FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

INCOME STATEMENT (*)

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

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF FINANCIAL POSITION (*)

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

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

STATEMENT OF CHANGES IN EQUITY

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

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

STATEMENT OF CASH FLOWS

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

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

NOTES TO THE FINANCIAL STATEMENTS

General information	NOTE 1	General information
	NOTE 2	Accounting principles
	NOTE 3	Financial risk management
	NOTE 4	Other
Income statement	NOTE 5	Revenues
	NOTE 6	Other revenues
	NOTE 7	Purchases
	NOTE 8	Personnel
	NOTE 9	Services and other costs
	NOTE 10	Amortization, depreciation and write-downs
	NOTE 11	Other operating and non recurring income/(expenses)
	NOTE 12	Result of equity investments
	NOTE 13	Financial income/(expenses)
	NOTE 14	Income taxes
	NOTE 15	Earnings per share
Financial positionAssets	NOTE 16	Tangible assets
	NOTE 17	Goodwill
	NOTE 18	Other intangible assets
	NOTE 19	Equity Investments
	NOTE 20	Non current financial assets
	NOTE 21	Deferred tax assets
	NOTE 22	Trade receivables
	NOTE 23	Other receivables and current assets
	NOTE 24	Current financial assets
	NOTE 25	Cash and cash equivalents
Financial position- Liabilities and shareholders' equity	NOTE 26	Shareholders' equity
	NOTE 27	Payables to minority shareholders
	NOTE 28	Financial liabilities
	NOTE 29	Employee benefits
	NOTE 30	Deferred tax liabilities
	NOTE 31	Trade payables
	NOTE 32	Other current liabilities
	NOTE 33	Provisions
Other information	NOTE 34	Transactions with related parties
	NOTE 35	Additional disclosures to financial instruments and risk management policies
	NOTE 36	Significant non-recurring transactions
	NOTE 37	Transactions resulting from unusual and/or abnormal operations
	NOTE 38	Guarantees, commitments and contingent liabilities
Other information	NOTE 39	Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities
	NOTE 40	Events subsequent to 31 December 2017
	NOTE 41	Approval of the financial statements and authorization for publication

NOTE 1 - GENERAL INFORMATION

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

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

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

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

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

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

GENERAL PRINCIPLES

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

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

FINANCIAL STATEMENTS

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

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

TANGIBLE ASSETS

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

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

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

GOODWILL

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

OTHER INTANGIBLE ASSETS

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.

Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.

Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their fair value can be measured reliably.

In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Development costs can be capitalized on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

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

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

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization is determined on a straight line basis over the relevant useful lives.

When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognized to the statement of income in the period in which they are incurred.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

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

IMPAIRMENT

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

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

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

EQUITY INVESTMENTS

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

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

Equity investments in other companies, comprising non current financial assets not held for trading, are measured at fair value, if it can be determined. Any subsequent gains and losses resulting from changes

in fair value are recognized directly in Shareholders' equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized in the Income Statement for the period.

Minor investments in other companies for which fair value is not available are measured at cost, and adjusted for any impairment losses.

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

CURRENT AND NON CURRENT FINANCIAL ASSETS

Financial assets are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.
Investments are recognized and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.

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

TRANSFER OF FINANCIAL ASSETS

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

- If the entity substantially transfers all of the risks and benefits of ownership associated with the financial asset, the Company derecognizes the financial asset from the Financial Statements and recognizes separately as assets or liabilities any rights or obligations originated or maintained through the transfer;
- If the Company maintains substantially all of the risks and benefits of ownership associated with the financial assets, it continues to recognize it;
- If the Company does not transfer or maintain substantially all of the risks and benefits of

ownership associated with the financial asset, it determines whether or not it has maintained control of the financial asset. In this case:

- If the Company has not maintained control, it derecognizes the financial asset from its Financial Statements and recognizes separately as assets or liabilities any rights or obligations originated or maintained through the transfer;
- If the Company has maintained control, it continues to recognize the financial asset to the extent of its residual involvement with such financial asset.

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

Trade payables and receivables and other current assets and liabilities are measured at nominal value and eventually written down to reflect their recoverable amount.
Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.
Cash and cash equivalents
The item cash and cash equivalents includes cash, banks and reimbursable deposits on demand and other short term financial investments readily convertible in cash and are not subject to significant risks in terms of change in value.

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

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

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

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

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

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

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

EMPLOYEE BENEFITS

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

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

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

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

SHARE-BASED PAYMENT PLANS

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

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

The stock options resolved in the previous financial years have been exercised and therefore the Company does not have existing stock option plans.

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

FINANCIAL INCOME AND EXPENSES

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

TAXATION

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

EARNINGS PER SHARE

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

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

USE OF ESTIMATIONS

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

CHANGES IN ESTIMATIONS AND RECLASSIFICATIONS

There were no changes of estimates or reclassifications during the 2017 reporting period.

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

Reply S.p.A. applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. Reply S.p.A. has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.
The nature and the impact of each amendment is described below:

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

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

a) **Classification and measurement**

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

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

b) **Impairment**

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

c) **Hedge accounting**

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and

conditions of a share-based payment transaction changes its classification from cash settled to equity settled.
On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.
IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is

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

In 2018, the Company will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

NOTE 3 - RISK MANAGEMENT

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

CREDIT RISK

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

LIQUIDITY RISK

The Company is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The cash flows, funding requirements and liquidity of Group companies are monitored and managed on a centralized basis through the Group Treasury. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of the Group's current and future capital resources (maintaining an adequate level of cash and cash equivalents and the availability of reserves of liquidity that are readily convertible to cash and committed credit).
The difficulties both in the markets and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures

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

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

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

NOTE 4 - OTHER INFORMATION

EXCEPTION ALLOWED UNDER PARAGRAPH 4 OF ARTICLE 2423 OF THE ITALIAN CIVIL CODE

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

FISCAL CONSOLIDATION

The Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.

Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.

Each company adhering to the Fiscal Consolidation transfers to Reply S.p.A. its entire taxable income, recognizing a liability with respect to the Company corresponding to the payable IRES; The companies that transfer fiscal losses can register a receivable with Reply, corresponding to IRES on the part of the loss off-set at a Group level and remunerated according to the terms established in the consolidation agreement stipulated among the Group companies.

NOTE 5 - REVENUE

Revenues amounted to 378,788,753 Euros and are detailed as follows:

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

Reply manages business relationships on behalf of some of its major clients. Such activities were recorded in the item Revenues from services to third parties which increased by 5,307,368 Euros.

Revenues from Royalties on the "Reply" trademark refer to charges to subsidiaries, corresponding to 3% of the subsidiaries' turnover with respect to third parties.
Revenues from Intercompany services and Other intercompany charges refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

- operational, co-ordination, technical and quality management;
- administration, personnel and marketing activities;
- strategic management services.

NOTE 6- OTHER INCOME

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

NOTE 7 - PURCHASES

Detail is as follows:

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

The items software and hardware licenses for resale refer to the costs incurred for software licenses for resale to third parties carried out for the Group companies.
The item Other mainly includes the purchase of supplies, e-commerce material, stationary and printed materials (143,542 Euros) and fuel (213,718 Euros).

NOTE 8 - PERSONNEL EXPENSES

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

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

Detail of personnel by category is provided below:

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

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

NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

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

Professional Services from Group companies, which changed during the year by 12,391,881 Euros, relate to revenues from services to third parties.

Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

Office expenses include services rendered by related parties in connection with service contracts for the use of premises, legal domicile and secretarial services, as well as utility costs.

NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2017 to an overall cost of 336,687 Euros. Details of depreciation are provided at the notes to tangible assets.

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

NOTE 11 - OTHER UNUSUAL OPERATING INCOME/(EXPENSES)

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

NOTE 12 - GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is a follows:

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

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

Detail is as follows:

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

Losses on equity investments refer to write-downs and the year-end losses of several subsidiary companies that were prudentially deemed as non-recoverable with respect to the value of the investment.

For further details see Note 19 herein.

NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

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

Interest income from subsidiaries refers to the interest yielding cash pooling accounts of the Group companies included in the centralized pooling system.

Interest expenses refer to the interest expenses on the use of credit facilities with Intesa Sanpaolo and Unicredit.

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

NOTE 14 - INCOME TAXES

The details are provided below:

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

IRES THEORETICAL RATE

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

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

Temporary differences, net refer to:

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

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

CALCULATION OF TAXABLE IRAP

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

Temporary differences, net mainly refer to:

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

NOTE 15 - EARNINGS PER SHARE

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

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

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

NOTE 16 - TANGIBLE ASSETS

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

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

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

Change in Tangible assets during 2017 is summarized below:

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

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

NOTE 17 - GOODWILL

Goodwill as at 31 December 2017 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000.

Goodwill recognized is deemed adequately supported in terms of expected financial results and related cash flows.

NOTE 18 - OTHER INTANGIBLE ASSETS

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

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

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

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

The item Software is related mainly to software licenses purchased and used internally by the company. The increase is related to software licenses purchased and used internally by the company.

The item Trademark expresses the value of the “Reply” trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company’s share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortization, and the expected future cash flows are deemed adequate.

NOTE 19 - EQUITY INVESTMENTS

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

(EUROS)	BALANCE AT 31/12/2016	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2017	INTEREST
Air Reply S.r.l.	558,500					558,500	85.00%
Aktive Reply S.r.l.	512,696					512,696	100.00%
Arlanis Reply S.r.l.	588,000					588,000	100.00%
Atlas Reply S.r.l.	356,575		110,000	(454,000)		12,575	100.00%
Avantage Ltd	9,483,484			(2,161,000)		7,322,484	100.00%
Blue Reply S.r.l.	527,892					527,892	100.00%
Breed Reply Ltd.	12,477					12,477	100.00%
Breed Reply Investment Ltd.	103					103	80.00%
Bridge Reply S.r.l.	6,000					6,000	60.00%
Business Reply S.r.l.	268,602					268,602	100.00%
Cluster Reply S.r.l.	2,540,848					2,540,848	100.00%
Cluster Reply Roma S.r.l.	296,184					296,184	100.00%
Consorzio Reply Public Sector	32,500					32,500	35.91%
Consorzio Reply Energy	1,000					1,000	25.00%
Data Reply S.r.l.	317,662					317,662	100.00%
Discovery Reply S.r.l.	1,311,669					1,311,669	100.00%
e*finance Consulting Reply S.r.l.	3,076,385					3,076,385	100.00%
Ekip Reply S.r.l.	30,000					30,000	100.00%
Eos Reply S.r.l.	155,369					155,369	80.71%
Forge Reply S.r.l.	12,000		722,000	(722,000)		12,000	100.00%
Go Reply S.r.l.	1,920,000					1,920,000	100.00%
Hermes Reply Polska zoo	10,217					10,217	100.00%
Hermes Reply S.r.l.	199,500					199,500	100.00%
IrisCube Reply S.p.A.	6,724,952					6,724,952	100.00%
Lem Reply S.r.l.	400,012		18,400	(18,400)		400,012	100.00%
Like Reply S.r.l.	132,317					132,317	100.00%
Logistics Reply S.r.l.	1,049,167					1,049,167	100.00%
Open Reply S.r.l.	1,417,750					1,417,750	100.00%
Pay Reply S.r.l.	10,000					10,000	100.00%
Portaltech Reply S.r.l.	104,500	1,500				106,000	100.00%
Power Reply S.r.l.	2,500,850					2,500,850	100.00%

