the initial listing price leading to the Share split proposal.
2. **Double Voting Rights**
   An extraordinary Shareholders' Meeting in September 2017 also approved the introduction of double voting rights in accordance with the current legislative and regulatory framework. Specifically, the new By-laws provide for the assignment – subject to the verification of the appropriate pre-requirements by the administrative body - of two votes for each ordinary

share held by the same shareholder for an ongoing period of at least 24 months from the date of entry in a specific list created by Reply. The goal of this instrument - leaving behind the traditional ‘one share, one vote’ principle - is to stimulate medium to long-term equity investments and to reward ‘loyal shareholders’.

Lastly, Iceberg, the main shareholder of Reply, sold 7.7% of the shares to the market in a private placement. This operation increased the free float of Reply to 52.8%. The development of the trading volume in the Reply share clearly shows the benefit of the aforementioned operations. The number of traded shares increased by 58% and the trading volume – also reflecting the very positive development of the share price – more than doubled to Euro 591 million. Capital market valuations of the Reply share now clearly reflect the constant positive business development. Reply at the end of 2017 was traded at a premium of circa 40% (enterprise value/revenue, enterprise value/EBITDA) compared to a peer group of well-known IT service providers and advertising agencies.

DIVIDEND

Performance-based compensation is an essential pillar of the partnership-oriented business model of Reply. Each year this principle is balanced with the need of internal financing as a means to fund the investments of Reply (in new startup companies and new technologies). In 2017 Reply achieved earnings per share of Euro 2.08, an increase of 14% compared to 2016. For the financial year 2017 the corporate bodies of Reply propose to the shareholders’ meeting to approve the payment of a dividend of EUR 0.35 (dividend 2016: Euro 0.2875). Referred to the share price of Reply at the end of 2017 this corresponds to a dividend yield of 0.8%. Due to a reduced share price in conjunction with the operational progress of 2017 this yield is higher than the 2016 value by 1.0%.

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

		2017	2016	2015	2014	2013
Share price						
Year-end	Euro	46.17	29.50	31.48	15.23	14.23
High for the year	Euro	53.50	34.08	32.30	16.98	14.48
Low for the year	Euro	28.93	25.03	14.61	11.93	5.23
Trading						
Number of shares traded (year)	# thousand	14.894,2	9.419,3	11.448,2	14.344,0	14.819,8
Number of shares traded (day)	# thousand	57.1	36.1	43.9	55.2	58.8
Trading volume (year)	Euro million	590.6	282.6	279.5	212.7	123.9
Trading volume (day)	Euro million	2.289	1.095	1.083	0.844	0.492
Capital structure						
Number of shares	# thousand	37.411,4	9.352,9	9.352,9	9.352,9	9.307,9
Share capital	Euro million	4.864	4.864	4.863	4.863	4.840
Free Float	%	52.8	42.0	42.0	43.1	42.1
Market capitalization	Euro million	1.727,3	1.103,6	1.177,5	569,6	529,6
Allocation of net income						
Earnings per share	Euro	2.08	1.81	1.52	1.28	0.93
Dividend [1)]	Euro	0.350	0.2875	0.2500	0.2125	0.1750
Dividend payment	Euro million	13.092	10.755	9.353	7.950	6.515
Dividend yield [2)]	%	0.8%	1.0%	0.8%	1.4%	1.2%

For comparison purposes all figures related to the nominal value of the Reply share have been rebased in order to reflect the share split conducted in 2017

[1)] Amount proposed for shareholder approval for 2017

[2)] Related to year-end closing price

THE SHAREHOLDERS BASE

Following the private placement of Iceberg, the free float of the share amounted to 53%; 50% of the Reply shares are owned by the founders of Reply, Institutional shareholders owned 41% at the end of 2017, while retail shareholders owned 9% of the shares. In the institutional shareholders' base American investors continued to make up the largest regional group (33% of institutional holdings). French investors now rank number 2, owning around 21%.

ANALYSTS

The analyst coverage of Reply increased substantially in 2017. Currently 5 Italian analysts are commenting the Reply share rating the share price to “outperform” or “neutral”. All Reply analysts on average have set a target price of Euro 51.

DIALOG WITH THE CAPITAL MARKETS

An active and open communication policy ensuring prompt and continuous flow of information is a major component of the Reply IR strategy. Reply has maintained high level of activities with the capital markets throughout 2017. During 17 conferences and 6 roadshows Reply actively explained its equity story. Following the introduction of the tax-incentivized share savings plan PIR in Italy Reply saw a substantial increase of interest from Italian investors. Special emphasis was laid on the Spanish market where Reply attended 2 conferences in Madrid and Barcelona. Brussel was another new location that Reply addressed via a roadshow with the help of a French broker. The number of brokers who were involved in the IR activities of Reply was slightly increased in 2017.

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 2017 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 2017 the Parent Company had 88 employees (87 employees in 2016). 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 Revenue from fronting operations of the Income Statement set forth below.
The Parent Company's income statement is summarized as follows:

(THOUSAND EUROS)	2017	2016	CHANGE
Revenues from operating activities	63,996	56,264	7,732
Pass-through revenues	324,995	319,688	5,307
Purchases, services and other expenses	(361,620)	(355,085)	(6,534)
Personnel and related expenses	(19,822)	(20,177)	355
Other unusual and operating (expenses)/income	(3,000)	1,781	(4,781)
Amortization, depreciation and write-downs	(973)	(732)	(242)
Operating income	**3,576**	**1,739**	**1,837**
Financial income/(expenses)	2,972	(2,900)	5,872
Gain on equity investments	108,140	20,189	87,951
Loss on equity investments	(12,230)	(2,189)	(10,041)
Income before taxes	**102,459**	**16,839**	**85,620**
Income taxes	(391)	425	(816)
NET INCOME	**102,068**	**17,263**	**84,804**

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 25,401 thousand Euros (21,692 thousand Euros in the financial year 2016);
- shared service activities carried out for its subsidiaries for 27,866 thousand Euros (24,492 thousand Euros in the financial year 2016);
- management services for 7,972 thousand Euros (7,498 thousand Euros in the financial year 2016).

Operating income 2017 marked a positive result of 3,576 thousand Euros after having deducted amortization expenses of 973 thousand Euros (of which 673 thousand Euros referred to intangible assets and 337 thousand Euros to tangible assets). Financial income amounted to 2,972 thousand Euros and included interest income for 6,951 thousand Euros and interest expenses for 572 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net negative exchange rate differences amounting to 1,226 thousand Euros. Income from equity investments which amounted to 108,140 thousand Euros refers to dividends received from subsidiary companies in 2017. 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 2017, amounted to 102,068 thousand Euros after income taxes of 391 thousand Euros

FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2017, compared to that as at 31 December 2016, is provided below:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Tangible assets	478	723	(245)
Intangible assets	2,183	2,206	(22)
Equity investments	143,260	149,356	(6,096)
Other fixed assets	4,714	3,118	1,596
Non financial liabilities - L/T	(13,501)	(10,743)	(2,758)
Fixed capital	**137,134**	**144,660**	**(7,526)**
Net working capital	**22,191**	**2,797**	**19,394**
INVESTED CAPITAL	**159,325**	**147,457**	**11,868**
Shareholders' equity	292,110	200,742	91,369
Net financial position	(132,785)	(53,285)	(79,501)
TOTAL SOURCES	**159,325**	**147,457**	**11,868**

The net invested capital on 31 December 2017, amounting to 159,325 thousand Euros, was funded by Shareholders' equity in the amount of 292,110 thousand Euros from Shareholders' equity and available overall funds of 132,785 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 2017, compared to 31 December 2016, is detailed as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Cash and cash equivalents, net	42,075	35,361	6,714
Financial loans to subsidiaries	82,843	62,430	20,413
Loans to third party	-	738	(738)
Due to banks	(16,250)	(18,778)	2,528
Due to subsidiaries	(43,139)	(64,428)	21,289
Net financial position short term	**65,530**	**15,324**	**50,205**
Long term financial assets	80,327	67,299	13,028
Due to banks	(13,071)	(29,339)	16,267
Net financial position long term	**67,256**	**37,960**	**29,295**
Total net financial position	**132,785**	**53,285**	**79,501**

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.

	31/12/2017		31/12/2016	
(THOUSAND EUROS)	**NET EQUITY**	**NET INCOME**	**NET EQUITY**	**NET INCOME**
Reply S.p.A.'s separate financial statements	292,110	102,068	200,742	17,264
Results of the subsidiary companies	178,972	84,537	211,675	77,365
Carrying value of investments in consolidated companies	(66,344)	-	(68,576)	-
Elimination of dividends from subsidiary companies	-	(109,064)		(23,354)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(1,999)	1,005	(5,784)	(3,567)
Non controlling interests	(668)	(674)	(520)	(163)
Net Group consolidated financial statement	**402,072**	**77,871**	**337,537**	**67,544**

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 2015, 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 2017 financial statements.

DISCLOSURE OF NON-FINANCIAL INFORMATION

The company, in accordance with the provisions of article 5 (3) (b) of Legislative Decree No 254/2016, has prepared the consolidated disclosure of a non-financial nature which constitutes a separate report. The consolidated declaration of non-financial data 2017, drafted in accordance with the "GRI Standards" reporting standard, is available on the Group website www.reply.com.

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:

- Brick Reply™
- Click Reply™
- Discovery Reply™
- Hi Reply™
- Sideup Reply™
- Starbytes™
- TamTamy™
- Ticuro Reply™

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

- Microsoft
- Oracle
- SAP/Hybris
- Amazon
- Apple
- Google
- Salesforce

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 2017 the Group had 6,456 employees compared to 6,015 in 2016.

GENERAL DATA PROTECTION REGULATION (GDPR)

In view of the application commencing May 2018 of the new European regulation on the protection of personal data (EU 679/16), a specific compliance program is under way, including the appointment of a Group Data Protection Officer (DPO) and Region officer.

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 2017

No significant events have occurred since year ended December 31, 2017.

OUTLOOK ON OPERATIONS

Financial year 2017 has marked the year of the definitive affirmation of the digital revolution. Massive access to the network, the diffusion of mobile technologies and "intelligent" equipment, the consequent availability of a huge amount of information, the economy of sharing, the dematerialization of processes, three-dimensional printing and solutions in the cloud, are at the basis of a rapid and continuous redefinition of production and distribution maps, made possible by the decline of entry barriers and the emergence of new collaborative ecosystems and innovation.

In this new context Reply, through the exploitment of the investments made in previous years, has managed to position itself among the main players of this transformation with a complete offer aligned to the new needs of the companies, increasingly engaged in digitizing any service or physical good.

Today Reply is among the leaders, both in terms of partnership portfolio and as a network of customers and this allows the group to look with reasonable optimism and serenity to the future months.

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

The financial statements at year ended 2017 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 102,067,710 Euros and net shareholders' equity amounting to 292,110,492 Euros thus formed:

(EUROS)	31/12/2017
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	160,879,405
Total share capital and reserves	190,042,782
Net income	102,067,710
Total	**292,110,492**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2017 showing a net result of 102,067,710 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 102,067,710 Euros;
- to approve the motion to allocate the net result of 102,067,710 as follows:
  - a unit dividend to shareholders amounting to 0,35 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 9 May 2018, coupon cutoff date 7 May 2018 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 8 May 2018;
  - approving the proposal of attribution to Directors entrusted with operative positions as regards a shareholding in the profits of the Parent Company in accordance with Article 22 of the articles of association, to be established for an overall amount of 2,950,000.00 Euros, corresponding to approximately 2.3% of the consolidated gross operative margin 2017, (before allocation of the shareholding in profits for Directors invested with operative

Report on Operations

positions) calculated at 126,194 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, 13 March 2018

For the Board of Directors

The Chairman

Mario Rizzante

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

CONSOLIDATED INCOME STATEMENT (*)

(THOUSAND EUROS)	NOTE	2017	2016
Revenues	5	884,434	780,739
Other income		17,672	19,579
Purchases	6	(15,269)	(16,969)
Personnel	7	(431,555)	(379,713)
Services and other costs	8	(329,924)	(296,650)
Amortization, depreciation and write-downs	9	(12,353)	(11,669)
Other operating and non recurring (costs)/income	10	869	4,277
Operating income		**113,873**	**99,594**
(Loss)/gain on investments	11	(585)	(668)
Financial income/(expenses)	12	(2,978)	(1,520)
Income before taxes		110,310	97,405
Income taxes	13	(31,765)	(29,698)
Net income		**78,545**	**67,707**
Non controlling interest		(674)	(163)
Group net result		**77,871**	**67,544**
Earnings per share and diluted	*14*	*2.08*	*1.81*

(*) 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	2017	2016
Profit of the period (A)		**78,545**	**67,707**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) from employee benefit plans		79	(1,597)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	25	**79**	**(1,597)**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		28	(62)
Gains/(losses) on exchange differences on translating foreign operations		(2,155)	(10,562)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**(2,127)**	**(10,624)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	25	**(2,049)**	**(12,221)**
Total comprehensive income (A)+(B)		**76,496**	**55,846**
Total comprehensive income attributable to:			
Owners of the parent		75,822	55,323
Non-controlling interests		674	163

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

(THOUSAND EUROS)	NOTE	31/12/2017	31/12/2016
Tangible assets	15	21,552	17,686
Goodwill	16	166,132	157,429
Other intangible assets	17	15,525	17,016
Equity investments	18	29,201	14,110
Other financial assets	19	6,385	9,739
Deferred tax assets	20	24,661	16,466
Non current assets		**263,457**	**232,445**
Inventories	21	93,651	58,651
Trade receivables	22	357,082	339,194
Other receivables and current assets	23	45,726	44,810
Financial assets	19	2,042	2,925
Cash and cash equivalents	24	109,195	92,550
Current assets		**607,697**	**538,130**
TOTAL ASSETS		**871,154**	**770,575**
Share Capital		4,863	4,863
Other reserves		318,670	264,610
Net result of the period		77,871	67,544
Group shareholders' equity	**25**	**401,404**	**337,017**
Non controlling interest	25	668	520
NET EQUITY		**402,072**	**337,537**
Due to minority shareholders and Earn-out	26	22,275	24,558
Financial liabilities	27	14,102	31,051
Employee benefits	28	31,838	30,401
Deferred tax liabilities	29	18,539	18,563
Provisions	30	13,635	10,545
Non current liabilities		**100,388**	**115,118**
Financial liabilities	27	40,105	35,670
Trade payables	31	100,150	92,735
Other current liabilities	32	228,165	189,144
Provisions	30	274	371
Current liabilities		**368,693**	**317,921**
TOTAL LIABILITIES		**469,082**	**433,038**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**871,154**	**770,575**

