

# REPORT ON OPERATIONS



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

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

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

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

## EXTERNAL RISKS

### RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

### RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

**RISKS ASSOCIATED WITH COMPETITION**

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

**RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS**

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

**RISKS ASSOCIATED WITH SEGMENT REGULATIONS**

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

**INTERNAL RISKS****RISKS ASSOCIATED WITH KEY MANAGEMENT**

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

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

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

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

**RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT**

The Group offers consulting services mainly to medium and large size companies operating in different market segments (Telco, Manufacturing, Finance, etc.).

A significant part of the Group's revenues, although in a decreasing fashion in the past years, is concentrated on a relatively limited number of clients. If such clients were lost this could have an adverse effect on the Group's activities and on the Group's economic, financial and earnings position.

**RISKS ASSOCIATED WITH INTERNATIONALIZATION**

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

These could negatively influence the Group's growth expectations abroad.

**RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS**

The Group develops solutions with a high technological content of significant value; the underlying related contracts can provide for the application of penalties in relation to timeliness and the qualitative standards agreed upon.

The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.

The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount deemed to be adequate in respect of the actual risk.

Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardized.

**FINANCIAL RISKS****CREDIT RISK**

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

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

**LIQUIDITY RISK**

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

The cash flows, funding requirements and liquidity of the Group's companies are monitored or centrally managed under the control of the Group Treasury, with the objective of guaranteeing effective and efficient management of capital resources (maintaining an adequate level of liquid assets and funds obtainable via an appropriate committed credit line amount).

The difficult economic and financial context of the markets requires specific attention as regards the management of liquidity risk and in such a way that particular attention is given to shares tending to generate financial resources with operational management and to maintaining an adequate level of liquid assets. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

**EXCHANGE RATE AND INTEREST RATE RISK**

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

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

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

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

# REVIEW OF THE GROUP'S ECONOMIC AND FINANCIAL POSITION

## FOREWORD

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

## TREND OF THE PERIOD

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

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

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

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

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

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

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

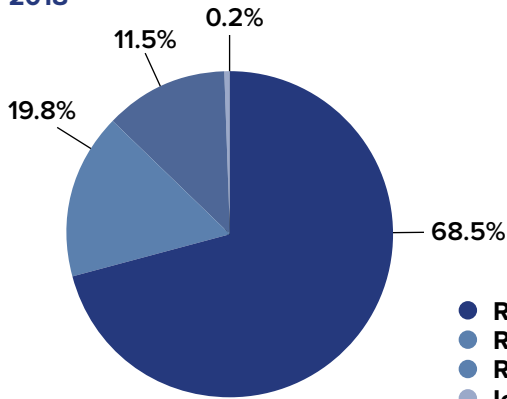
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

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



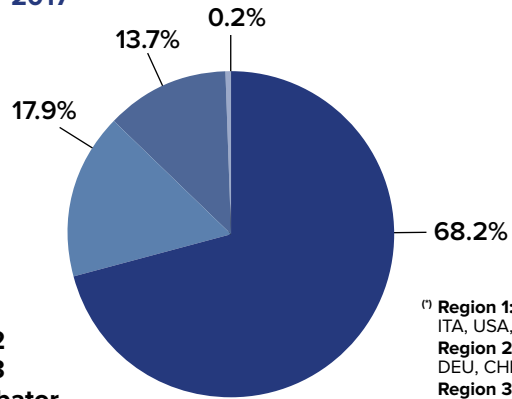
## REVENUES BY REGION (\*)