(EUROS)	BALANCE AT 31/12/2016	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2017	INTEREST
Protocube Reply S.r.l.	287,000		370,000	(370,000)		287,000	100.00%
Reply Consulting S.r.l.	3,518,434					3,518,434	100.00%
Reply AG	57,835,781					57,835,781	100.00%
Reply Digital Experience S.r.l. (ex Bitmama S.r.l.)	4,217,019		31,000	(31,000)	10,000	4,227,019	100.00%
Reply do Brasil Sistemas de Informatica Ltda	206,816					206,816	98.50%
Reply Inc.	40,596					40,596	100.00%
Reply Ltd.	11,657,767					11,657,767	100.00%
Reply Services S.r.l.	104,132				(8,920)	95,212	100.00%
Ringmaster S.r.l.	5,000					5,000	50.00%
Santer Reply S.p.A.	11,386,966					11,386,966	100.00%
Sense Reply S.r.l.	-	9,000	6,700			15,700	90.00%
Sensoria Inc.	3,887,432			(3,887,432)		-	-
Spark Reply S.r.l.	403,500		269,000			672,500	85.00%
Security Reply S.r.l.	392,866					392,866	100.00%
Sprint Reply S.r.l.	-	10,000				10,000	100.00%
Square Reply S.r.l.	100,000					100,000	100.00%
Storm Reply S.r.l.	986,000					986,000	95.00%
Syskoplan Reply S.r.l.	949,571					949,571	100.00%
Sytel Reply S.r.l.	4,991,829					4,991,829	100.00%
Sytel Reply Roma S.r.l.	894,931					894,931	100.00%
Tamtamy Reply S.r.l.	254,551				8,920	263,471	100.00%
Target Reply S.r.l.	600,338					600,338	100.00%
Technology Reply Roma	10,000					10,000	100.00%
Technology Reply S.r.l.	216,658					216,658	100.00%
Technology Reply S.r.l. (Romania)	9,919					9,919	100.00%
Triplesense Reply S.r.l.	10,000				(10,000)	-	-
Twice Reply S.r.l.	521,203					521,203	98.00%
Whitehall Reply S.r.l.	160,212					160,212	100.00%
Xister Reply S.r.l. (*)	11,150,465					11,150,465	89.20%
Total	**149,356,195**	**20,500**	**1,527,100**	**(7,643,832)**	**-**	**143,259,963**	

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

ACQUISITIONS AND SUBSCRIPTIONS

Sense Reply S.r.l.

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

Sprint Reply S.r.l.

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

FINANCIAL LOAN REMISSION

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

WRITE-DOWNS

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

****

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

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

NOTE 20 - NON CURRENT FINANCIAL ASSETS

Detail is as follows:

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

Guarantee deposits are mainly related to deposits on lease contracts.

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

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

NOTE 21 - DEFERRED TAX ASSETS

This item amounted to 4,634,202 Euros at 31 December 2017 (3,017,480 Euros at 31 December 2016), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductible items.

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

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

NOTE 22 - TRADE RECEIVABLES

Trade receivables at 31 December 2017 amounted to 372,933,805 Euros and are all collectible within 12 months.

Detail is as follows:

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

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third Party Receivables which increased by 14,817,261 Euros.

Receivables from subsidiaries are related to services that the Parent Company Reply S.p.A. carries out in favor of the subsidiary companies at normal market conditions.

Trade receivables are all due within 12 months and do not include significant overdue balances.

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

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

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

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

The item Tax receivables includes VAT receivables net (6,727,607 Euros) and IRAP and IRES tax prepayments (3,758,729 Euros).

Other receivables from subsidiary companies mainly refer to IRES receivables which are calculated on taxable income, and transferred by the Italian subsidiaries under national fiscal consolidation.

Accrued income and prepaid expenses refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.

The carrying value of Other receivables and current assets is deemed to be in line with its fair value.

NOTE 24 - CURRENT FINANCIAL ASSETS

This item amounted to 82,843,389 Euros (63,168,559 Euros at 31 December 2016) and refers to the total of interest yielding cash pooling accounts of subsidiaries included in the centralized pooling system of the Parent Company Reply S.p.A.; the interest yield on these accounts is in line with current market conditions.

NOTE 25 - CASH AND CASH EQUIVALENTS

This item amounted to 63,610,241 Euros, with an increase of 13,501,951 Euros compared to 31 December 2016 and is referred to cash at banks and on hand at year-end.

NOTE 26 - SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2017 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,863,486 Euros and is made up of no. 37,411,428 ordinary shares having a nominal value of euro 0.13 each.

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

Treasury shares

The value of the Treasury shares, amounting to 24,502 Euros, refers to the shares of Reply S.p.A. that at 31 December 2017 were equal to no. 4.028.