(*) 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 2016	**4,863**	**(25)**	**72,836**	**218,194**	**-**	**1,546**	**(1,990)**	**653**	**296,078**
Dividends distributed	-	-	-	(9,353)	-	-	-	(816)	(10,169)
Total profit (loss)	-	-	-	67,544	(62)	(10,562)	(1,597)	163	55,486
Other changes	-	-	-	(4,378)	-	-	-	520	(3,858)
On 31 December 2016	**4,863**	**(25)**	**72,836**	**272,007**	**(62)**	**(9,016)**	**(3,586)**	**520**	**337,537**

(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)	(11,550)
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**

CONSOLIDATED STATEMENT OF CASH FLOWS

(THOUSAND EUROS)	2017	2016
Group net income	77,871	67,544
Income taxes	31,765	29,698
Amortization and depreciation	12,353	11,669
Other non-monetary expenses/(income)	(5,862)	(3,464)
Change in inventories	(35,000)	(974)
Change in trade receivables	(17,888)	(28,882)
Change in trade payables	7,414	13,508
Change in other assets and liabilities	24,816	22,376
Income tax paid	(21,826)	(31,502)
Interest paid	(612)	(755)
Interest collected	171	278
Net cash flows from operating activities (A)	**73,202**	**79,497**
Payments for tangible and intangible assets	(14,729)	(19,344)
Payments for financial assets	(2,165)	(4,253)
Payments for the acquisition of subsidiaries net of cash acquired	(15,918)	(44,311)
Net cash flows from investment activities (B)	**(32,812)**	**(67,909)**
Dividends paid	(11,550)	(10,169)
In payments from loans	-	16,115
Repayment of loans	(19,245)	(11,374)
Other changes	291	242
Net cash flows from financing activities (C)	**(30,504)**	**(5,186)**
Net cash flows (D) = (A+B+C)	**9,887**	**6,402**
Cash and cash equivalents at the beginning of period	76,511	70,109
Cash and cash equivalents at period end	86,398	76,511
Total change in cash and cash equivalents (D)	**9,887**	**6,402**

DETAIL OF CASH AND CASH EQUIVALENTS

(THOUSAND EUROS)	2017	2016
Cash and cash equivalents at beginning of period:	**76.511**	**70,109**
Cash and cash equivalents	92.550	105,137
Bank overdrafts	(16.039)	(35,028)
Cash and cash equivalents at period end:	**86.398**	**76,511**
Cash and cash equivalents	109.195	92,550
Bank overdrafts	(22.798)	(16,039)

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION	NOTE 1	General information
	NOTE 2	Accounting principles and basis of consolidation
	NOTE 3	Risk management
	NOTE 4	Consolidation
INCOME STATEMENT	NOTE 5	Revenue
	NOTE 6	Purchases
	NOTE 7	Personnel
	NOTE 8	Services and other costs
	NOTE 9	Amortization, depreciation and write-downs
	NOTE 10	Other operating and non recurring income/(expenses)
	NOTE 11	(Loss)/gain on investments
	NOTE 12	Financial income/(expenses)
	NOTE 13	Income taxes
	NOTE 14	Earnings per share
STATEMENT OF FINANCIAL POSITION ASSETS	NOTE 15	Tangible assets
	NOTE 16	Goodwill
	NOTE 17	Other intangible assets
	NOTE 18	Equity Investments
	NOTE 19	Financial assets
	NOTE 20	Deferred tax assets
	NOTE 21	Work-in-progress
	NOTE 22	Trade receivables
	NOTE 23	Other receivables and current assets
	NOTE 24	Cash and cash equivalents
STATEMENT OF FINANCIAL POSITION - LIABILITIES AND EQUITY	NOTE 25	Shareholders' equity
	NOTE 26	Payables to minority shareholders and Earn-out
	NOTE 27	Financial liabilities
	NOTE 28	Employee benefits
	NOTE 29	Deferred tax liabilities
	NOTE 30	Provisions
	NOTE 31	Trade payables
	NOTE 32	Other current liabilities
OTHER INFORMATION	NOTE 33	Segment Reporting
	NOTE 34	Additional disclosures to financial instruments and risk management policies
	NOTE 35	Transactions with related parties
	NOTE 36	Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities
	NOTE 37	Guarantees, commitments and contingent liabilities
	NOTE 38	Events subsequent to 31 December 2017
	NOTE 39	Approval of the Consolidated financial statements and authorization to publish

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 IAS 39.

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

These consolidated financial statements are expressed in thousands of Euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.

Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

FINANCIAL STATEMENTS

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

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

BASIS OF CONSOLIDATION

SUBSIDIARIES

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Non controlling interest is stated separately with respect to the Group's net equity. Such Non controlling interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post-acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.
Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

BUSINESS COMBINATIONS

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

INVESTMENTS IN ASSOCIATE COMPANIES

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.
Where a group company transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.
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 IAS 39 "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 2017 and 2016 financial statements of the foreign companies included in consolidation:

	AVERAGE 2017	ON 31 DECEMBER 2017	AVERAGE 2016	ON 31 DECEMBER 2016
GBP	0.87615	0.88723	0.818896	0.85618
Brazilian Real	3.6041	3.9729	3.861627	3.4305
Rumanian Leu	4.5687	4.6585	4.490754	4.539
Belarusian Ruble	2.1837	2.3659	2.20087	2.17226
US Dollar	1.1293	1.1993	1.106598	1.0541
Chinese Yuan	7.6264	7.8044	7.349579	7.39643
Polish Zloty	4.2563	4.177	4.363635	4.4103
Kuna	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
Investments in equity investments mainly held through an Investment Entity as defined by IFRS 10, are designated at fair value and accounted for in accordance with IAS 39 “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. 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.

Investments 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.

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 IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.

All derivative financial instruments are measured in accordance with IAS 39 at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately in the Income Statement.

If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.

For effective hedging against a change in fair value, the hedged item is adjusted by the changes in fair value attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.

Changes in the fair value of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.

Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly related to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the Income Statement.

EMPLOYEE BENEFITS

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

For Italian companies with less than 50 employees, severance pay (“TFR”) remains a “post-employment benefit”, of the “defined benefit plan” type, whose already matured amount must be planned to estimate the amount to settle at the time of annulment of working relations and subsequently updated, using the “Projected unit credit method”. Such actuarial methodology is based on an assumption of demographic and financial nature in order to carry out a reasonable estimate of the amount of benefits that each employee had already matured based on his employment performances.

Through actuarial valuation, current service costs are recognized as “personnel expenses” in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the interest cost is recognized as “Financial gains or losses” and represents the figurative expenditure the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities (“TFR”).

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders’ equity without being ever included in the consolidated income statement.

PENSION PLANS

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

In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.

The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the “ongoing single premiums” method. The portion of net cumulative actuarial gains and losses which exceeds the greater

of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.
The post-employment benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, arising from the application of the corridor method and past service costs to be recognized in future years, reduced by the fair value of plan assets.

SHARE-BASED PAYMENT PLANS

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 the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.

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

GOVERNMENT GRANTS

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

TAXATION

Income tax represents the sum of the tax currently payable and deferred tax.

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

DIVIDENDS

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

Earnings per share

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

USE OF ESTIMATIONS

The preparation of the financial statements and relative notes under IFRS requires that management makes estimates and assumptions that have effect on the measurement of assets and liabilities and on disclosures related to contingent assets and liabilities at the reporting date. The actual results could differ from such estimates. Estimates are used to accrue provisions for risks on receivables, to measure development costs, to measure goodwill and payables 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 2017. 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 BY THE GROUP FROM 1 JANUARY 2017

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group 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:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information in Note 27.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity.

a) **Classification and measurement**

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

b) **Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. According to the performed assessment, the Group does not expect a significant impact on its loss allowance.

c) **Hedge accounting**

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The standard requires a company to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for transferring goods or services to a customer, using a five-step process.

The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts.

The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017. On the basis of this assessment, the Group's revenues will continue to be recognized in a manner consistent with accounting guidance in prior years. It is not foreseen an impact on equity and to the Group's Net profit.

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.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

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 amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not expect impact from the applying of those amendments.

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 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 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 2016 is related to comSysto GmbH, a company incorporated under German law, acquired by Reply AG who holds 100% of the share capital. The company is specialized in Agile solutions in Open Source technologies.

Change in the consolidation does not significantly affect the Group's revenues and profits before tax on 31 December 2017 (approximately 1.1% and 1.4% respectively on revenues and profits before tax).

NOTE 5 - REVENUE

Revenues from sales and services, including changes in work in progress on orders, amounted to 884,434 thousand Euros (780,739 thousand Euros in 2016).
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:

COUNTRY (*)	2017	2016
Region 1	68.2%	70.9%
Region 2	17.9%	16.5%
Region 3	13.7%	12.3%
IoT Incubator	0.2%	0.3%
Total	**100.0%**	**100.0%**

(*)
Region 1: ITA, USA, BRA, POL, ROU
Region 2: DEU, CHE, CHN, HR
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)	2017	2016	CHANGE
Software licenses for resale	8,982	9,389	(407)
Hardware for resale	933	2,068	(1,135)
Other	5,353	5,512	(158)
Total	**15,269**	**16,969**	**(1,701)**

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 2,496 thousand Euros and the purchase of consumption material for 1,360 thousand Euros.

NOTE 7 - PERSONNEL

Detail is as follows:

(THOUSAND EUROS)	2017	2016	CHANGE
Payroll employees	405,656	357,867	47,789
Executive Directors	25,899	21,847	4,052
Total	**431,555**	**379,713**	**51,842**

The increase in the cost of employees, amounting to 51,842 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)	2017	2016	CHANGE
Directors	234	326	(92)
Managers	726	836	(110)
Staff	5,496	4,853	643
Total	**6,456**	**6,015**	**441**

On 31 December 2017 the Group had 6,456, employees compared with 6,015 at the end of 2016.
Change in consolidation brought an increase of 74 employees.
The average number of employees in 2017 was 6,291 marking an increase with respect to 5,663 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)	2017	2016	CHANGE
Commercial and technical consulting	200,952	178,885	22,067
Travelling and professional training expenses	30,922	29,569	1,353
Other services costs	54,365	52,315	2,050
Office expenses	24,979	18,910	6,068
Lease and rentals	8,370	8,143	227
Other	10,336	8,827	1,508
Total	**329,924**	**296,650**	**33,274**

The change in Services and other costs, amounting to 33,274 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 486 thousand Euros and related parties for 769 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 15,735 thousand Euros. This item also includes utility expense for 4,841 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 2017 of 6,878 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization of intangible assets for the year ended 2017 amounted to an overall loss of 5,475 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 869 thousand Euros (4,277 thousand Euros in 2016) and refer to:

- other operating costs amounting to 2,113 thousand Euros in relation to provision for contractual and commercial risks and lawsuits;
- other non recurring income amounting to 2,982 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 negative 585 thousand Euros is related to:

- the fair value of investments resulting in a gain of 2,749 thousand Euros;
- impairment of investments in the amount of 3,333 thousand Euros.

NOTE 12 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(THOUSAND EUROS)	2017	2016	CHANGE
Financial income	401	342	59
Interest expenses	(816)	(1,017)	201
Other	(2,563)	(846)	(1,718)
Total	**(2,978)**	**(1,520)**	**(1,458)**

Financial gains mainly include interest on bank accounts amounting to 171 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 loss of 1,749 thousand Euros;
- the write off of other financial assets amounting to 1,226 thousand Euros:
- the net changes in fair value of Convertible Loans including capitalized interest amounting to 2,454 thousand Euros;
- the changes in fair value of financial liabilities pursuant to IAS 39 in a net loss of 1,818 thousand Euros.

NOTE 13 - INCOME TAXES

Income taxes for the financial year ended 2017 amounted to 31,765 thousand Euros and is detailed as follows:

(THOUSAND EUROS)	2017	2016	CHANGE
IRES and other taxes	35,668	31,114	4,554
IRAP (Italy)	5,376	4,734	643
Current taxes	**41,045**	**35,848**	**5,197**
Deferred tax expenses	794	(4,593)	5,387
Deferred tax income	(9,841)	(1,557)	(8,283)
Deferred taxes	**(9,046)**	**(6,150)**	**(2,896)**
Previous year taxes	(233)	-	(233)
Total income taxes	**31,765**	**29,698**	**2,067**

The tax burden on the result before taxes was equivalent to 28.8% (30.5% in the financial year of 2016). 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	110,310	
Theoretical income taxes	26,474	24.0%
Effect of fiscal permanent differences	(1,559)	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	817	
Other differences	657	
Current and deferred income tax recognized in the financial statement excluding IRAP	**26,389**	**23.9%**
IRAP current and deferred	5,376	4.9%
Current and deferred income recognized in the financial statements	**31,765**	**28.8%**

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 2017 was calculated on the basis of the Group's net result amounting to 77,871 thousand Euros (67,544 thousand Euros as at 31 December 2016) divided by the weighted average number of shares, net of treasury shares, as at 31 December 2017 which amounted to 37,407,400 (37,407,400 as at 31 December 2016).
It is to be noted that the average number of shares for 2016 was redetermined following the Stock split resolved by the Extraordinary Shareholders' Meeting on September 13 2017 through the allotment of 4 shares per each ordinary share owned.

(EUROS)	2017	2016
Group net result	77,871,000	67,544,000
Average no. shares	37,407,400	37,407,400
Earnings per share	2.08	1.81

NOTE 15 - TANGIBLE ASSETS

Tangible assets as at 31 December 2017 amounted to 21,552 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Buildings	2,067	1,764	304
Plant and machinery	3,419	3,132	288
Hardware	4,877	3,920	956
Other	11,189	8,870	2,319
Total	**21,552**	**17,686**	**3,867**

Change in tangible assets during 2017 is summarized below:

(THOUSAND EUROS)	BUILDINGS	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical Cost	4,023	9,305	29,279	20,874	63,481
Accumulated depreciation	(2,259)	(6,173)	(25,359)	(12,004)	(45,795)
31/12/2016	**1,764**	**3,132**	**3,920**	**8,870**	**17,686**
Historical Cost					
Increases	446	1,648	3,713	5,064	10,871
Disposals	-	(118)	(1,341)	(808)	(2,268)
Other changes	-	65	156	(171)	50
Accumulated depreciation					
Depreciation	(143)	(1,395)	(2,893)	(2,447)	(6,878)
Utilized	-	88	1,256	659	2,003
Other changes	-	-	65	23	88
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**

During the financial year the Group carried out total investments 10,871 thousand Euros (7,048 thousand Euros at 31 December 2016).

The item Buildings mainly includes the net value of a building owned by the group amounting to 1,916 thousand Euros, located in Gutersloh, Germany.

Increase in the item Plant and machinery mainly refers to investments in specific equipment in the mobile field and the realization of systems and installations for the offices in which the Group operates.