2018



- Region 1
- Region 2
- Region 3
- IoT Incubator

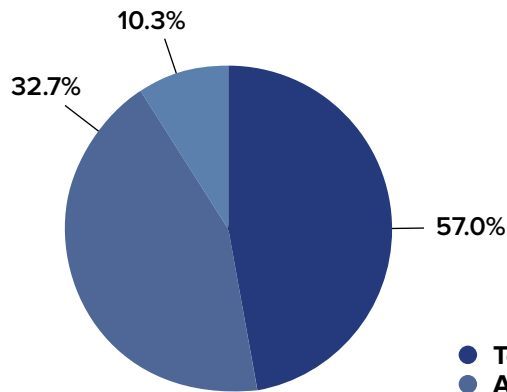
2017



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

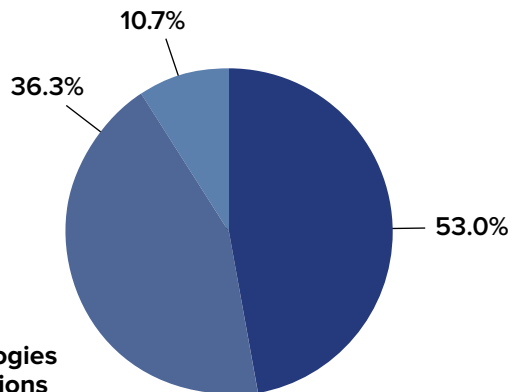
## REVENUES BY BUSINESS LINES

2018



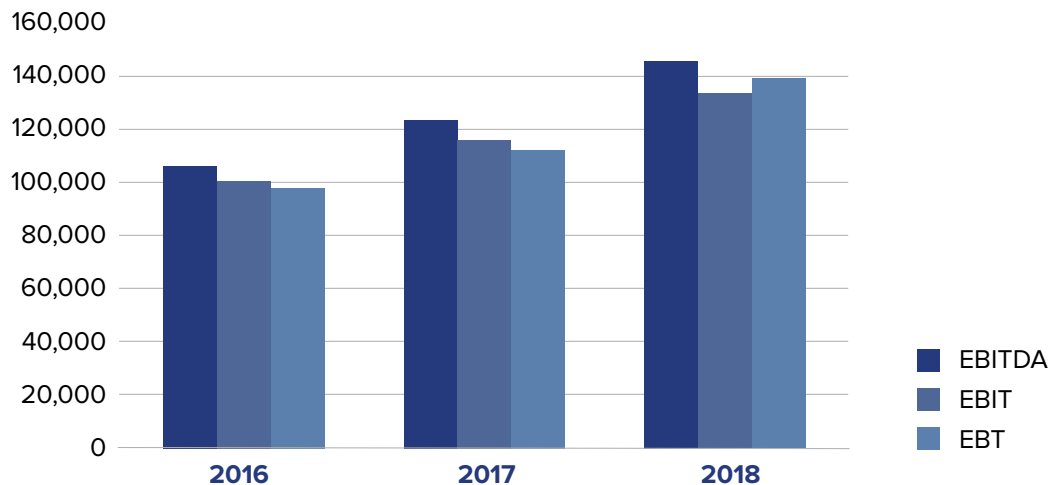
- Technologies
- Applications
- Processes

2017



## TREND IN KEY ECONOMIC INDICATORS

(THOUSAND EUROS)



## ANALYSIS OF THE FINANCIAL STRUCTURE

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

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

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

The following table provides a breakdown of net working capital:

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

## NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

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

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

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

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

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

## ALTERNATIVE PERFORMANCE INDICATORS

In addition to conventional financial indicators required by IFRS, presented herein are some alternative performance measures, in order to allow a better understanding of the trend of economic and financial management.

These indicators, that are also presented in the periodical Interim management reports must not, however, be considered as replacements to the conventional indicators required by IFRS.

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

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

# SIGNIFICANT OPERATIONS IN 2018

## ACQUISITION OF VALOREM LLC

Reply has strengthened its presence in the North American market with the acquisition, through the subsidiary Reply Inc., in the month of April 2018, of 70% of the shares in Valorem, a US-based company that specializes in Digital Strategy consulting and the implementation of Cloud, Analytics, and differentiated User Experiences.

Valorem, with approximately 300 people distributed among the main offices in Kansas City, Seattle St. Louis and Kochi (India) is a leader in the cloud design and value-added Digital Strategy and execution services based on Microsoft's Cloud Offerings, with major international groups such as Boeing, Intel, Jeppesen, Microsoft and Red Bull among its customer portfolio. The investment further enhances Reply's international growth strategy, particularly in the United States where the Group already has offices in Chicago and Detroit.

## ACQUISITION OF MODCOMP GMBH

In July 2018, the subsidiary Reply AG reached an agreement for the acquisition of Modcomp GmbH and its subsidiaries CSPI GmbH and MCG Systems AG, a company under German law specializing in Security Solutions.

CSPI GmbH, formerly MODCOMP GmbH, has been present on the German market as an IT service provider for "Secure IT" for more than 40 years and is one of the leading IT system integrators for IT security in Germany. The range of services extends from the design and integration of numerous IT security products to the commissioning and operation of complete IT systems. With this portfolio, CSPI acts as a full-service security provider for well-known large companies and medium-sized businesses – from analysis, auditing, conception and the appointment of the data protection officer to the management of a SOC (Security Operation Center).