Capital reserves

At 31 December 2017 amounted to 79.183.600 Euros, and included the following:

- Share premium reserve amounting to 23,302,692 Euros.
- Treasury share reserve amounting to 24,502 Euros, relating to the shares of Reply S.p.A which at 31 December 2017 were equal to no. 4.028.
- Reserve for the purchase of treasury shares amounting to 49,975,498 Euros.
- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
  - › Share swap surplus reserve amounting to 3,445,485 Euros
  - › Surplus annulment reserve amounting to 2,902,479 Euros.

Earnings Reserve

Earning reserves amounted to 208,128,469 Euros and were comprised as follows:

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

Other comprehensive income

Other comprehensive income can be analyzed as follows:

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

NOTE 27 - PAYABLES TO MINORITY SHAREHOLDERS AND EARN-OUT

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

NOTE 28 - FINANCIAL LIABILITIES

Detail is as follows:

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

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

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

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

Following and summarized by main features the ongoing contracts entered into for such a purpose:

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

- On 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan is reimbursed on a half-year basis deferred to commence on 30 June 2016 and will expire on 31 December 2018. Such credit line was used for 6,053 thousand Euros at 31 December 2017.

- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
  - Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line was used for 5,000 thousand Euros at 31 December 2017.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 September 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 14,286 thousand Euros at 31 December 2017.
- On 8 April 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 10,000,000 Euros entirely used for the reimbursement of the credit line dated 19 September 2012.
- The loan is reimbursed on a half-year basis deferred to commence on 31 October 2016. Such credit line was used for 2,500 thousand Euros at 31 December 2017.
- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500,000 was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500 thousand Euros at 31 December 2017.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa San Paolo S.p.A. for a total amount of 49,000 thousand Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. As at December 31, 2017 this line had not been used.
- On 21 September 2016 Reply S.p.A. entered onto an Interest Rate Swap contract with Intesa San Paolo S.p.A. with effect from 31 March 2017 and will expire on 31 March 2020.
- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 28 February 2020. As at December 31, 2017 this line had not been used.

As contractually defined, such ratios are as follows:

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

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

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

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

Net financial position

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

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

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

Change in Financial liabilities during 2017 is summarized below:

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

NOTE 29 - EMPLOYEE BENEFITS

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

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

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2017: 2.50% frequency of turnover in 2017: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Constant average annual rate equal to 1.50%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2017 was 1.31%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, Employment severance indemnities at 31 December 2017 is summarized in the table below:

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

NOTE 30 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2017 amounted to 1,214,430 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

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

NOTE 31 - TRADE PAYABLES

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

Detail is as follows:

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

Due to suppliers mainly refers to services from domestic suppliers. Due to subsidiary companies recorded a change of 10,370,427 Euros, and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

Advance payments from customers include advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.

The carrying amount of trade payables is deemed to be in line with its fair value.

NOTE 32 - OTHER CURRENT LIABILITIES

Detail is as follows:

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

Due to tax authorities mainly refers to payables due for withholding tax on employees and free lancers' compensation.

Due to social security authorities is related to both Company and employees' contribution payables.

Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.

Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2017 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

The carrying amount of the item Other current liabilities is deemed to be in line with its fair value.

NOTE 33 - PROVISIONS

The item Provisions amounting to 15,234,000 Euros is summarized as follows:

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

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

The item Provision for losses on equity investments has been adjusted because of the impairment test related to the value of the equity investments.

NOTE 34 - TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2017 Financial Statements related to such transactions are summarized below.
Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.

Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiaries and associate companies are carried out at normal market conditions.

REPLY S.P.A. MAIN ECONOMIC AND FINANCIAL TRANSACTIONS

(THOUSAND EUROS)	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	NATURE OF TRANSACTION
FINANCIAL TRANSACTIONS	**31/12/2017**		**31/12/2016**		
Financial receivables	80,327	-	67,299	-	Financial loans
Guarantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	39,704	-	(1,998)	-	Transaction accounts held by the Parent company
Trade receivables and other	181,348	-	135,683	-	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	203,720	-	195,851	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	2,950	-	2,300	Compensation paid to Directors and Key Management
ECONOMIC TRANSACTIONS	**2017**		**2016**		
Revenues from Royalties	25,401	-	21,692		Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	33,150	13	28,288	8	Administrations services, marketing, quality management and office rental
Revenues from management services	7,071	-	6,794	-	Strategic management services
Costs for professional services	337,191	-	331,065	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,497	420	1,370	420	Services related to office rental and office of the secretary
Personnel	-	5,877	-	5,224	Emoluments to Directors and Key Management
Interest income, net	6,942	-	4,563	-	Interest on financial loans: 3 month Euribor + spread of 3 percentage points

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, in the annexed tables herein, the Statement of income and the Statement of financial position reporting transactions with related parties separately, together with the percentage incidence with respect to each account caption has been provided.

Pursuant to art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

NOTA 35 - ADDITIONAL DISCLOSURE TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 2017 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

LIQUIDITY RISK

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The two main factors that determine the company's liquidity situation are on one side the funds generated by or used in operating and investing activities and on the other the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

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

In order to manage these risks, the Reply S.p.A uses interest rate derivative financial instruments, mainly interest rate swaps, with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates on the net result.

SENSITIVITY ANALYSIS

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2017 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 643 thousand Euros.

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

FAIR VALUE HIERARCHY LEVELS

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

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

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2017, according to the fair value hierarchical assessment level.