Change in the item Hardware is due to investments made by the Group in hardware equipment (computers and servers). Furthermore this item includes financial leases for 389 thousand Euros (556 at 31 December 2016).

The item Other as at 31 December 2017 mainly includes improvements to third party assets and office furniture. The increase of 5,064 Euros mainly refers to improvements made to the offices where the Group's companies operate. Such item also includes a financial leasing for furniture for a net value amounting to 1,399 thousand Euros (894 thousand Euros at 31 December 2016).

Other changes mainly refer to change in consolidation and to translation differences.

As at 31 December 2017 tangible assets were depreciated by 70.1% of their value, compared to 72.1% at the end of 2016.

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 2017 developed as follows:

(THOUSAND EUROS)	
Beginning balance	**157,429**
Increases	10,202
Impairment	-
Total	**167,631**
Exchange rate differences	(1,499)
Ending balance	**166,132**

Increase in Goodwill compared to 31 December 2016 owes to the acquisition of comSysto 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	113
Trade receivables and other current assets	2,351
Cash and cash equivalents	2,680
Trade payables and other current liabilities	(1,087)
Net assets acquired	**4,057**
Transaction value	14,259
Goodwill	**10,202**

(*) book value is equal to fair value

At 31 December 2017 no impairment indicators 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 31/12/2016	INCREASES	TRANSLATION DIFFERENCES	AT 31/12/2017
Region 1	48,252	-	-	48,252
Region 2	53,782	10,202	-	63,984
Region 3	55,394	-	(1,499)	53,895
Total	**157,429**	**10,202**	**(1,499)**	**166,132**

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:	7.83%	5.93%	6.64%
Discount rate, before taxes:	10,30%	8.43%	8.19%
Multiple of EBIT	11.7	11.7	11.7

As to all CGUs subject to the impairment tests at 31 December 2017 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 2017 of the CGU is equal to 380.8% for Region 1,227.5% for Region 2 and 102.5% 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 2017 amounted to 15,525 thousand Euros (17,016 thousand Euros on 31 December 2016) and are detailed as follows:

(THOUSAND EUROS)	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE 31/12/2017
Development costs	27,398	(21,366)	6,032
Software	23,763	(20,521)	3,242
Trademark	537	-	537
Other intangible assets	7,344	(1,628)	5,716
Total	**59,041**	**(43,515)**	**15,525**

Change in intangible assets during 2017 is summarized in the table below:

(THOUSAND EUROS)	NET BOOK VALUE 31/12/2016	INCREASES	AMORTIZATION	OTHER CHANGES	NET BOOK VALUE 31/12/2017
Development costs	6,007	2,723	(2,699)	-	6,032
Software	3,812	1,555	(2,053)	(72)	3,242
Trademark	537	-	-	-	537
Other intangible assets	6,659	-	(723)	(220)	5,716
Total	**17,016**	**4,278**	**(5,475)**	**(292)**	**15,525**

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 279 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 in 2016.

NOTE 18 - EQUITY INVESTMENTS

The item Equity investments amounts to 29,201 thousand Euros and includes for 15 thousand Euros several subsidiary companies that were not consolidated as they were not operational at the closing date and for 29,186 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 as defined by IFRS 10, are designated at fair value and accounted for in accordance with IAS 39 “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.

(THOUSAND EUROS)	VALUE AT 31/12/2016	NEW INCREASES 2017	FOLLOW-ON INVESTMENTS	NET FAIR VALUE ADJUSTMENTS	IMPAIRMENT	CONVERTIBLE LOANS CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2017
Investments	14,104	3,969	3,837	2,749	(3,333)	8,309	(448)	29,186

NEW INCREASES 2017

The increases of the period are related to:

- **Canard Drones (564 thousand Euros)**
  Canard Drones has built a visual inspection solution for airport systems based on Unmanned Aerial Vehicles (UAVs).
- **We Predict (2.132 thousand Euros)**
  We Predict has created Indico, a predictive analytics solution designed to identify engineering warranty problems in the automotive and heavy machinery markets, and extending into their supply chains and large OEM insurers. Indico is a highly visual system with detailed reporting dashboards that make it simple, systematic and interactive to identify and prioritize warranty issues.
- **FoodMarble (569 thousand Euros)**
  FoodMarble has developed a connected device called AIRE to help people manage digestive symptoms. Working as a personal breath analyzer, AIRE helps users identify the foods that are most compatible with their unique digestive system. The technology for doing this is used in leading digestive health clinics and gastroenterology departments worldwide and FoodMarble has adapted the technology, making it smaller, portable and more affordable for personal, everyday use.
- **AppyParking (704 thousand Euros)**
  AppyParking's next generation intelligent mobility and connected car platform bridges the gap between high definition kerbside mapping, internet of things and frictionless payments. AppyParking's smart city platform enables the public and private sector to manage and control a digital infrastructure layer over existing road networks.

FOLLOW-ON INVESTMENTS

The increase is related to follow-on investments existing at December 31, 2016.

NET FAIR VALUE ADJUSTMENTS

The net fair value adjustment amounting to 2,749 thousand Euros reflects the market values of the last rounds that took place in 2017 on investments already in portfolio.

IMPAIRMENT

This item amounting to 3,333 thousand Euros is related to impairment of investments deemed unrecoverable.

CONVERTIBLE LOANS CONVERSION

The increase is related to the conversion of Convertible Loans in shares of several equity investments and also includes fair value adjustments for positive 3,091 thousand Euros.

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 8,427 thousand Euros with compared to 12,664 thousand Euros as at 31 December 2016.

Detail is as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Receivables from insurance companies	3,242	3,190	53
Guarantee deposits	1,275	1,039	236
Other financial assets	15	759	(744)
Convertible loans	1,853	5,489	(3,636)
Short term securities	2,042	2,187	(145)
Total	**8,427**	**12,664**	**(4,237)**

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 31/12/2016	INCREASES	CAPITALIZED INTERESTS	NET FAIR VALUE ADJUSTMENTS	IMPAIRMENT	EQUITY CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2017
Convertible loans	5,489	2,494	219	3,091	(856)	(8,309)	(276)	1,853

INCREASES

This amount is referred to new investments in convertible loans in 2017.

NET FAIR VALUE ADJUSTMENTS

The net fair value adjustments reflect the market value of the loans converted into equity at the time of conversion.

IMPAIRMENT

Impairment is related to write-downs of convertible loans that were deemed unrecoverable.

EQUITY CONVERSION

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 within the Net financial position.

NOTE 20 - DEFERRED TAX ASSETS

Deferred tax assets, amounting to 24,661 thousand Euros as at 31 December 2017 (16,466 thousand Euros as at 31 December 2016), 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)	31/12/2016	ACCRUALS	UTILIZATION	31/12/2017
Prepaid tax on costs that will become deductible in future years	7,604	1,425	(2,674)	6,355
Prepaid tax on greater provisions for doubtful accounts	5,097	3,409	(998)	7,508
Deferred fiscal deductibility of amortization	1,684	272	(242)	1,714
Consolidation adjustments and other items	2,080	8,909	(1,905)	9,085
Total	**16,466**	**14,015**	**(5,819)**	**24,661**

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 93,651 thousand Euros, is detailed as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Contract work in progress	279,489	169,802	109,687
Advance payments from customers	(185,838)	(111,151)	(74,687)
Total	**93,651**	**58,651**	**35,000**

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 2017 amounted to 357,082 thousand Euros with a net increase of 17,888 thousand Euros.

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Domestic clients	271,043	265,976	5,067
Foreign trade receivables	89,519	75,076	14,443
Credit notes to be issued	(498)	(9)	(489)
Total	**360,064**	**341,042**	**19,022**
Allowance for doubtful accounts	(2,982)	(1,848)	(1,133)
Total trade receivables	**357,082**	**339,194**	**17,888**

Trade receivables are shown net of allowances for doubtful accounts amounting to 2,982 thousand Euros on 31 December 2017 (1,848 thousand Euros at 31 December 2016).

The Allowance for doubtful accounts developed in 2017 as follows:

(THOUSAND EUROS)	31/12/2016	ACCRUALS	UTILIZATION	REVERSAL	31/12/2017
Allowance for doubtful accounts	1,848	1,914	(727)	(54)	2,982

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2016, are summarized in the tables below:

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**

AGING AT 31/12/2016

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	341,042	310,338	27,283	1,773	341	1,306	30,704
Allowance for doubtful accounts	(1,848)	(25)	(307)	(128)	(183)	(1,205)	(1,824)
Total trade receivables	**339,194**	**310,313**	**26,976**	**1,645**	**158**	**101**	**28,881**

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)	31/12/2017	31/12/2016	CHANGE
Tax receivables	24,227	14,543	9,684
Advances to employees	349	131	219
Accrued income and prepaid expenses	11,762	9,254	2,508
Other receivables	9,388	20,882	(11,494)
Total	**45,726**	**44,810**	**916**

- The item Tax receivables mainly includes:
- credits to the Treasury for VAT (13,592 thousand Euros);
- income tax prepayments net of the allocated liability (6,572 thousand Euros);
- receivables for withholding tax (209 thousand Euros).

The item Other receivables mainly includes the contributions receivable in relation to research projects for 6,653 thousand Euros (12,762 thousand Euros at 31 December 2016).

NOTE 24 - CASH AND CASH EQUIVALENTS

The balance of 109,195 thousand Euros, with an increase of 16,646 thousand Euros compared with 31 December 2016, 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 2017 the company 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.
The Extraordinary Shareholders' Meeting held on 13 September 2017 resolved to split the 9,352,857 outstanding ordinary shares, with a nominal value of € 0.52 each, into 37,411,428 newly issued ordinary shares, with a nominal value of € 0.13 each, having the same characteristics as outstanding ordinary shares, assigned in the ratio of four new shares in replacement of each existing ordinary share.

TREASURY SHARES

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 2017 were equal to n. 4,028.

CAPITAL RESERVES

On 31 December 2017 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 21 April 2017 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 338,442 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 973 thousand Euros;
- Retained earnings amounted to 259,599 thousand Euros (retained earnings amounted to 203,490 thousand Euros on 31 December 2016);
- Profits/losses attributable to shareholders of the Parent Company amounted to 77,871 thousand Euros (67,544 thousand Euros as on 31 December 2016).

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

(THOUSANDS EUROS)	31/12/2017	31/12/2016
Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax:		
Actuarial gains/(losses) from employee benefit plan	79	(1,597)
Total Other comprehensive income that will not be classified subsequently to profit or loss, net of tax (B1):	**79**	**(1,597)**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	28	(62)
Gains/(losses) from the translation of assets in foreign currencies	(2,155)	(10,562)
Total Other comprehensive income that may be classified subsequently to profit or loss, net of tax (B2):	**(2,127)**	**(10,624)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**(2,049)**	**(12,221)**

SHARE BASED PAYMENT PLANS

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

NOTE 26 - PAYABLES TO MINORITY SHAREHOLDERS AND EARN-OUT

Payables to minority shareholders and Earn-out owed on 31 December 2017 amount to 22,275 thousand Euros inclusive of negative exchange differences amounting to 336 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2016	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	EXCHANGE DIFFERENCES	31/12/2017
Payable to minority shareholders	13,736	-	292	(3,760)	(150)	10,118
Payables for earn-out	10,822	4,180	(2,385)	(273)	(186)	12,157
Total payables to minority shareholders and Earn-out	**24,558**	**4,180**	**(2,093)**	**(4,033)**	**(336)**	**22,275**

The increase in payables for earn-out amounting to 4,180 is related to comSysto GmbH, a company incorporated under German law and based in Munich, acquired by Reply AG that holds 100% of the share capital.

The item Fair value adjustments in 2017 amounted to 2,093 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 4,033 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:

		31/12/2017			31/12/2016	
(THOUSAND EUROS)	CURRENT	NON CURRENT	TOTAL	CURRENT	NON CURRENT	TOTAL
Bank overdrafts	22,798	-	22,798	16,039	-	16,039
Bank loans	16,365	13,381	29,746	18,893	29,985	48,877
Total due to banks	**39,163**	**13,381**	**52,544**	**34,932**	**29,985**	**64,916**
Other financial borrowings	942	721	1,663	737	1,066	1,803
Total financial liabilities	**40,105**	**14,102**	**54,207**	**35,669**	**31,051**	**66,720**

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

	31/12/2017				31/12/2016			
(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	22,798	-	-	22,798	16,039	-	-	16,039
M&A loans	16,267	13,209	-	29,476	18,767	29,697	-	48,464
Mortgage loans	115	172	-	288	115	288	-	403
Other financial borrowings	942	722	-	1,663	737	1,066	-	1,803
Other	(17)	-	-	(17)	11	-	-	11
Total	**40,105**	**14,102**	**-**	**54,207**	**35,669**	**31,051**	**-**	**66,720**

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 will expire on 31 December 2018. Such credit line was used for 6,053 thousand Euros at 31 December 2017.
- 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 5,000 thousand Euros at 31 December 2017.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 September 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 14,286 thousand Euros at 31 December 2017.
- On 8 April 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 10,000,000 Euros entirely used for the reimbursement of the credit line dated 19 September 2012.

  The loan is reimbursed on a half-year basis deferred to commence on 31 October 2016. Such credit line was used for 2,500 thousand Euros at 31 December 2017.

- 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 2017.
- 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. As at December 31, 2017 this line had not been used.
- On 21 September 2016 Reply S.p.A. entered onto an Interest Rate Swap contract with Intesa San Paolo S.p.A. with effect from 31 March 2017 and will expire on 31 March 2020.
- 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, 2017 this line had not been used.

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.

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 19,286 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 2017.

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Cash and cash equivalents	109,195	92,550	16,646
Current financial assets	2,042	2,925	(883)
Non current financial assets	-	4	(4)
Total financial assets	**111,238**	**95,479**	**15,758**
Current financial liabilities	(40,105)	(35,670)	(4,435)
Non current financial liabilities	(14,102)	(31,051)	16,949
Total financial liabilities	**(54,207)**	**(66,721)**	**12,514**
Total net financial position	**57,030**	**28,758**	**28,272**

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

Change in financial liabilities during 2017 is summarized below:

(THOUSAND EUROS)	
Total financial liabilities 2016	**66,720**
Bank overdrafts	(16,039)
Fair value IRS	(11)
Non current financial liabilities 2016	50,671
Cash flows	(19,245)
Total non current financial liabilities 2017	**31,426**
Bank overdrafts	22,798
Fair value IRS	(17)
Total financial liabilities 2017	**54,207**

NOTE 28 - EMPLOYEE BENEFITS

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Employee severance indemnities	23,748	22,094	1,654
Employee pension funds	6,461	6,771	(310)
Directors severance indemnities	1,613	1,520	93
Other	16	16	-
Total	**31,838**	**30,401**	**1,437**

EMPLOYEE SEVERANCE INDEMNITIES

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

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

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

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2017: 2.50% frequency of turnover in 2017: 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 the company belongs and with reference to the market yield of Federal bonds. An annual constant rate equal to 1.31% was used for the year 2017.
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 2017 are summarized in the table below:

(THOUSAND EUROS)	
Balance at 31/12/2016	**22,094**
Cost relating to current (service cost) work	4,135
Actuarial gain/loss	78
Interest cost	317
Indemnities paid during the year	(2,875)
Balance at 31/12/2017	**23,748**

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)	31/12/2017	31/12/2016
Present value of liability	7,394	7,641
Fair value of plan assets	(933)	(870)
Net liability	**6,461**	**6,771**

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

(THOUSAND EUROS)	
Present value at beginning of the year	**7,641**
Service cost	53
Interest cost	113
Actuarial gains/(losses)	(236)
Indemnities paid during the year	(177)
Present value at year end	**7,394**

DIRECTORS SEVERANCE INDEMNITIES

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 93 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 2017 and to a partial payment of the indemnity.

