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

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)

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.

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.