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

The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
As at 31 December 2017, there have not been any transfers within the hierarchy levels.

NOTE 36 - SIGNIFICANT NON-RECURRING TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non-recurring transaction during 2017.

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

Pursuant to Consob communication no. 6064293 of 28 July 2006, in 2017 Reply S.p.A. has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the Financial Statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

NOTE 38 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euro). Currently it is not possible to foresee the outcome of the said judgment but Management believes that any future economic-financial effects on the Company are not significant.
- with regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122j of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.

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

On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.

In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.

At present, some minority shareholders have commenced the aforementioned procedures.

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

CONTINGENT LIABILITIES

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

NOTE 39 - EMOLUMENTS TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT

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

NOTE 40 - EVENTS SUBSEQUENT TO 31 DECEMBER 2017

No significant events have occurred subsequent to 31 December 2017.

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

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

ANNEXED TABLES

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

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

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

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

REPLY S.P.A.
EQUITY INVESTMENTS IN SUBSIDIARIES WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION NO. 6064293 OF 28 JULY 2006)

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2017
Air Reply S.r.l.	Turin	€	10,000	85,365	70,763	85.00%	558,500
Arlanis Reply S.r.l.	Turin	€	10,000	588,754	510,345	100.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	1,865,856	1,774,293	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	12,902	(137,667)	100.00%	12,575
Avantage Reply Ltd.	London	GBP	5,086	3,074,295	114,408	100.00%	7,322,484
Blue Reply S.r.l.	Turin	€	10,000	7,871,152	7,812,289	100.00%	527,892
Breed Reply Ltd	London	GBP	10,000	(4,573,348)	(2,692,457)	100.00%	12,477
Breed Investments Ltd	London	GBP	100	(778,201)	1,431,062	80.00%	103
Bridge Reply S.r.l.	Turin	€	10,000	283,109	254,329	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	2,739,453	2,596,531	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	9,505,065	9,273,923	100.00%	2,540,848
Cluster Roma Reply S.r.l.	Turin	€	10,000	1,075,149	1,040,805	100.00%	296,184
Consorzio Reply Public Sector	Turin	€	92,500	24,320	-	35.91%	32,500
Consorzio Reply Energy	Turin	€	4,000	4,000	-	25.00%	1,000
Data Reply S.r.l.	Turin	€	10,000	1,500,647	1,468,199	100.00%	317,662
Discovery Reply S.r.l.	Turin	€	10,000	1,511,036	1,412,430	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	3,286,518	3,145,705	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	106,246	69,163	100.00%	30,000
Eos Reply S.r.l.	Turin	€	14,000	683,156	568,539	80.71%	155,369
Forge Reply S.r.l.	Turin	€	10,000	11,192	(724,469)	100.00%	12,000
Go Reply S.r.l.	Turin	€	50,000	1,646,172	158,878	100.00%	1,920,000
Hermes Reply Polska zo.o	Katowice	ZLT	40,000	7,480,921	1,857,542	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,230,823	1,173,037	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	6,482,707	5,605,928	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	48,910	(24,045)	100.00%	400,012
Like Reply S.r.l.	Turin	€	10,000	196,469	184,251	100.00%	132,317
Logistics Reply S.r.l.	Turin	€	78,000	2,449,836	2,276,807	100.00%	1,049,167
Open Reply S.r.l.	Turin	€	10,000	2,486,272	2,455,890	100.00%	1,417,750
Pay Reply S.r.l.	Turin	€	10,000	2,489,312	2,458,053	100.00%	10,000

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

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

				SUMMARY OF THE AMOUNTS USED IN THE PRIOR THREE FISCAL YEARS	
NATURE/DESCRIPTION	**AMOUNT**	**POSSIBILITY OF UTILIZATION**	**AVAILABLE**	**FOR COVERAGE OF LOSSES**	**OTHER**
Capital	4,863,486				
Capital reserve					
Reserve for treasury shares	24,502				
Share premium	23,302,692	A,B,C	23,302,692		
Reserve for treasury shares	29,990,873	A,B,C	29,990,873		
Income reserves					
Legal reserve	972,697	B			
Extraordinary reserve	102,265,360	A,B,C	102,265,360		
Surplus merger reserve	6,347,964	A,B,C	6,347,964		
Retained earnings	674,740	A,B,C	674,740		
Reserve for purchases of treasury shares	19,984,625	A,B,C	19,984,625		
Total			**182,566,253**		
Not available amount			-		
Residual available amount			**182,566,253**		
Reserves from transition to IAS/IFRS					
FTA reserve	**303,393**				
Retained earnings	2,147,961				
Reserve for cash flow hedge	(34,248)				
IAS reserve	(24,502)				
Reserve for treasury shares	(6,312)				
Accounting expenses according to IAS 32	(770,448)				
	1,615,844				

Legend
A: for share capital increase
B: for coverage of losses
C: distribution to shareholders

DISCLOSURES PURSUANT TO ARTICLE 149-DUODECIES BY CONSOB

The following table, prepared in accordance with Art. 149-duodecies of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2017 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

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

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

ATTESTATION OF THE FINANCIAL STATEMENTS

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

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

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

of the administration and accounting procedures applied in the preparation of the financial statements for the year ended 2017.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2017 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Financial Statements

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

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

Turin, 13 March 2018

Chairman
and Chief Executive Officer
Mario Rizzante

Director in charge
of signing the financial statements
Giuseppe Veneziano

REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to article 153 of the legislative decree 58/1998 on the financial statements as at 31 December 2017

Dear Shareholders,
pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activity performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
During the course of the financial year ended 31 December 2017, we complied with the duties set forth in Article 149 of Legislative Decree No. 58/1998 and in article 19 of Legislative decree 39/2010 and we are providing the following information with reference to the recommendations contained in the Consob communications issued up to the present day concerning the Regulations for Issuers:

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

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

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

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

2. ANY UNUSUAL AND/OR ATYPICAL TRANSACTIONS, INCLUDING INTRA-GROUP OR WITH RELATED PARTIES.

On the basis of meetings held with the Directors and with representatives of the Independent Auditing firm, it did not appear that any atypical or unusual transactions occurred during the financial year, nor following the year ended.