NOTE 29 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2017 amounted to 18,539 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)	31/12/2017	31/12/2016
Deductible items off the books	1,880	1,797
Other	16,659	16,766
Total	**18,539**	**18,563**

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 13,909 thousand Euros (of which 13,635 thousand Euros are non-current).

Change in 2017 is summarized in the table below:

(THOUSAND EUROS)	BALANCE AT 31/12/2016	CHANGE IN CONSOLIDATION	ACCRUALS	UTILIZATION	REVERSALS	BALANCE AT 31/12/2017
Fidelity fund	323	-	25	(93)	-	255
Provision for risks	10,593	184	4,103	(1,138)	(88)	13,655
Total	**10,916**	**184**	**4,128**	**(1,230)**	**(88)**	**13,909**

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.

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2017 amounted to 100,150 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Domestic suppliers	84,368	80,369	3,999
Foreign suppliers	16,855	13,383	3,472
Advances to suppliers	(1,073)	(1,017)	(57)
Total	**100,150**	**92,735**	**7,414**

NOTE 32 - OTHER CURRENT LIABILITIES

Other current liabilities at 31 December 2017 amounted to 228,165 thousand Euros with an increase of 39,020 thousand Euros with respect to the previous financial year. Detail is as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016	CHANGE
Income tax payable	7,448	8,114	(666)
VAT payable	9,627	9,630	(3)
Withholding tax and other	6,879	6,691	187
Total due to tax authorities	**23,954**	**24,436**	**(482)**
National social insurance payable	25,006	22,927	2,079
Other	1,956	1,758	198
Total due to social securities	**26,962**	**24,685**	**2,277**
Employee accruals	63,754	52,965	10,789
Other payables	105,629	78,564	27,065
Accrued expenses and deferred income	7,865	8,495	(630)
Total other payables	**177,248**	**140,023**	**37,225**
Other current liabilities	**228,165**	**189,144**	**39,020**

Due to tax authorities amounting to 23,954 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 26,962 thousand Euros, is related to both Company and employees' contribution payables.
Other payables at 31 December 2017 amounted to 177,248 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 2014 with some Directors of subsidiary companies, the liability at year end amounted to 1,364 thousand Euros while the cost in Profit and loss amounted to 551 thousand Euros. Such options can be exercised in financial year 2018 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 76,199 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 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)	(171.4)		(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**	**12.5**
Income taxes	(23,666)	(3.8)	(4,719)	(2.9)	(3,052)	(2.3)	(329)	(19.4)		(31,765)	(3.6)
Net income	**64,664**	**10.5**	**12,239**	**7.6**	**8,431**	**6.8**	**(6,789)**	**(401.2)**		**78,545**	**8.9**

(THOUSAND EUROS)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2016	%
Revenues	**564,678**	**100**	**131,592**	**100**	**98,273**	**100**	**2,667**	**100**	**(16,472)**	**780,739**	**100**
Operating costs	(477,774)	(84.6)	(120,215)	(91.4)	(89,715)	(91.3)	(3,090)	(115.9)	16,472	(674,322)	(86.4)
Gross operating income	**86,905**	**15.4**	**11,377**	**8.6**	**8,558**	**8.7**	**(423)**	**(15.90)**	**-**	**106,417**	**13.6**
Amortization, depreciation and write-downs	(8,618)	(1.5)	(1,595)	(1.2)	(1,431)	(1.5)	(24)	(0.9)		(11,669)	(1.5)
Other non-recurring (costs)/income	1,251	-	983	1	2,612	3	-	-		4,846	0.6
Operating income	**79,538**	**14.1**	**10,764**	**8.2**	**9,739**	**9.9**	**(447)**	**(16.8)**		**99,594**	**12.8**
Gain/(loss) on investments	-	-	-	-	-	-	(668)	(25.1)		(668)	(0.1)
Financial income/(loss)	1,785	-	(2,036)	(1.5)	782	1	(2,051)	(76.9)		(1,520)	(0.2)
Income before taxes	**81,322**	**14.4**	**8,729**	**6.6**	**10,522**	**10.7**	**(3,167)**	**(118.8)**		**97,405**	**12.5**
Income taxes	(25,151)	(4.5)	(3,250)	(2.5)	(1,851)	(1.9)	553	21		(29,698)	(3.8)
Net income	**56,171**	**9.9**	**5,479**	**4.2**	**8,671**	**8.8**	**(2,614)**	**(98.00)**		**67,707**	**8.7**

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2017	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2016
Current operating assets	406,418	56,568	59,377	312	(26,216)	496,459	380,286	44,726	37,405	730	(20.492)	442,655
Current operating liabilities	(260,999)	(41,968)	(43,742)	(8,096)	26,216	(328,589)	(242,703)	(29,082)	(27,094)	(3,864)	20.492	(282,251)
Net working capital (A)	**145,419**	**14,600**	**15,635**	**(7,784)**	**-**	**167,870**	**137,583**	**15,644**	**10,312**	**(3,135)**	**-**	**160,404**
Non current assets	88,832	78,867	64,593	31,165	-	263,457	83,889	63,326	65,168	20,059	-	232,441
Non-financial liabilities long term	(51,341)	(26,587)	(8,358)	-	-	(86,286)	(49,388)	(27,033)	(7,646)	-	-	(84,067)
Fixed capital (B)	**37,490**	**52,280**	**56,236**	**31,165**	**-**	**177,171**	**34,501**	**36,293**	**57,522**	**20,059**	**-**	**148,374**
Net invested capital (A+B)	**182,910**	**66,881**	**71,870**	**23,381**	**-**	**345,041**	**172,084**	**51,937**	**67,834**	**16,924**	**-**	**308,779**

Breakdown of employees by Region is as follows:

REGION	31/12/2017	31/12/2016	CHANGE
Region 1	4,769	4,507	262
Region 2	1,090	951	139
Region 3	585	549	36
IoT Incubator	12	8	4
Total	**6,456**	**6,015**	**441**

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

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

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

The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the 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 Group is theoretically exposed at 31 December 2017 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

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

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

As described in the Risk management section, the Group has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce the liquidity risk, as follows:

- centralizing the management of receipts and payments, where it may be economical in the context of the local civil, currency and fiscal regulations of the countries in which the 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

The Group 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 2017 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 259 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 2017, according to the fair value hierarchical assessment level:

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Investments	18	-	-	29,201
Convertible loans	19	-	-	1,853
Financial securities	19	2,042	-	-
Total financial assets		**2,042**	**-**	**31,054**
Derivative financial liabilities (IRS)			34	
Liabilities to minority shareholders and earn out	26	-	-	22,275
Other financial liabilities	32	-	-	1,364
Total financial liabilities		**-**	**34**	**23,639**

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 2017, 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	31/12/2017	31/12/2016	NATURE OF TRANSACTION
Trade receivables	-	28	Receivables from professional services
Trade payables and other	3	2	Payables for professional services and official rentals offices
Other payables	4,072	2,965	Payables for emoluments to Directors and Managers with strategic responsibilities and Board of Statutory Auditors

ECONOMIC TRANSACTIONS	2017	2016	NATURE OF TRANSACTION
Revenues from professional services	-	-	Receivables from professional services
Services from Parent company and related parties	769	1,164	Service contracts relating to office rental, and office administration
Personnel	7,819	6,850	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)	2017	2016
Executive Directors	5,877	5,224
Statutory auditors	122	122
Total	5,999	5,346

Emoluments to Key management amounted to approximately 1,942 thousand Euros (1,626 thousand Euros at 31 December 2016).

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. With specific reference to the request to obtain the corresponding amount in cash, the time limit for exerting such an authority shall expire starting from the shortest time limit between the day following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

CONTINGENT LIABILITIES

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

NOTE 38 - EVENTS SUBSEQUENT TO 31 DECEMBER 2017

No significant events have occurred since year ended December 31, 2017.

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

The Consolidated financial statements at 31 December 2017 were approved by the Board of Directors on March 13, 2018 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)	2017	OF WHICH RELATED PARTIES	%	2016	OF WHICH RELATED PARTIES	%
Revenues	**884,434**	**-**	**-**	**780,739**	**-**	**-**
Other income	17,672	-	-	19,579	-	-
Purchases	(15,269)	-	-	(16,969)	-	-
Personnel	(431,555)	(7,819)	1.8%	(379,713)	(6,850)	1.8%
Services and other costs	(329,924)	(769)	0.2%	(296,650)	(1,286)	0.4%
Amortization, depreciation and write downs	(12,353)	-	-	(11,669)	-	-
Other operating and non recurring (cost)/income	869	-	-	4,277	-	-
Operating income	**113,873**	**-**	**-**	**99,594**	**-**	**-**
(Loss)/gain on investments	(585)	-	-	(668)	-	-
Financial income/(expenses)	(2,978)	-	-	(1,520)	-	-
Income before taxes	**110,310**	**-**	**-**	**97,405**	**-**	**-**
Income taxes	(31,765)	-	-	(29,698)	-	-
Net income	**78,545**	**-**	**-**	**67,707**	**-**	**-**
Non controlling interest	(674)	-	-	(163)	-	-
Group net result	**77,871**	**-**	**-**	**67,544**	**-**	**-**

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

(THOUSAND EUROS)	31/12/2017	OF WHICH RELATED PARTIES	%	31/12/2016	OF WHICH RELATED PARTIES	%
Tangible assets	21,552	-	-	17,686	-	-
Goodwill	166,132	-	-	157,429	-	-
Other intangible assets	15,525	-	-	17,016	-	-
Equity investments	29,201	-	-	14,110	-	-
Other financial assets	6,385	-	-	9,739	-	-
Deferred tax assets	24,661	-	-	16,466	-	-
Non current assets	**263,457**	**-**	**-**	**232,445**	**-**	**-**
Work in progress	93,651	-	-	58,651	-	-
Trade receivables	357,082	-	-	339,194	28	0.0%
Other current assets	45,726	-	-	44,810	-	-
Financial assets	2,042	-	-	2,925	-	-
Cash and cash equivalents	109,195	-	-	92,550	-	-
Current assets	**607,697**	**-**	**-**	**538,130**	**-**	**-**
TOTAL ASSETS	**871,154**	**-**	**-**	**770,575**	**-**	**-**
Share capital	4,863	-	-	4,863	-	-
Other reserves	318,670	-	-	264,610	-	-
Group net income	77,871	-	-	67,544	-	-
Group Shareholder's equity	**401,404**	**-**	**-**	**337,017**	**-**	**-**
Non controlling interest	668	-	-	520	-	-
SHAREHOLDER'S EQUITY	**402,072**	**-**	**-**	**337,537**	**-**	**-**
Payables to minority shareholders and Earn-out	22,275	-	-	24,558	-	-
Financial liabilities	14,102	-	-	31,051	-	-
Employee benefits	31,838	-	-	30,401	-	-
Deferred tax liabilities	18,539	-	-	18,563	-	-
Provisions	13,635	-	-	10,545	-	-
Non current liabilities	**100,388**	**-**	**-**	**115,118**	**-**	**-**
Financial liabilities	40,105	-	-	35,670	-	-
Trade payables	100,150	3	0,0%	92,735	2	0.0%
Other current liabilities	228,165	4.072	1,8%	189,144	2,965	1.6%
Provisions	274	-	-	371	-	-
Current liabilities	**368,693**	**-**	**-**	**317,921**	**-**	**-**
Total liabilities	**469,082**	**-**	**-**	**433,038**	**-**	**-**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITES	**871,154**	**-**	**-**	**770,575**	**-**	**-**

REPLY
LIST OF INVESTMENTS AT 31 DECEMBER 2017

COMPANY NAME	HEADQUARTERS	GROUP INTEREST
Parent company		
Reply S.p.A.	Turin – Corso Francia, 110 - Italy	
Companies consolidates 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 (Belgium) Sprl	Brussels, Belgium	100.00%
Avantage Reply (Luxembourg) Sarl	Itzig, Luxembourg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherland	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	76.00%
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	70.00%
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%
EOS Reply S.r.l.	Turin, Italy	100.00%
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%
Healthy Reply GmbH	Düsseldorf, Germany	100.00%
Hermes Reply S.r.l.	Turin, Italy	100.00%
Hermes Reply Polska zo.o	Katowice, Poland	100.00%
Industrie Reply GmbH (formerly Logistics Reply GmbH)	Munich, Germany	100.00%
InEssence 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 Recruiting Ltd (***)	London, United Kingdom	100.00%
Macros Reply GmbH	Munich, 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%
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 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 SA	Mont Saint Guibert, Netherland	100.00%
Reply Digital Experience S.r.l. (formerly Bitmama 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	100.00%
Reply Services S.r.l.	Turin, Italy	100.00%
Reply Verwaltung GmbH	Guetersloh, Germany	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	85.00%
Spark Reply GmbH	Germany	100.00%
Square 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%
Reply GmbH (formerly Syskoplan Reply GmbH)	Zurich, Switzerland	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.	Bucharest, Romania	100.00%
TD China (TD Marketing Consultants, Beijing Co. Ltd)	China	100.00%
Tool Reply GmbH	Guetersloh, Germany	100.00%

Triplesense Reply GmbH	Frankfurt, Germany	100.00%
Twice Reply S.r.l.	Turin, Italy	98.00%
Twice Reply GmbH	Munich, Germany	100.00%
TD Reply GmbH (formerly Trommsdorf+drüner, innovation+marketing consultants GmbH)	Berlin, Germany	100.00%
WM360 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%
Xuccess Reply GmbH	Munich, Germany	100.00%

Companies carried at fair value

Amiko Digital Health Limited	England	22.70%
Appy Parking	England	5.90%
Callsign	England	3.60%
Canard Drones	Spain	10.90%
Cocoon Alarm Limited	England	23.60%
Connecterra Holdings Ltd	Belgium	19.50%
enModus Ltd	England	19.20%
Food Marble	England	13.60%
Inova Design Solutions Ltd	England	33.70%
Iotic Labs Limited	England	17.10%
Kokoon Technology Ltd	England	38.20%
RazorSecure Ltd	England	21.10%
Senseye Ltd	England	14.30%
Sentryo SAS	France	13.30%
We Predict Ltd	England	16.60%
Wearable Technologies Ltd	England	14.80%
Zeetta Networks Limited	England	29.30%

Companies carried at cost

Sprint Reply S.r.l.	Turin, Italy	100.00%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting reflects Management's best estimate as at the closing date of the 2017 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.