With reference to intra-group transactions, we give notice that:

- Reply S.p.A. obtained professional services from Group companies related to revenues connected to contracts undersigned with major clients;
- Reply S.p.A. gave bank guarantees to subsidiaries;
- Reply S.p.A. granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:
  - Air Reply S.r.l., Spark Reply S.r.l. and Sense Reply S.r.l. – non-interest bearing loan;
  - Breed Investments Ltd, Breed Reply Ltd, Reply Ltd., Concept Reply GmbH, Hermes Reply Polska Sp Zoo, InEssence Reply Gmbh, Cluster do Brazil Ltda (formerly Mind Services Informatica Ltda), Portaltech Reply GmbH, Reply do Brazil Sistemas de Informatica Ltda, Reply Inc., Reply Ltd, Technology Reply S.r.l. (Romania), Reply AG and Reply France Sarl– interest bearing loans;
- Reply S.p.A. provided subsidiaries with management, administrative, commercial and marketing services, the lease of premises, as well as services to manage the corporate internet network, electronic mail and web;
- Reply S.p.A. centrally managed the Group's treasury by means of correspondence bank accounts held by the individual subsidiaries;
- Reply S.p.A. granted Group companies the use of the "REPLY" trademark that it owns;
- Reply S.p.A. acquired "office services" (general services and the availability of office space) from Reply Services S.r.l. and from Santer Reply S.p.A..

Transactions with related parties in 2017, which took place in accordance with market

conditions, are related to Emoluments to Directors and Key Management and to "office services, in particular to the office situated in Corso Francia, 110 Turin, provided by Iceberg S.r.l. (formerly Alika S.r.l.), Reply S.p.A.'s direct parent company (until 31/01/2018). At the report date these transactions are ongoing with the exception of the "office services" that are currently being supplied by Alika S.r.l., the newly established company to which Iceberg S.r.l. conferred the business branch including the equity investment in Reply S.p.A. equal to approximately 45.10% of the share capital with effective date February 1, 2018.
For these operations the Procedure for Related party transactions was not applied as these transactions are exempt as defined by art. 4.1 and 4.4. of the Procedure.

3. INFORMATION PROVIDED IN THE REPORT ON THE OPERATION ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRA-GROUP TRANSACTIONS AND THOSE WITH RELATED PARTIES.

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2017 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2017 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.
The Report does not reveal that any atypical and/or unusual transactions occurred during the year or after it ended.

4. COMMENTS AND PROPOSALS ON THE NOTES AND REQUESTS FOR INFORMATION CONTAINED IN THE REPORT OF THE INDEPENDENT AUDITOR.

The Directive 2014/56/EU amended Directive 2006/43/EC concerning the statutory audit; the directive was implemented in Italy with Legislative Decree 135/2016 which amended Legislative Decree 39/2010. The regulation (EU) 537/2014 of 16 April 2014, art. 10, defines the specific requirements of the audit report for public interest entities.
Pursuant to art. 19 of Legislative Decree 39/2010, during 2017 and up to the date of this Report, the Board of Statutory Auditors carried out a continuous monitoring process of the activities carried out by the auditing firm through a series of meetings during which among other things, has examined: the purpose of the audit, materiality and significant risks and the audit plan.
The Board of Statutory Auditors analyzed the methodological framework adopted by the auditor and acquired the necessary information going forward, receiving updates on the progress of

the audit engagement and on the main aspects brought to the auditor's attention.
The Board of Statutory Auditors examined the following reports prepared by the independent auditor EY S.p.A :

- the reports on the audit of the financial statements and the audit of the consolidated financial statements issued on March 29, 2018 pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of the Regulation (EU) n. 537/2014;
- the additional report issued on March 29, 2018, pursuant to Article 11 of the aforementioned Regulation, to the Board of Statutory Auditors in capacity of the Internal Control and Auditing Committee;
- the annual confirmation of independence, issued March 29, 2018, pursuant to art. 6 par. 2) let. a) of the Regulations and pursuant to paragraph 17 of ISA Italia 260.

The aforementioned annual audit reports of the consolidated financial statements show that the individual financial statements and the consolidated financial statements of the Group provide a true and fair view of the balance sheet and financial situation of Reply S.p.A. and of the Reply Group at December 31, 2017, of the economic result and cash flows for the year ended on that date, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

Furthermore, in the opinion of the auditor, the management report and some specific information disclosed in the report on corporate governance and ownership structure indicated in art. 123-bis, paragraph 4, of Legislative Decree 58/1998, is consistent with the financial statements of Reply S.p.A. and with the consolidated financial statements of the Reply Group at December 31, 2017 and are prepared in accordance with the law. With reference to the possible identification of significant errors in the management report (Article 14, paragraph 2, letter e) of Legislative Decree 39/2010), the auditor declared that nothing had emerged.