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 2017 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 2017
Audit	EY S.p.A.	Parent company - Reply S.p.A.	59
	EY S.p.A.	Subsidiaries	213
	Ernst & Young GmbH	Subsidiaries	195
	Ernst & Young LLP	Subsidiaries	119
	Ernst & Young Auditores Independentes S.S.	Subsidiaries	29
	Total		**615**
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])	55
	EY S.p.A.	Subsidiaries [1]	21
	Total		77
Other services	EY S.p.A.	Parent company - Reply S.p.A.(3)	9
	Total		**9**
Total			**701**

[1] Signed tax forms (Modello Unico, IRAP and Form 770)
[2] DNF
[3] GAAP Analysis

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 2017.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2017 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 Organizations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Consolidated Financial Statement

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

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

Turin, 13 March 2018

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 2017

Dear Shareholders,

The Board of Directors is submitting to you the Consolidated Financial Statements as at 31 December 2017 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 2017 present a consolidated Shareholders' equity amounting to 401,404 thousand Euros, including a consolidated profit of 77,871 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 sub-division of the volumes of assets of the principal business lines and the consolidated results.

The consolidation area is determined in such context, which included as at 31 December 2017 in addition to the Parent Company, 100 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 2017 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 today's date, in which it confirms that, in its opinion:

- the Consolidated Financial Statements of the Reply Group as at 31 December 2017 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.

With regard to the key aspects of the audit, EY S.p.A. has identified the valuation of the goodwill and the valuation of payables to minority shareholders and corporate transactions.
On the basis of the audits and controls carried out, we certify that:
- The consolidation area has been determined in 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 2017;
- The measurement criteria are homogeneous with those used for the previous reporting period;
- Changes in the consolidation compared to 31 December 2016 consist of the inclusion of the following companies:
  - Spark Reply S.r.l.;
  - Technology Reply Roma S.r.l.;
  - comSysto GmbH

  Whereas the following companies were incorporated under WM360 Ltd.:
  - WM360 Consultancy Services Ltd;
  - WM360 Crashpad Ltd;
  - WM Reply Ltd;
  - WM360 Resocurcing Ltd;
  - Triplesense Reply S.r.l. was incorporated under Reply Digital Experience S.r.l.
  - Xister USA Corporation (liquidated in 2017).

Finally, we remind you that our three-year term of office has expired and in thanking you for the trust you have placed in us, we invite you to take the necessary measures.

Turin, 29 March 2018
THE STATUTORY AUDITORS
(Prof. Cristiano Antonelli)
(Dott.ssa Ada Alessandra Garzino Demo)
(Dott. Paolo Claretta Assandri)

Building a better
working world

EY S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
Fax: +39 011 5612554
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 2017, 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 2017, 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 2017 the goodwill amounted to 166.1 million, and was allocated for € 48.3 million to Region 1, for € 64 million to Region 2 and for € 53.9 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 long term 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 2017 the recorded amount of Payables to minority shareholders and Earn-out was € 22.3 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.

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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 2017, 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 2017 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 2017 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 have 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, 29 March 2018

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 2017

INCOME STATEMENT (*)

(EUROS)	NOTE	2017	2016
Revenue	5	378,788,753	367,952,177
Other income	6	10,201,787	7,999,405
Purchases	7	(19,198,916)	(16,293,477)
Personnel	8	(19,821,559)	(20,176,553)
Services and other costs	9	(342,420,618)	(338,791,654)
Amortization, depreciation and write-downs	10	(973,395)	(731,885)
Other operating and non recurring income/(expenses)	11	(2,999,737)	1,780,821
Operating income		**3,576,315**	**1,738,834**
Gain/(loss) on equity investments	12	95,910,635	18,000,006
Financial income/(expenses)	13	2,971,575	(2,900,297)
Income before taxes		**102,458,525**	**16,838,543**
Income taxes	14	(390,815)	424,935
Net income		**102,067,710**	**17,263,478**
Net and diluted income per share	*15*	*2.73*	*0.46*

(*) 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	2017	2016
Profit of the period (A)		**102,067,710**	**17,263,478**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) from employee benefit plans	26	2,503	(14,351)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		**2,503**	**(14,351)**
Other comprehensive income that may be reclassified s ubsequently to profit or loss:			
Gains/(losses) on cash flow hedges	26	28,013	(62,261)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**28,013**	**(62,261)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):		**30,516**	**(76,612)**
Total comprehensive income (A)+(B)		**102,098,226**	**17,186,867**

STATEMENT OF FINANCIAL POSITION (*)

(EUROS)	NOTE	31/12/2017	31/12/2016
Tangible assets	16	477,824	722,796
Goodwill	17	86,765	86,765
Other intangible assets	18	2,096,599	2,118,907
Equity investments	19	143,259,963	149,356,195
Other financial assets	20	80,407,079	67,399,932
Deferred tax assets	21	4,634,202	3,017,480
Non current assets		**230,962,432**	**222,702,075**
Trade receivables	22	372,933,805	304,557,549
Other receivables and current assets	23	21,330,897	20,042,881
Financial assets	24	82,843,389	63,168,559
Cash and cash equivalents	25	63,610,241	50,108,291
Current assets		**540,718,332**	**437,877,280**
TOTAL ASSETS		**771,680,764**	**660,579,355**
Share Capital		4,863,486	4,863,486
Other reserves		185,179,297	178,614,766
Net income		102,067,710	17,263,478
SHAREHOLDERS' EQUITY	26	**292,110,492**	**200,741,730**
Due to minority shareholders	27	2,364,114	2,364,114
Financial liabilities	28	13,071,428	29,338,628
Employee benefits	29	474,932	436,717
Deferred tax liabilities	30	1,214,430	1,121,147
Provisions	33	9,448,000	6,821,300
Non current liabilities		**26,572,905**	**40,081,906**
Financial liabilities	28	80,924,097	97,952,769
Trade payables	31	349,998,450	296,231,941
Other current liabilities	32	16,288,820	24,371,010
Provisions	33	5,786,000	1,200,000
Current liabilities		**452,997,366**	**419,755,719**
TOTAL LIABILITIES		**479,570,271**	**459,837,625**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**771,680,764**	**660,579,355**

(*) 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 SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	TOTAL
Balance at 1 January 2016	**4,863,486**	**(24,502)**	**79,183,600**	**108,878,593**	**-**	**5,536**	**192,906,714**
Dividends distributed	-	-	-	(9,351,850)	-	-	(9,351,850)
Total profit	-	-	-	17,263,478	(62,261)	(14,351)	17,186,867
Balance at							
31 December 2016	**4,863,486**	**(24,502)**	**79,183,600**	**116,790,222**	**(62,261)**	**(8,815)**	**200,741,730**

(EUROS)	SHARE CAPITAL	TREASURY SHARES	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**

STATEMENT OF CASH FLOWS

(EUROS)	2017	2016
Result	102,067,710	17,263,478
Income taxes	390,815	(424,935)
Amortization and depreciation	973,395	731,885
Other non-monetary expenses/(income)	6,119,235	(3,958,627)
Change in trade receivables	(68,376,256)	(44,701,320)
Change in trade payables	53,766,509	43,889,462
Change in other assets and liabilities	(3,890,654)	20,729,321
Income tax paid	424,935	(1,756,577)
Interest paid	(567,826)	(712,037)
Net cash flows from operating activities (A)	**90,907,864**	**31,060,651**
Payments for tangible and intangible assets	(706,115)	(1,310,015)
Payments for financial assets	(12,268,806)	(15,925,279)
Payments for the acquisition of subsidiaries net of cash acquired	(20,500)	(13,906,512)
Net cash flows from investment activities (B)	**(12,995,420)**	**(31,141,806)**
Dividends paid	(10,729,463)	(9,351,850)
Financing received	-	15,500,000
Payment of instalments	(18,767,200)	(10,641,506)
Net cash flows from financing activities (C)	**(29,496,663)**	**(4,493,356)**
Net cash flows (D) = (A+B+C)	48,415,781	(4,574,511)
Cash and cash equivalents at the beginning of period	33,363,577	37,938,088
Cash and cash equivalents at period end	**81,779,357**	**33,363,577**
Total change in cash and cash equivalents (D)	**48,415,780**	**(4,574,511)**

DETAIL OF CASH AND CASH EQUIVALENTS		2016
(EUROS)	**2017**	**2016**
Cash and cash equivalents at beginning of period:	**33,363,577**	**37,938,088**
Cash and cash equivalents	50,108,291	55,745,286
Other	-	743,560
Transaction accounts - surplus	62,430,218	57,778,523
Transaction accounts - overdraft	(64,428,008)	(41,140,870)
Bank overdrafts	(14,746,924)	(35,188,412)
Cash and cash equivalents at the end of the year:	**81,779,357**	**33,363,577**
Cash and cash equivalents	63,610,242	50,108,291
Other	-	(19,164)
Transaction accounts - surplus	82,843,389	62,449,382
Transaction accounts - overdraft	(43,139,346)	(64,428,008)
Bank overdrafts	(21,534,927)	(14,746,924)

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 2017 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

In compliance with European Regulation No. 1606 of 19 July 2002, beginning in 2005, the Reply Group adopted the International Financial Reporting Standards ("IFRS") for the preparation of its Consolidated Financial Statements. On the basis of national legislation implementing the aforementioned Regulation, those accounting standards were also used to prepare the separate Financial Statements of the Parent Company, Reply S.p.A., for the first time for the year ended 31 December 2006.
It is hereby specified that the accounting standards applied conform to those adopted for the preparation of the initial Statement of Assets and Liabilities as at 1 January 2005 according to the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities

as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

GENERAL PRINCIPLES

The Financial Statements were prepared under the historical cost convention, modified as required for the measurement of certain financial instruments. The criterion of fair value was adopted as defined by IAS 39.

The 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 IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.

All derivative financial instruments are measured in accordance with IAS 39 at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement.

If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

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

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

EMPLOYEE BENEFITS

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

Employee termination indemnities ("TFR") are classified as a "post-employment benefit", falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to

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

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

SHARE-BASED PAYMENT PLANS

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 the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.

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

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

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

Dividends from investments is recognized when the shareholders' rights to receive payment has been established.

FINANCIAL INCOME AND EXPENSES

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

TAXATION

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the 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 2017 reporting period.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY FROM 1 JANUARY 2017

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 2017. 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:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Reply S.p.A. has provided the information in Note 28.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company applied amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

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.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for

hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity.

a) **Classification and measurement**

   The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

   Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

b) **Impairment**

   IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. According to the performed assessment, the Company does not expect a significant impact on its loss allowance.

c) **Hedge accounting**

   The Company determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Company has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Company excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The standard requires a company to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for transferring goods or services to a customer, using a five-step process.

The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts.

The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Company performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017. On the basis of this assessment, the Company's revenues will continue to be recognized in a manner consistent with accounting guidance in prior years. It is not foreseen an impact on equity and to the Company's Net profit.

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.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

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 amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company does not expect impact from the applying of those amendments.

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 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is

permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company will continue to assess the potential effect of IFRS 16 on its consolidated 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 Group companies are monitored and managed on a centralized basis through the Group Treasury. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of the Group's current and future capital resources (maintaining an adequate level of cash and cash equivalents and the availability of reserves of liquidity that are readily convertible to cash and committed credit).
The difficulties both in the markets and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures

taken to generate financial resources through operations and on maintaining an adequate level of available liquidity. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

As the company operates mainly in a “Euros area” the exposure to currency risks is limited.
The exposure to interest rate risk arises from the need to fund operating activities and the necessity to deploy surplus. Changes in market interest rates may have the effect of either increasing or decreasing the company’s net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The exposure to interest rate risk arises from the need to fund operating activities and M&A investments, as well as the necessity to deploy available liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Company’s net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The interest rate risk to which the Company is exposed derives from bank loans; to mitigate such risks, Reply S.p.A., 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 378,788,753 Euros and are detailed as follows:

(EUROS)	2017	2016	CHANGE
Revenues from services	324,994,951	319,687,582	5,307,368
Royalties on "Reply" trademark	25,400,909	21,691,597	3,709,312
Intercompany services	19,722,944	18,478,081	1,244,862
Other intercompany revenues	8,669,950	8,094,917	575,034
Total	**378,788,753**	**367,952,177**	**10,836,576**

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 5,307,368 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 income that as at 31 December 2017 amounted to 10,201,787 Euros (7,999,405 Euros at 31 December 2016) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, recharged telephone expenses and training courses.

NOTE 7 - PURCHASES

Detail is as follows:

(EUROS)	2017	2016	CHANGE
Software licenses for resale	16,589,844	10,502,020	6,087,825
Hardware for resale	2,227,370	5,249,071	(3,021,701)
Other	381,702	542,387	(160,685)
Total	**19,198,916**	**16,293,477**	**2,905,439**

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 (143,542 Euros) and fuel (213,718 Euros).

NOTE 8 - PERSONNEL EXPENSES

Personnel costs amounted to 19,821,559 Euros, with a decrease of 354,994 Euros and are detailed in the following table:

(EUROS)	2017	2016	CHANGE
Payroll employees	14,977,542	15,982,802	(1,005,260)
Directors	4,844,017	4,193,751	650,267
Total	**19,821,559**	**20,176,553**	**(354,994)**

Detail of personnel by category is provided below:

(NUMBER)	31/12/2017	31/12/2016	CHANGE
Directors	60	58	2
Managers	10	8	2
Staff	18	21	(3)
Total	**88**	**87**	**1**

The average number of employees in 2017 was 87 (in 2016 89).

NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

(EUROS)	2017	2016	CHANGE
Commercial and technical consulting	2,185,682	2,813,911	(628,229)
Travelling and training expenses	1,799,415	2,059,581	(260,166)
Professional services from group companies	315,109,360	302,717,479	12,391,881
Marketing expenses	3,942,874	3,263,321	679,554
Administrative and legal services	1,328,557	1,459,381	(130,824)
Statutory auditors and Independent auditors fees	248,356	152,424	95,933
Leases and rentals	1,302,133	1,316,967	(14,834)
Office expenses	2,367,859	3,179,460	(811,601)
Other services from group companies	2,586,691	11,699,912	(9,113,221)
Expenses incurred on behalf of group companies	8,098,789	5,986,389	2,112,400
Other	3,450,901	4,142,829	(691,928)
Total	**342,420,618**	**338,791,654**	**3,628,965**

Professional Services from Group companies, which changed during the year by 12,391,881 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 2017 to an overall cost of 336,687 Euros. Details of depreciation are provided at the notes to tangible assets.

Amortization of intangible assets amounted in 2017 to an overall cost of 636,708 Euros. Details of depreciation are provided at the notes to intangible assets.

NOTE 11 - OTHER UNUSUAL OPERATING INCOME/(EXPENSES)

Other unusual operating expenses amounted to 2,999,737 Euros and refer to the accrual of risk and expense provisions (3,000,000 Euros).

NOTE 12 - GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is a follows:

(EUROS)	2017	2016	CHANGE
Dividends	108,140,467	20,189,006	87,951,461
Loss on equity investments	(12,229,832)	(2,189,000)	(10,040,832)
Total	**95,910,635**	**18,000,006**	**77,910,629**

Dividends include proceeds from dividends received by Reply S.p.A. from subsidiary companies during the year.

Detail is as follows:

(EUROS)	31/12/2017
Aktive Reply S.r.l.	2,970,000
Arlanis Reply S.r.l.	775,000
Atlas Reply S.r.l.	830,000
Blue Reply S.r.l.	10,730,000
Bridge Reply S.r.l.	144,000
Business Reply S.r.l.	2,815,000
Cluster Reply Roma S.r.l.	935,000
Cluster Reply S.r.l.	12,395,000
Data Reply S.r.l.	245,000
Discovery Reply S.r.l.	1,035,000
E*finance Consulting S.r.l.	3,405,000
Ekip Reply S.r.l.	55,000
Eos Reply S.r.l.	621,467
Go Reply S.r.l.	490,000
Hermes Reply S.r.l.	3,085,000
IrisCube Reply S.p.A.	5,505,000
Logistics Reply S.r.l.	1,970,000
Open Reply S.r.l.	8,605,000
Pay Reply S.r.l.	2,065,000
Power Reply S.r.l.	5,935,000
Reply Consulting S.r.l.	2,435,000
Ringmaster S.r.l.	725,000
Security Reply S.r.l.	4,205,000
Square Reply S.r.l.	440,000
Syskoplan Reply S.r.l.	465,000
Sytel Reply Roma S.r.l.	8,655,000
Sytel Reply S.r.l	11,460,000
Tamtamy Reply S.r.l.	295,000
Target Reply S.r.l.	4,060,000
Technology Reply S.r.l.	8,085,000
Whitehall Reply S.r.l.	2,705,000
Total	**108,140,467**

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)	2017	2016	CHANGE
Interest income from subsidiaries	6,942,047	4,562,480	2,379,567
Interest income on bank accounts	9,207	10,349	(1,142)
Interest expenses	(567,826)	(738,646)	170,820
Other	(3,411,853)	(6,734,480)	3,322,627
Total	**2,971,575**	**(2,900,297)**	**5,871,872**

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 2,518 thousand Euros and a gain on exchange rate differences amounting to 336 thousand Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 - INCOME TAXES

The details are provided below:

(EUROS)	2017	2016	CHANGE
IRES	2,146,714	1,136,839	1,009,875
IRAP	166,000	205,000	(39,000)
Corporate tax - previous years	(398,461)	-	(398,461)
Current taxes	**1,914,253**	**1,341,839**	**572,414**
Deferred tax liabilities	93,283	15,899	77,384
Deferred tax assets	(1,616,722)	(1,782,673)	165,952
Deferred taxes	**(1,523,438)**	**(1,766,774)**	**243,336**
Total income taxes	**390,815**	**(424,935)**	**815,750**

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	**102,458,525**	
Theoretical tax rate	**24.0%**	**24,590,046**
Temporary differences, net	(93,502,515)	
Taxable income	**8,956,010**	**2,149,442**
Total IRES		**2,154,000**
Benefit arising from the National Fiscal Consolidation	7,286	
Total current IRES		**2,146,714**

Temporary differences, net refer to:

- Deductible differences amounting to 115,111 thousand Euros arising mainly from the non-taxable share of the dividends received in the financial year (102,733 thousand Euros) due to the subsidized taxation (Patent Box) on the Reply trademark;
- Non-deductible differences amounting to 22,609 thousand Euros owing mainly to write-

down/losses of equity investments (13,456 thousand Euros), Directors' fees to be paid (3,000 thousand Euros), the accrual to of risk and expense provisions (3,000 thousand Euros) and the exchange rate losses related to foreign currency interest-free loans (2,481 thousand Euros).

CALCULATION OF TAXABLE IRAP

(EUROS)	AMOUNT	TAXATION
Difference between value and cost of production	**3,576,315**	
IRAP net	303,719	
Taxable IRAP	**3,880,034**	
Total IRAP		**166,000**

Temporary differences, net mainly refer to:

- Non-deductible differences amounting to 9,130 thousand Euros mainly due to emoluments to Directors (4,784 thousand Euros) and to accruals and write offs not relevant for the purpose of the calculation of taxable IRAP (3,022 thousand Euros);
- Deductible differences amounting to 8,826 thousand Euros mainly due to the subsidized taxation (Patent Box) on the Reply trademark (8,584 thousand Euros).

NOTE 15 - EARNINGS PER SHARE

Basic earnings and diluted earnings per share as at 31 December 2017 was calculated with reference to the net profit which amounted to 102,067,710 Euros (17,263,478 Euros at 31 December 2016) divided by the weighted average number of shares outstanding as at 31 December 2017, net of treasury shares, which amounted to 37,407,400 (37,407,400 at 31 December 2016).

It is to be noted that the average number of shares for 2016 was redetermined following the Stock split resolved by the Extraordinary Shareholders' Meeting on September 13, 2017 through the allotment of 4 shares per each ordinary share owned.

(EUROS)	2017	2016
Net profit of the year	102,067,710	17,263,478
Weighted number of shares	37,407,400	37,407,400
Basic earnings per share	2.73	0.46

NOTE 16 - TANGIBLE ASSETS

Tangible assets as at 31 December 2017 amounted to 477,824 Euros are detailed as follows:

(EUROS)	31/12/2017	31/12/2016	CHANGE
Plant and machinery	230,242	369,202	(138,960)
Hardware	83,500	119,055	(35,555)
Other tangible assets	164,083	234,540	(70,457)
Total	**477,824**	**722,796**	**(244,972)**

The item Other mainly includes furniture and costs for improvements to leased assets.

Change in Tangible assets during 2017 is summarized below:

(EUROS)	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical cost	1,707,663	1,626,820	1,689,902	5,024,385
Accumulated depreciation	(1,338,462)	(1,507,765)	(1,455,362)	(4,301,589)
31/12/2016	**369,202**	**119,055**	**234,540**	**722,796**
Historical cost				
Increases	6,496	54,158	40,494	101,148
Disposals	-	-	(43,607)	(43,607)
Accumulated depreciation				
Depreciation	(145,456)	(89,713)	(101,518)	(336,687)
Disposals	-	-	34,174	34,174
Historical cost	1,714,159	1,680,978	1,686,789	5,081,926
Accumulated depreciation	(1,483,918)	(1,597,378)	(1,522,706)	(4,604,102)
31/12/2017	**230,242**	**83,500**	**164,083**	**477,824**

During the year under review the Company made investments amounting to 101,148 Euros, which mainly refer to hardware, automobiles and mobile phones.

NOTE 17 - GOODWILL

Goodwill as at 31 December 2017 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 2017 amounted to 2,096,599 Euros (2,118,907 Euros at 31 December 2016) and are detailed as follows:

(EUROS)	HISTORICAL COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE AT 31/12/2017
Software	7,079,799	(5,519,263)	1,560,535
Trademark	536,064	-	536,064
Total	**7,615,863**	**(5,519,263)**	**2,096,599**

Change in intangible assets in 2017 is summarized in the table below:

(EUROS)	NET BOOK VALUE AT 31/12/2016	INCREASES	DEPRECIATION	NET BOOK VALUE AT 31/12/2017
Software	1,582,843	614,400	(636,708)	1,560,535
Trademark	536,064	-	-	536,064
Total	2,118,907	614,400	(636,708)	2,096,599

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 2017 amounted to 143,259,963 Euros, with a decrease of 6,096,232 Euros compared to 31 December 2016.

(EUROS)	BALANCE AT 31/12/2016	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2017	INTEREST
Air Reply S.r.l.	558,500					558,500	85.00%
Aktive Reply S.r.l.	512,696					512,696	100.00%
Arlanis Reply S.r.l.	588,000					588,000	100.00%
Atlas Reply S.r.l.	356,575		110,000	(454,000)		12,575	100.00%
Avantage Ltd	9,483,484			(2,161,000)		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%
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%
Eos Reply S.r.l.	155,369					155,369	80.71%
Forge Reply S.r.l.	12,000		722,000	(722,000)		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%
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		18,400	(18,400)		400,012	100.00%
Like Reply S.r.l.	132,317					132,317	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.	104,500	1,500				106,000	100.00%
Power Reply S.r.l.	2,500,850					2,500,850	100.00%

(EUROS)	BALANCE AT 31/12/2016	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2017	INTEREST
Protocube Reply S.r.l.	287,000		370,000	(370,000)		287,000	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. (ex Bitmama S.r.l.)	4,217,019		31,000	(31,000)	10,000	4,227,019	100.00%
Reply do Brasil Sistemas de Informatica Ltda	206,816					206,816	98.50%
Reply Inc.	40,596					40,596	100.00%
Reply Ltd.	11,657,767					11,657,767	100.00%
Reply Services S.r.l.	104,132				(8,920)	95,212	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.	-	9,000	6,700			15,700	90.00%
Sensoria Inc.	3,887,432			(3,887,432)		-	-
Spark Reply S.r.l.	403,500		269,000			672,500	85.00%
Security Reply S.r.l.	392,866					392,866	100.00%
Sprint Reply S.r.l.	-	10,000				10,000	100.00%
Square Reply S.r.l.	100,000					100,000	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.	254,551				8,920	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%
Triplesense Reply S.r.l.	10,000				(10,000)	-	-
Twice Reply S.r.l.	521,203					521,203	98.00%
Whitehall Reply S.r.l.	160,212					160,212	100.00%
Xister Reply S.r.l. (*)	11,150,465					11,150,465	89.20%
Total	**149,356,195**	**20,500**	**1,527,100**	**(7,643,832)**	**-**	**143,259,963**	

(*) 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

Sense Reply S.r.l.

In the month of July 2017 Sense Reply S.r.l. was constituted, a company in which Reply S.p.A. holds 90% of the share capital.

Sprint Reply S.r.l.

In the month of December 2017 Sprint Reply S.r.l. was constituted, a company in which Reply S.p.A. holds 100% 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.

****

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)	2017	2016	CHANGE
Guarantee deposits	80,125	100,850	(20,725)
Loans to subsidiaries	80,326,954	67,299,082	13,027,872
Total	**80,407,079**	**67,399,932**	**13,007,147**

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	27,334,806
Breed Reply Ltd	2,986,824
Cluster do Brasil (ex Mind Services Informàtica LTDA)	1,215,000
Concept Reply GmbH	900,000
Hermes Reply Polska Sp Zoo	523,644
InEssence Reply Gmbh	2,250,000
Reply AG	5,000,000
Reply do Brazil Sist. De Inf Ltda	1,561,740
Reply France Sarl	150,000
Reply Inc.	1,283,820
Reply Ltd	36,171,120
Sense Reply	300,000
Technology Reply S.r.l. Romania	650,000
Total	**80,326,954**

NOTE 21 - DEFERRED TAX ASSETS

This item amounted to 4,634,202 Euros at 31 December 2017 (3,017,480 Euros at 31 December 2016), 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 31/12/2016	**12,511,082**	**3,017,480**
Accrued	8,578,694	2,289,767
Utilization	(2,791,354)	(673,045)
Total deferred tax assets at 31/12/2017	**18,298,423**	**4,634,202**
Of which:		
- directors fees and employee bonuses accrued but not yet paid	6,448,000	1,676,220
- unrealized foreign exchange losses	8,440,074	2,025,618
- taxable amounts greater than book value	3,410,349	932,364
Total	**18,298,423**	**4,634,202**

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 2017 amounted to 372,933,805 Euros and are all collectible within 12 months.

Detail is as follows:

(EUROS)	31/12/2017	31/12/2016	CHANGE
Third party trade receivables	197,571,158	182,690,437	14,880,721
Credit notes to be issued	(65,529)	-	(65,529)
Allowance for doubtful accounts	(264,883)	(266,951)	2,069
Third party trade receivables	**197,240,746**	**182,423,485**	**14,817,261**
Receivables from subsidiaries	175,692,624	122,133,909	53,558,715
Receivables from Parent Company	435	155	280
Trade receivables from subsidiaries and Parent Company	**175,693,058**	**122,134,064**	**53,558,995**
Total trade receivables	**372,933,805**	**304,557,549**	**68,376,256**

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 14,817,261 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 2017 the provision for doubtful accounts was increased by 22,121 Euros following a specific risk analysis of all the trade receivables, following a utilization of the year amounting to 24,190 Euros.

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

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(EUROS)	31/12/2017	31/12/2016	CHANGE
Tax receivables	10,566,546	3,360,938	7,205,608
Other receivables from subsidiaries	5,650,457	12,851,076	(7,200,619)
Other receivables	262,848	172,850	89,997
Accrued income and prepaid expenses	4,851,046	3,658,017	1,193,030
Total	**21,330,897**	**20,042,881**	**1,288,016**

The item Tax receivables includes VAT receivables net (6,727,607 Euros) and IRAP and IRES tax prepayments (3,758,729 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 82,843,389 Euros (63,168,559 Euros at 31 December 2016) 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 63,610,241 Euros, with an increase of 13,501,951 Euros compared to 31 December 2016 and is referred to cash at banks and on hand at year-end.

NOTE 26 - SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2017 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.

The Extraordinary Shareholders' Meeting held on 13 September 2017 resolved to split the 9,352,857 outstanding ordinary shares, with a nominal value of € 0.52 each, into 37,411,428 newly issued ordinary shares, with a nominal value of € 0.13 each, having the same characteristics as outstanding ordinary shares, assigned in the ratio of four new shares in replacement of each existing ordinary share.

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 2017 were equal to no. 4.028.