Commencing financial year 2017, the audit reports on the financial statements and the consolidated financial statements describe, according to professional judgement, the most significant audit aspects of the individual and consolidated financial statements for the year under exam.

More specifically, EY S.p.A. has identified the following key aspects:

- the valuation of investments, with regard to the financial statements and

- the valuation of the goodwill and the valuation of payables to minority shareholders and corporate transactions, with regard to the consolidated financial statements.

Regarding the aforementioned key aspects, for which the auditor's reports illustrate the related audit procedures adopted, the auditor does not express a separate opinion, since the auditors themselves were involved in the audit and in the assessment of the financial statements as a whole. The aforementioned key aspects were the subject of detailed analysis and updating during the periodic meetings that the Board of Statutory Auditors had with the auditors.

5. COMPLAINTS PURSUANT TO ARTICLE 2408 OF THE ITALIAN CIVIL CODE.

No complaints have been acknowledged pursuant to Article 2408 of the Italian Civil Code in 2017 and at present.

6. FILED COMPLAINTS/LAWSUITS.

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

7. THE GRANTING OF ANY FURTHER APPOINTMENTS TO THE INDEPENDENT AUDITOR AND RELATIVE COSTS.

During 2017, in addition to the engagement of auditing the Financial Statements as at 31 December 2017, EY S.p.A. received the following engagements:

- The signing of Reply S.p.A.'s various tax forms (Modelli Unico, IRAP, 770)

The consideration for such engagement was 1 thousand Euros;

- The signing of various tax forms of Reply S.p.A.'s Italian subsidiaries (Modelli Unico, IRAP, 770)

The consideration for such engagement was 21 thousand Euros.

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

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

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

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

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

In 2017 EY GmbH was assigned to perform a Due Diligence on a target acquisition company incorporated under German law.
The consideration for such engagement was 87 thousand Euros.
During 2018 EY LLP was assigned to perform a Due Diligence on a target acquisition company incorporated under American law. The fee for this engagement was agreed in a range of 185 to 235 thousand dollars.

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

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

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

During the financial year, the Board of Directors met 4 times, and the Board of Statutory Auditors 8 times.
The Internal Control and Risk Management Committee 4 times, whereas the Remuneration Committee met once, and the Committee for Related Party Transactions did not meet.
The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

11. INSTRUCTIONS GIVEN BY THE COMPANY TO SUBSIDIARIES PURSUANT TO ARTICLE 114(2) OF LEGISLATIVE DECREE 58/1998.

The instructions given by Reply S.p.A. to subsidiaries, pursuant to the second paragraph of Article 114 of Legislative Decree 58/1998 appear to be adequate; similarly, the subsidiaries provided the Parent Company with the necessary information for its timely knowledge of the business situation.
We advise you that in order to guarantee the timely communication of the information requested, Mr. Daniele Angelucci, Executive Director and Finance and Control Manager of Reply S.p.A., also acts as advisor within all of the administrative bodies of the Italian subsidiaries,

with the exclusion of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries and is also a member of the Supervisory Board of Reply AG.
We further advise you that:

- the Chairman of Reply S.p.A.'s Board of Directors, Mr. Mario Rizzante, is the Director of the English subsidiaries Reply Ltd., Portaltech Reply Ltd., Avantage Reply Ltd, Breed Reply Ltd, Breed Reply Investments Ltd. and is also a member of the Supervisory Board of Reply AG.
- Tatiana Rizzante, Chief Executive Officer is Director of the English subsidiaries Avantage Reply Ltd and Reply Ltd and Director in the American subsidiary Reply Inc. and is also the Managing Director of the German subsidiaries, InEssence Reply GmbH and Reply AG.
- Filippo Rizzante, Executive Director holds office as Vice President of Ringmaster S.r.l. among other offices as Director in several English companies.

12. SIGNIFICANT ISSUES THAT EMERGED DURING THE MEETINGS HELD WITH THE INDEPENDENT AUDITOR PURSUANT TO ARTICLE 150(3) OF LEGISLATIVE DECREE 58/1998.

During the meetings held with representatives of the Independent Auditors, no deeds or facts deemed to be reprehensible or relevant emerged or are worthy of mention pursuant to art. 155, paragraph 2, of Legislative Decree 58/1998.

13. THE COMPANY'S COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTED COMPANIES' CORPORATE GOVERNANCE COMMITTEE.

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A., and revised in July 2015.
On 13 March 2018 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

14. FINAL CONSIDERATIONS ON THE SUPERVISORY ACTIVITY CARRIED OUT, AS WELL AS WITH RESPECT TO ANY OMISSIONS, CENSURABLE EVENTS OR IRREGULARITIES DISCOVERED DURING SUCH ACTIVITY.

The Board's supervisory activity was carried out through:

- Activities aimed at controlling compliance with laws and the by-laws;
- Participation at the meetings of the Company's governing bodies;
- Acquiring information during periodic meetings with the Independent Auditor concerning

both the activity it performed as well as any risks related to its independence;

- Acquiring information during meetings with members of the Board of Statutory Auditors of the subsidiaries to exchange information on the Group's activities and coordinate control and supervisory activities;
- Gathering additional information during meetings with the Chairman of the Company, the Director responsible for drawing up the Company's Financial Statements, the Person in charge of internal control and the Supervisory Body;
- Participation at the meetings of the Internal Control and Risk Management Committee and the Remuneration Committee;
- The analysis of any new provisions of law or Consob communications of interest to the Company.