Capital reserves

At 31 December 2017 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 2017 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 208,128,469 Euros and were comprised as follows:

- The Legal reserve amounting to 972,697 Euros (972,697 Euros at 31 December 2016);
- Extraordinary reserve amounting to 102,265,360 Euros (95,731,345 Euros at 31 December 2016);
- Retained earnings amounting to 2,822,701 Euros (2,822,701 Euros at 31 December 2016);
- Net result totaling 102,067,710 Euros (17,263,478 Euros at 31 December 2016).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(THOUSAND EUROS)	31/12/2017	31/12/2016
Other comprehensive income that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) from employee benefit plans	2,503	(14,351)
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**2,503**	**(14,351)**
Other comprehensive income that may be reclassified subsequently to profit or loss: Gains/(losses) on cash flow hedges	28,013	(62,261)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	**28,013**	**(62,261)**
Total Other comprehensive income, net of tax (B) = (B1) + (B2)	**30,516**	**(76,612)**

NOTE 27 - PAYABLES TO MINORITY SHAREHOLDERS AND EARN-OUT

Payables to Minority shareholders and for Earn-out at 31 December 2017 amounted to 2,364,114 Euros and have not undergone any changes compared to 31 December 2016.

NOTE 28 - FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2017			31/12/2016		
(EUROS)	CURRENT	NON CURRENT	TOTAL	CURRENT	NON CURRENT	TOTAL
Bank overdrafts	21,534,927	-	21,534,927	14,746,924		14,746,924
Bank loans	16,267,199	13,071,428	29,338,628	18,767,199	29,338,628	48,105,827
Transaction accounts	43,139,346	-	43,139,346	64,428,008	-	64,428,008
Other	(17,376)	-	(17,376)	10,637	-	10,637
Total financial liabilities	**80,924,097**	**13,071,428**	**93,995,525**	**97,952,769**	**29,338,628**	**127,291,397**

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

	31/12/2017			31/12/2016		
(EUROS)	DUE IN 12 MONTHS	FROM 1 TO 5 YEARS	TOTAL	DUE IN 12 MONTHS	FROM 1 TO 5 YEARS	TOTAL
Bank overdrafts	21,534,927	-	21,534,927	14,746,924	-	14,746,924
Bank loans	16,267,199	13,071,428	29,338,628	18,767,199	29,338,628	48,105,827
Transaction accounts	43,139,346	-	43,139,346	64,428,008	-	64,428,008
Other	(17,376)	-	(17,376)	10,637	-	10,637
Total financial liabilities	**80,924,097**	**13,071,428**	**93,995,525**	**97,952,769**	**29,338,628**	**127,291,397**

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:

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 will expire on 31 December 2018. Such credit line was used for 6,053 thousand Euros at 31 December 2017.

- 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 5,000 thousand Euros at 31 December 2017.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 September 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 14,286 thousand Euros at 31 December 2017.
- On 8 April 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 10,000,000 Euros entirely used for the reimbursement of the credit line dated 19 September 2012.
- The loan is reimbursed on a half-year basis deferred to commence on 31 October 2016. Such credit line was used for 2,500 thousand Euros at 31 December 2017.
- 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 2017.
- 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. As at December 31, 2017 this line had not been used.
- On 21 September 2016 Reply S.p.A. entered onto an Interest Rate Swap contract with Intesa San Paolo S.p.A. with effect from 31 March 2017 and will expire on 31 March 2020.
- 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 2020. As at December 31, 2017 this line had not been used.

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 Other refers to the valuation of derivative hedging instruments. The underlying IRS amounted to 19,286 thousand Euros.

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

Net financial position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's "Recommendations for the consistent implementation of the European's regulation on Prospectuses" issued on 10 February 2005 the Net financial position at 31 December 2017 was as follows:

(EUROS)	31/12/2017	31/12/2016	CHANGE
Cash and cash equivalents	63,610,242	50,108,291	13,501,951
Transaction accounts, asset	82,843,389	62,430,218	20,413,171
Total current financial assets	**146,453,630**	**112,538,509**	**33,915,121**
Loans to third parties	-	738,341	(738,341)
Loans to subsidiaries	80,326,954	67,299,082	13,027,872
Total non current financial assets	**80,326,954**	**68,037,423**	**12,289,530**
Total financial assets	**226,780,584**	**180,575,933**	**46,204,652**
Due to banks	(37,784,750)	(33,524,760)	(4,259,990)
Transaction accounts, liability	(43,139,346)	(64,428,008)	21,288,662
Current financial liabilities	**(80,924,097)**	**(97,952,769)**	**17,028,672**
Due to banks	(13,071,428)	(29,338,628)	16,267,200
Non current financial liabilities	**(13,071,428)**	**(29,338,628)**	**16,267,200**
Total financial liabilities	**(93,995,525)**	**(127,291,397)**	**33,295,872**
Total net financial position	**132,785,059**	**53,284,536**	**79,500,523**
of which related parties	*120,030,996*	*65,301,292*	*54,729,704*

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 2017 is summarized below:

(EUROS)	
TOTAL FINANCIAL LIABILITIES 2016	**127,291,397**
Bank overdrafts	(14,746,924)
Transaction accounts, liability	(64,428,008)
Fair value IRS	(10,637)
Non current financial liabilities 2016	48,105,828
Cash flows	(18,767,200)
NON CURRENT FINANCIAL LIABILITIES 2017	**29,338,628**
Bank overdrafts	21,534,927
Transaction accounts, liability	43,139,346
Fair value IRS	(17,376)
TOTAL FINANCIAL LIABILITIES 2017	**93,995,525**

NOTE 29 - EMPLOYEE BENEFITS

The Employee severance indemnity represents the obligation to employees under Italian law (amended by Law no. 296/06) accrued by employees up to 31 December 2006 which will be paid when the employee leaves the company. In certain circumstances, a portion of the accrued liability may be given to an employee during his working life as an advance. This is an unfunded defined benefit plan, under which the benefits are almost fully accrued, with the sole exception of future revaluations.

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations.

Reassessment of Employee severance indemnities in accordance with IAS 19 was carried out "ad personam" and on the existing employees, that is analytical calculations were made on each employee in force in the company at the assessment date without considering future work force. The actuarial valuation model is based on the so called technical bases which represent the demographic, economic and financial assumptions underlying the parameters included in the calculation.

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2017: 2.50% frequency of turnover in 2017: 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 2017 was 1.31%
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 2017 is summarized in the table below:

31/12/2016	**436,717**
Actuarial gains/(losses)	(2,503)
Interest cost	6,407
Indemnities paid	(10,399)
Transfers	44,709
31/12/2017	**474,932**

NOTE 30 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2017 amounted to 1,214,430 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 31/12/2016	**4,570,231**	**1,121,147**
Accruals	388,681	93,283
Utilization	-	-
Total at 31/12/2017	**4,958,912**	**1,214,430**
- deduction allowance for doubtful accounts	718,805	172,513
- different goodwill/trademark measurements	622,828	173,769
- gains on unrecognized differences and other minor differences	3,617,279	868,148
Total at 31/12/2017	**4,958,912**	**1,214,430**

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2017 amounted to 349,998,450 Euros with an increase of 53,766,509 Euros.

Detail is as follows:

(EUROS)	31/12/2017	31/12/2016	CHANGE
Due to suppliers	18,032,095	14,481,539	3,550,556
Due to subsidiaries	196,329,834	185,959,406	10,370,427
Advance payments from customers - asset	135,636,520	95,790,995	39,845,526
Total	**349,998,450**	**296,231,941**	**53,766,509**

Due to suppliers mainly refers to services from domestic suppliers. Due to subsidiary companies recorded a change of 10,370,427 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)	31/12/2017	31/12/2016	CHANGE
Income tax payable	-	5,572,864	(5,572,864)
Withholding tax and other	680,461	1,275,175	(594,714)
Total payable to tax authorities	**680,461**	**6,848,039**	**(6,167,578)**
INPS (National Italian insurance payable)	928,410	848,457	79,953
Other	292,441	306,550	(14,108)
Total social security payable	**1,220,852**	**1,155,006**	**65,845**
Employee accruals	1,874,052	1,592,652	281,400
Payable to subsidiary companies	7,374,233	8,973,992	(1,599,759)
Miscellaneous payables	3,393,086	2,962,237	430,849
Accrued expenses and deferred income	1,746,136	2,839,083	(1,092,947)
Total other payables	**14,387,507**	**16,367,965**	**(1,980,458)**
Total other current liabilities	**16,288,820**	**24,371,010**	**(8,082,190)**

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 2017 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 15,234,000 Euros is summarized as follows:

(EUROS)	31/12/2016	ACCRUALS	UTILIZED	31/12/2017
Provision for risks	6,821,300	3,000,000	(373,300)	9,448,000
Provision for losses on equity investments	1,200,000	4,586,000	-	5,786,000
Total	**8,021,300**	**7,586,000**	**(373,300)**	**15,234,000**

The item Provision for risks reflects the best estimate of contingent liabilities deriving from ongoing legal litigations, at 31 December 2017 an accrual of 3,000,000 euros was made.

The item Provision for losses on equity investments has been adjusted because of 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 2017 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	**31/12/2017**		**31/12/2016**		
Financial receivables	80,327	-	67,299	-	Financial loans
Guarantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	39,704	-	(1,998)	-	Transaction accounts held by the Parent company
Trade receivables and other	181,348	-	135,683	-	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	203,720	-	195,851	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	2,950	-	2,300	Compensation paid to Directors and Key Management

ECONOMIC TRANSACTIONS	2017		2016		
Revenues from Royalties	25,401	-	21,692		Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	33,150	13	28,288	8	Administrations services, marketing, quality management and office rental
Revenues from management services	7,071	-	6,794	-	Strategic management services
Costs for professional services	337,191	-	331,065	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,497	420	1,370	420	Services related to office rental and office of the secretary
Personnel	-	5,877	-	5,224	Emoluments to Directors and Key Management
Interest income, net	6,942	-	4,563	-	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.

NOTA 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 2017 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 2017 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 643 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 2017, according to the fair value hierarchical assessment level.

(THOUSANDS EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Financial securities		-	-	-
Other assets		-	-	-
Total Assets		**-**	**-**	**-**
Derivative financial liabilities (IRS)	28	-	34	
Liabilities to minority shareholders and earn out	27	-	-	2,364
Total Liabilities		**-**	**34**	**2,364**

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 2017, 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 2017.

NOTE 37 - TRANSACTIONS RESULTING FROM UNUSUAL AND/OR ABNORMAL OPERATIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, in 2017 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.

With specific reference to the request to obtain the corresponding amount in cash, the time limit for exerting such an authority shall expire starting from the shortest time limit between the day following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

CONTINGENT LIABILITIES

As an international company, Reply is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Company financial position and results. Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Company 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 2017

No significant events have occurred subsequent to 31 December 2017.

NOTE 41 - APPROVAL OF THE FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The financial statements for the year-ended 31 December 2017 were approved by the Board of Directors on March 13, 2018 which approved their publication.

ANNEXED TABLES

REPLY S.P.A.
STATEMENT OF INCOME PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(EUROS)	2017	OF WHICH WITH RELATED PARTIES	%	2016	OF WHICH WITH RELATED PARTIES	%
Revenue	378,788,753	58,321,419	15.4%	367,952,177	51,395,823	14.0%
Other income	10,201,787	8,084,930	79.3%	7,999,405	6,091,535	76.1%
Purchases	(19,198,916)	(18,817,214)	98.0%	(16,293,478)	(15,694,310)	96.3%
Personnel	(19,821,559)	(5,877,000)	29.6%	(20,176,553)	(5,224,000)	25.9%
Services and other costs	(342,420,618)	(327,701,502)	95.7%	(338,791,654)	(322,573,699)	95.2%
Amortization and depreciation	(973,395)	-	-	(731,885)	-	-
Other operating and non recurring income/(expenses)	(2,999,737)	-	-	1,780,821	-	-
Operating income (EBIT)	**3,576,315**	**-**	**-**	**1,738,834**	**-**	**-**
Gain/(loss) on equity investments	95,910,635	-	-	18,000,006	-	-
Financial income/(loss)	2,971,575	6,942,047	233.6%	(2,900,297)	4,562,480	(157.3%)
Income before taxes	**102,458,525**	**-**	**-**	**16,838,543**	**-**	**-**
Income taxes	(390,815)	-	-	424,935	-	-
Net income	**102,067,710**	**-**	**-**	**17,263,478**	**-**	**-**
Earnings per share and diluted	*2.73*	-	-	*0.46*	-	-

REPLY S.P.A.
STATEMENT OF FINANCIAL POSITION PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(EUROS)	31/12/2017	OF WHICH WITH RELATED PARTIES	%	31/12/2016	OF WHICH WITH RELATED PARTIES	%
Tangible assets	477,824	-	-	722,796	-	-
Goodwill	86,765	-	-	86,765	-	-
Other intangible assets	2,096,599	-	-	2,118,907	-	-
Equity investments	143,259,963	-	-	149,356,195	-	-
Other financial assets	80,407,079	80,326,954	99.9%	67,399,932	67,299,082	99.9%
Deferred tax assets	4,634,202	-	-	3,017,480	-	-
Non-current assets	**230,962,432**	**-**	**-**	**222,702,075**	**-**	**-**
Trade receivables	372,933,805	175,692,870	47.1%	304,557,549	122,134,064	40.1%
Other receivables and current assets	21,330,897	5,655,321	26.5%	20,042,881	13,548,794	67.6%
Financial assets	82,843,389	82,843,389	100.0%	63,168,559	62,430,218	98.8%
Cash and cash equivalents	63,610,242	-	-	50,108,291	-	-
Current assets	**540,718,332**	**-**	**-**	**438,877,280**	**-**	**-**
TOTAL ASSETS	**771,680,764**	**-**	**-**	**660,579,355**	**-**	**-**
Share Capital	4,863,486	-	-	4,863,486	-	-
Other reserves	185,179,297	-	-	178,614,766	-	-
Net income	102,067,710	-	-	17,263,478	-	-
SHAREHOLDERS' EQUITY	**292,110,492**	**-**	**-**	**200,741,730**	**-**	**-**
Due to minority shareholders	2,364,114	-	-	2,364,114	-	-
Financial liabilities	13,071,428	-	-	29,338,628	-	-
Employee benefits	474,932	-	-	436,717	-	-
Deferred tax liabilities	1,214,430	-	-	1,121,147	-	-
Provisions	9,448,000	-	-	6,821,300	-	-
Non-current liabilities	**26,572,905**	**-**	**-**	**40,081,906**	**-**	**-**
Financial liabilities	80,924,097	43,139,346	53.3%	97,952,769	64,428,008	65.8%
Trade payables	349,998,450	196,329,645	56.1%	296,231,941	185,959,406	62.8%
Other current liabilities	16,288,820	7,324,233	45.0%	24,371,010	9,537,061	39.1%
Provisions	5,786,000	-	-	1,200,000	-	-
Current liabilities	**452,997,366**	**-**	**-**	**419,755,719**	**-**	**-**
TOTAL LIABILITIES	**479,570,271**	**-**	**-**	**459,837,625**	**-**	**-**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**771,680,764**	**-**	**-**	**660,579,355**	**-**	-