The Board confirmed that the organizational requirements were met to comply with the relevant Company by-laws, laws and regulations, in the constant evolution and search for improvement.
In particular, we advise the Shareholders that:

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently approved on 4 May 2015, according to the standards indicated in the Regulations approved by Consob by means of Resolution No. 17221 of 12 March 2010 and subsequent modifications, as well as compliance with it;
- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- we monitored the financial reporting process and its integrity;
- we have verified the effectiveness of the company's internal control, quality and risk management systems, with regard to financial reporting;
- we monitored the statutory audit of the financial statements and of the consolidated financial statements;
- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- we monitored compliance with the provisions of art. 17, paragraph 4, of Legislative Decree 39/2010 and in this regard, we inform you that the new key manager for the review of the financial statements of Reply S.p.A. is Mr. Alessandro Davi;
- we verified and monitored the independence of the independent auditing firm EY S.p.A. pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010 and article 8 of Regulation (EU) 537/2014;

- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "Market abuse" and "Protection of savings" in matters of corporate disclosures of information and "Internal Dealings" based on the information provided by the Company. In this respect, the Internal Dealing Procedure was updated in accordance to Consob resolution no.19925 dated March 22, 2017 and was approved by the Board of Directors on November 14, 2017;
- we verified the fulfillment of the obligations related to the regulations pursuant to Legislative Decree 254/2016 of the national implementation of the Directive 2014/95 / EU, on the basis of which the Consolidated Disclosure of Non-Financial information was approved by the Board of Directors on March 13, 2018.

In this regard, we acknowledge that EY S.p.A., specifically appointed, issued on March 29, 2018 its opinion pursuant to art. 3, c. 10 of Legislative Decree 254/2016, regarding the compliance of the information provided in the Consolidated Disclosure of a Non-Financial information with respect to the requirements set forth in Legislative Decree 254/2016.

On the basis of the principles mentioned and the information acquired during the audits and participation at meetings with the persons responsible for administration and the internal control, we reached the following conclusions:

1) **ADMINISTRATION**

   The Board of Statutory Auditors, having participated at the meetings of the Board of Directors, on the basis of the information obtained at such time, acknowledges that it has verified, with the exclusion of control of the merits of the opportunity and economic convenience of the choices made by such body, that the transactions performed and being carried out by the Company are based on principles of proper administration, conform to law and the By-laws, do not conflict with the resolutions of the Shareholders' meetings or compromise the integrity of the Company's assets.

2) **ORGANISATIONAL STRUCTURE**

   Within the scope of the responsibilities bestowed on us by the rules set forth in Legislative Decree 58/1998 and in compliance with the Governance Rules of the Board of Statutory Auditors, we met periodically with the Directors of the Independent Auditor and the organizational department, to gather the necessary information.

This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure also with reference to the procedures, processes and structures that preside over the production, reporting, measurement and representation of results and information of a non-financial nature and to arrive at a judgment of overall adequacy with respect to its size.

3) INTERNAL CONTROL SYSTEM

Within the Board of Directors there is a Committee for Internal Control and Risk Management, a Remuneration and Nominating Committee, and a Committee for Transactions with Related Parties, whose activities are carried out according to a program in line with the needs of the Company.

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

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

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

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

4) ADMINISTRATIVE- ACCOUNTING SYSTEM

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

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

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

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

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

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

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

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

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

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

Turin, 29 March, 2018

The Statutory Auditors

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

EY S.p.A.
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 Financial Statements

Opinion

We have audited the financial statements of Reply S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta all'Albo Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Equity investments As at 31 December 2017, the equity investments amounted to € 143,3 million. Management assesses the presence of impairment indicators for each equity investment at least annually, consistent with its strategy to manage the legal entities within the Group and, if they occur, performs impairment test on such assets; in particular, in the current year a loss in equity investments €12.2 million was recorded, mainly related to the investments in Breed Reply Ltd, sensoria Inc, avantage Reply Ltd, Atlas Reply Srl. The processes and methods to evaluate and determine the recoverable amount of each individual equity investment are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by management, in particular with reference to the identification of impairment indicators, the forecast of future profitability, the definition of the market multiples and to the determination of the normalized cash flows used to estimate terminal value and long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in the estimation of the recoverable amount of the equity investments, we considered that this area represents a key audit matter. The disclosures related to the valuation of investments is given in note 2 - Accounting principles, in note 19 - Investments, and in note 33 - Provisions.	Our audit procedures in response to this key audit matter included, among others: • analysis of the procedure and of the key controls implemented by the company in relation to the identification of possible losses and the valuation of equity investments; • analysis of the expert's report who assisted management in the impairment test as well as of the evaluation of its competence, capacity and objectivity; • analysis of the forecast of future results , used in the determination of fair value; • assessment of the consistency of the forecast of expected results with the Group budget; • comparison of forecasts with previous ones and actual data. In performing our analysis, we involved our experts in valuation techniques, who have performed an independent evaluation according to market multiples and verified the discount rates. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and related to the valuation of equity investments.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

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

The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Reply S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Reply S.p.A. as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Reply S.p.A. as at 31 December 2017 and comply with the applicable laws and regulations.

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

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

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

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

Turino, 29 March 2018

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

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

CORPORATE INFORMATION

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