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 31/12/2017
Air Reply S.r.l.	Turin	€	10,000	85,365	70,763	85.00%	558,500
Arlanis Reply S.r.l.	Turin	€	10,000	588,754	510,345	100.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	1,865,856	1,774,293	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	12,902	(137,667)	100.00%	12,575
Avantage Reply Ltd.	London	GBP	5,086	3,074,295	114,408	100.00%	7,322,484
Blue Reply S.r.l.	Turin	€	10,000	7,871,152	7,812,289	100.00%	527,892
Breed Reply Ltd	London	GBP	10,000	(4,573,348)	(2,692,457)	100.00%	12,477
Breed Investments Ltd	London	GBP	100	(778,201)	1,431,062	80.00%	103
Bridge Reply S.r.l.	Turin	€	10,000	283,109	254,329	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	2,739,453	2,596,531	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	9,505,065	9,273,923	100.00%	2,540,848
Cluster Roma Reply S.r.l.	Turin	€	10,000	1,075,149	1,040,805	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
Data Reply S.r.l.	Turin	€	10,000	1,500,647	1,468,199	100.00%	317,662
Discovery Reply S.r.l.	Turin	€	10,000	1,511,036	1,412,430	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	3,286,518	3,145,705	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	106,246	69,163	100.00%	30,000
Eos Reply S.r.l.	Turin	€	14,000	683,156	568,539	80.71%	155,369
Forge Reply S.r.l.	Turin	€	10,000	11,192	(724,469)	100.00%	12,000
Go Reply S.r.l.	Turin	€	50,000	1,646,172	158,878	100.00%	1,920,000
Hermes Reply Polska zo.o	Katowice	ZLT	40,000	7,480,921	1,857,542	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,230,823	1,173,037	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	6,482,707	5,605,928	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	48,910	(24,045)	100.00%	400,012
Like Reply S.r.l.	Turin	€	10,000	196,469	184,251	100.00%	132,317
Logistics Reply S.r.l.	Turin	€	78,000	2,449,836	2,276,807	100.00%	1,049,167
Open Reply S.r.l.	Turin	€	10,000	2,486,272	2,455,890	100.00%	1,417,750
Pay Reply S.r.l.	Turin	€	10,000	2,489,312	2,458,053	100.00%	10,000

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2017
Portaltech Reply S.r.l.	Turin	€	10,000	875,293	861,915	100.00%	106,000
Power Reply S.r.l.	Turin	€	10,000	1,404,112	1,293,987	100.00%	2,500,850
Protocube Reply S.r.l.	Turin	€	10,200	11,968	(375,472)	55.00%	287,000
Reply Consulting S.r.l.	Turin	€	10,000	1,112,793	1,068,089	100.00%	3,518,434
Reply AG	Guetersloh	€	100,200	51,129,165	(7,440,793)	100.00%	57,835,780
Reply Services S.r.l.	Turin	€	10,000	55,586	(29,991)	100.00%	95,212
Reply Inc.	Michigan	$	50,000	(1,265,092)	(57,099)	100.00%	40,596
Reply Ltd.	London	GBP	54,175	6,602,841	(2,052,082)	100.00%	11,657,766
Reply Digital Experience S.r.l. (ex Bitmama S.r.l.)	Turin	€	29,407	35,498	(53,548)	100.00%	4,227,019
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte	R$	650,000	8,048,461	2,679,518	98.50%	206,817
Ringmaster S.r.l.	Turin	€	10,000	1,191,793	1,100,815	50.00%	5,000
Santer Reply S.p.A.	Milan	€	2,209,500	10,098,813	(2,322,417)	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	4,648,649	4,493,747	100.00%	392,866
Sense Reply S.r.l.	Turin	€	10,000	10,085	(6,615)	90.00%	15,700
Square Reply S.r.l.	Turin	€	10,000	177,104	152,159	100.00%	100,000
Spark Reply S.r.l.	Turin	€	10,000	11,087	(272,278)	85.00%	672,500
Sprint Reply S.r.l.	Turin	€	10,000	-	-	100.00%	-
Storm Reply S.r.l.	Turin	€	10,000	4,771,699	1,996,095	95.00%	986,000
Syskoplan Reply S.r.l.	Turin	€	32,942	1,078,713	967,595	100.00%	949,571
Sytel Reply S.r.l.	Turin	€	115,046	7,093,839	6,868,731	100.0 %	4,991,829
Sytel Reply Roma S.r.l.	Turin	€	10,000	2,281,319	2,218,160	100.0 %	894,931
TamTamy Reply S.r.l.	Turin	€	10,000	515,579	490,938	100.0 %	263,471
Target Reply S.r.l.	Turin	€	10,000	1,826,944	1,751,733	100.0 %	600,338
Technology Roma S.r.l.	Turin	€	10,000	786,461	464,889	100.00%	10,000
Technology Reply S.r.l.	Turin	€	79,743	6,470,342	6,178,363	100.00%	216,658
Technology Reply S.r.l. (Romania)	Rumenia	RON	44,000	(1,860,505)	(1,153,636)	100.0%	9,919
Twice Reply S.r.l.	Turin	€	10,000	3,808,328	150,585	98.00%	521,202
Whitehall Reply S.r.l.	Turin	€	21,224	666,478	539,708	100.00%	160,211
Xister Reply S.r.l.	Rome	€	10,000	3,115,902	979,944	89.20%	11,150,465

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	102,265,360	A,B,C	102,265,360		
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			**182,566,253**		
Not available amount			**-**		
Residual available amount			**182,566,253**		
Reserves from transition to IAS/IFRS					
FTA reserve	**303,393**				
Retained earnings	2,147,961				
Reserve for cash flow hedge	(34,248)				
IAS reserve	(24,502)				
Reserve for treasury shares	(6,312)				
Accounting expenses according to IAS 32	(770,448)				
	1,615,844				

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 2017 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	2017 FEES
Audit	EY S.p.A.	59,236
Audit related services	EY S.p.A. (1)	1,086
	EY S.p.A. (2)	55,000
Other	EY S.p.A. (3)	9,450
Total		**124,722**

(1) Attestation of tax forms (tax return, IRAP and Form 770)
(2) DNF attestation
(3) GAAP Analysis

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 2017.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2017 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 Organizations 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, 13 March 2018

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 2017

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 activity performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
During the course of the financial year ended 31 December 2017, we complied with the duties set forth in Article 149 of Legislative Decree No. 58/1998 and in article 19 of Legislative decree 39/2010 and we are providing the following information with reference to the recommendations contained in the Consob communications issued up to the present day concerning the Regulations for Issuers:

1. THE MOST SIGNIFICANT OPERATIONS FROM AN ECONOMIC, FINANCIAL AND EARNINGS STANDPOINT.

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2017 or subsequent to the end of the financial year, among which we note:

- The completion of the company reorganization project concerning the merger of the company Triplesense Reply S.r.l. in favor of Bitmama S.r.l. both wholly owned by Reply S.p.A.;
- The acquisition of the 100% share capital of comSysto GmbH by Reply AG for a consideration of 6 million Euros;
- Reply S.p.A. undersigned a credit line with Unicredit S.p.A. in the amount of 50,000,000 Euros to be utilized by 28 February 2020;
- Reply S.p.A. reduced to 1,500,000 Euros the loan/credit line originally signed in 2015 with Unicredit S.p.A. for a total of 25,000,000 Euros;

- Completion of the demerger of the company Technology Reply S.r.l. by way of transfer of business in favor of the newly established Technology Reply Roma S.r.l.;
- Transfer of the InEssence Branch from InEssence Reply GmbH in favor of Syskoplan Reply S.r.l. having its business location in Milan;
- Completion of the partial spin-off of the company Reply Services S.r.l. in favor or TamTamy Reply S.r.l.;
- In the month of February 2018 Reply Services S.r.l. acquired a building in Turin, the former Caserma De Sonnaz.

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 intra-group 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 to subsidiaries;
- Reply S.p.A. granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:
  - Air Reply S.r.l., Spark Reply S.r.l. and Sense Reply S.r.l. – non-interest bearing loan;
  - Breed Investments Ltd, Breed Reply Ltd, Reply Ltd., Concept Reply GmbH, Hermes Reply Polska Sp Zoo, InEssence Reply Gmbh, Cluster do Brazil Ltda (formerly Mind Services 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 the "REPLY" trademark that it owns;
- Reply S.p.A. acquired "office services" (general services and the availability of office space) from Reply Services S.r.l. and from Santer Reply S.p.A..

Transactions with related parties in 2017, 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 Iceberg S.r.l. (formerly Alika S.r.l.), Reply S.p.A.’s direct parent company (until 31/01/2018). At the report date these transactions are ongoing with the exception of the “office services” that are currently being supplied by Alika S.r.l., the newly established company to which Iceberg S.r.l. conferred the business branch including the equity investment in Reply S.p.A. equal to approximately 45.10% of the share capital with effective date February 1, 2018.
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 THE OPERATION ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRA-GROUP TRANSACTIONS AND THOSE WITH RELATED PARTIES.

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2017 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2017 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 does not reveal that any atypical and/or unusual transactions occurred during the year or after it ended.

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 2017 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 29, 2018 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 29, 2018, 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 29, 2018, 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, 2017, 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, 2017 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.

Commencing financial year 2017, 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 2017 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 2017, in addition to the engagement of auditing the Financial Statements as at 31 December 2017, 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 21 thousand Euros.

- GAAP analysis of the 2017 Disclosure of non-financial information, on Reply S.p.A.'s non-financial reporting 2016 and its subsidiaries.

The fee for this engagement was agreed at 9 thousand Euros.

- Limited review of the 2017 Consolidated Disclosure of non-financial information in accordance to Leg. Decree 254/2016.

The fee for this engagement was agreed at 55 thousand Euros.

8. ANY APPOINTMENTS OF PARTIES CONNECTED TO THE INDEPENDENT AUDITOR BY ONGOING RELATIONSHIPS, AND THE RELATIVE COSTS.

In 2017 EY GmbH was assigned to perform a Due Diligence on a target acquisition company incorporated under German law.

The consideration for such engagement was 87 thousand Euros.

During 2018 EY LLP was assigned to perform a Due Diligence on a target acquisition company incorporated under American law. The fee for this engagement was agreed in a range of 185 to 235 thousand dollars.

9. INDICATION OF WHETHER OPINIONS WERE ISSUED IN ACCORDANCE WITH LAW DURING THE FINANCIAL YEAR.

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

10. INDICATION OF THE FREQUENCY AND NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND BOARD OF STATUTORY AUDITORS.

During the financial year, the Board of Directors met 4 times, and the Board of Statutory Auditors 8 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 Finance and Control Manager of Reply S.p.A., also acts as advisor within all of the administrative bodies of the Italian subsidiaries,

with the exclusion of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries 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., Portaltech Reply Ltd., Avantage 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 subsidiaries Avantage Reply Ltd and 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 2015.
On 13 March 2018 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 to comply with the relevant Company by-laws, laws and regulations, in the constant evolution and search for improvement. In particular, we advise the Shareholders that:

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently approved on 4 May 2015, according to the standards indicated in the Regulations approved by Consob by means of Resolution No. 17221 of 12 March 2010 and subsequent modifications, as well as compliance with it;
- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- we monitored 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 respect, the Internal Dealing Procedure was updated in accordance to Consob resolution no.19925 dated March 22, 2017 and was approved by the Board of Directors on November 14, 2017;
- 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 13, 2018.

In this regard, we acknowledge that EY S.p.A., specifically appointed, issued on March 29, 2018 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 a 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 Directors of the Independent Auditor and the organizational department, to gather the necessary information.

This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure 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, a Remuneration and Nominating Committee, and a Committee for Transactions with Related Parties, whose activities are carried out according to a program in line with the needs of the Company.

The participation of the Director in charge of the Internal Control, as well as our participation at the meetings of the Internal Control and Risk Management Committee, allowed us to coordinate our functions as the Internal Control and Audit Committee, assumed pursuant to Article 19 of Legislative Decree 39/2010, with the activities of the Internal Control and Risk Management Committee, and, in particular, to carry out the supervisory activities provided by Article 19 of Legislative Decree No. 39/2010.

On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

We have received from EY S.p.A. the report pursuant to art. 10 of Regulation (EU) 537/2014 which states that no significant issues emerged during the audit, nor significant gaps in the Internal Control System in relation to the financial reporting process.

On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

4) ADMINISTRATIVE- ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive, and they also appear to be imposed on the companies belonging to the Group.

We therefore deem that the administrative-accounting system is suitable to represent and monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.

The Chairman and the Director in charge of drawing up the Company's Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements, the attestation required by Article 154-bis (5) of TUF (Legislative Decree 58/1998).

15. ANY PROPOSALS TO MAKE TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/1998.

In relation both to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998 and the general supervisory obligation pursuant to Article 149(1) of such Decree, as well as the agenda of the Shareholders' meeting which includes discussion of the Financial Statements for the reporting period, the Board of Statutory Auditors states that it has supervised compliance with the procedural rules and law with respect to their preparation.

We note that the Financial Statements as at 31 December 2017 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).

On the basis of the controls made directly and the information exchanged with the Independent Auditor, and also in view of the latter's report pursuant to Article 14 of Legislative Decree 39/2010 which expresses a judgment without reservations, the Board of Statutory Auditors has no comments or proposals with respect to the Financial Statements or Report on Operations and the proposals set forth therein, which it consequently considers, to the extent of its specific expertise, should meet your approval.

Similarly, with specific reference to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998, the Board does not have any proposals to make with respect to the other matters within its scope of expertise.

With reference to the point on the agenda concerning the purchase and disposal of treasury shares, recalling disclosures made by the Directors, the Board states that the resolution proposed is in accordance with articles 2357, 2357-ter of the Italian Civil Code, in accordance with Article 132 of Legislative Decree 58/1998, as well as those of Art. 144-bis of Consob's Issuers Regulation no. 11971 of 14 May 1999.

Finally, we remind you that our three-year term of office has expired and in thanking you for the trust you have placed in us, we invite you to take the necessary measures.

Turin, 29 March, 2018

The Statutory Auditors

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

EY S.p.A.
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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 2017, 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 2017, 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.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Equity investments As at 31 December 2017, the equity investments amounted to € 143,3 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 €12.2 million was recorded, mainly related to the investments in Breed Reply Ltd, sensoria Inc, avantage Reply Ltd, Atlas 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.

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 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 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 2017, 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 2017 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 2017 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 have 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.

Turino, 29 March 2018

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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