## ACQUISITION OF ELBKIND GMBH

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

# REPLY ON THE STOCK MARKET

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

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

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

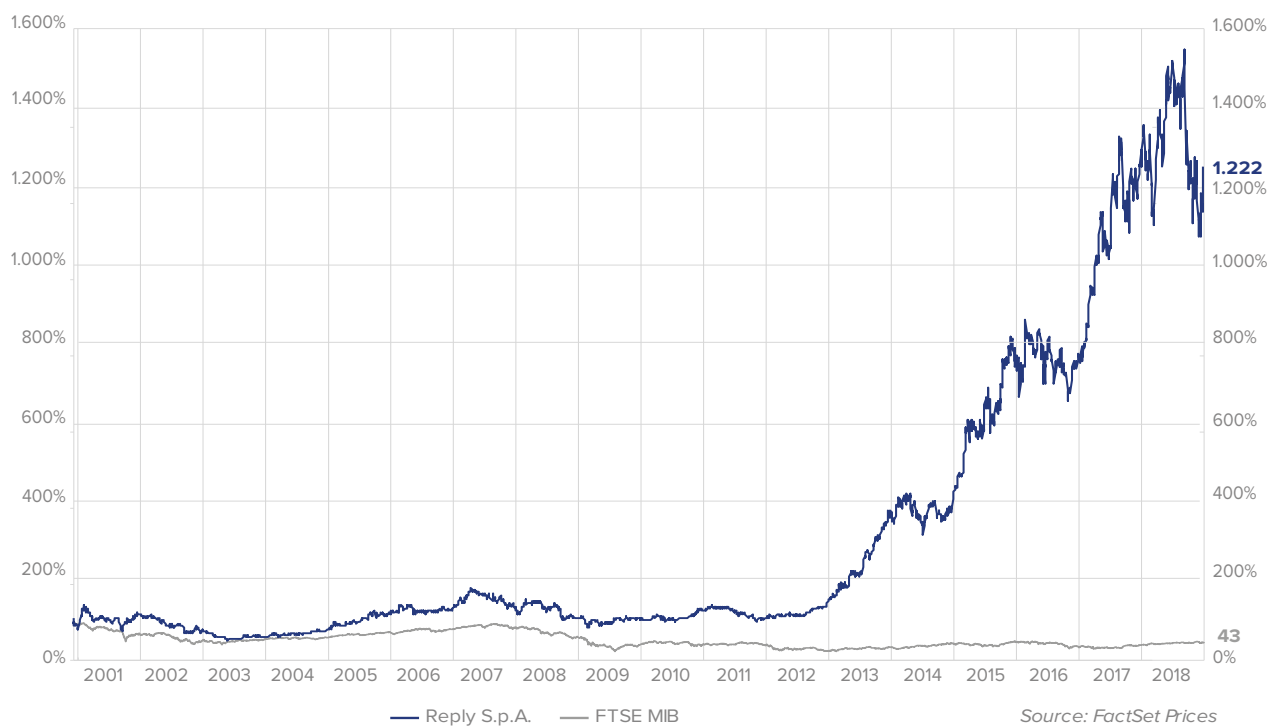
2018 was a challenging year for European equity markets, as trade tensions, more restrictive central bank policies and geopolitical uncertainty have unexpectedly clouded the macroeconomic environment. Of note, all country indices across Europe were down through 2018, with the vast majority seeing double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

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

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



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



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



## DIVIDEND

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

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

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

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

<sup>1)</sup> Amount proposed for shareholder approval for 2018

<sup>2)</sup> Related to year-end closing price

## THE SHAREHOLDER BASE

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

## ANALYSTS

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

## DIALOG WITH THE CAPITAL MARKETS

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

# THE PARENT COMPANY REPLY S.P.A.

## INTRODUCTION

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

## RECLASSIFIED INCOME STATEMENT

The Parent Company Reply S.p.A. mainly carries out the operational co-ordination and the technical and quality management services for the Group companies as well as the administration, finance and marketing activities.

As at 31 December 2018 the Parent Company had 86 employees (88 employees in 2017).

Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group’s overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Pass-through revenues of the Income Statement set forth below.

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

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

Revenues from operating activities mainly refer to charges for:

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

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

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

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

Losses on equity investments refer to write-downs and losses reported in the year by some

subsidiary companies that were considered to be unrecoverable.

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

## FINANCIAL STRUCTURE

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

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

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

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

## NET FINANCIAL POSITION

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

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

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

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

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

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

# CORPORATE GOVERNANCE

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

In compliance with regulatory obligations the annually drafted “Report on Corporate Governance and Ownership Structures” contains a general description of the corporate governance system adopted by the Group, reporting information on ownership structures and compliance with the Code of Conduct, including the main governance practices applied and the characteristics of the risk management and internal control system also with respect to the financial reporting process.

The aforementioned Report is available on the Corporate Governance section of the website [www.reply.com](http://www.reply.com) - Investors – Corporate Governance.

The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. [www.borsaitaliana.it](http://www.borsaitaliana.it).

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



# OTHER INFORMATION

## RESEARCH AND DEVELOPMENT ACTIVITIES

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

Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.

Reply dedicates resources to Research and Development activities in order to project and define highly innovative products and services as well as possible applications of evolving technologies. In this context, Reply has developed of its own platforms.

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

## HUMAN RESOURCES

Human resources constitute a primary asset for Reply which bases its strategy on the quality of products and services and places continuous attention on the growth of personnel and in-depth examination of professional necessities with consequent definitions of needs and training courses.

The Reply Group is comprised of professionals originating from the best universities and polytechnics. The Group intends to continue investing in human resources by bonding special relations and collaboration with major universities with the scope of attracting highly qualified personnel.

The people who work at Reply are characterized by enthusiasm, expertise, methodology, team spirit, initiative, the capability of understanding the context they work in and of clearly communicating the solutions proposed. The capability of imagining, experimenting and studying

new solutions enables more rapid and efficient innovation.

The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.

At the end of 2018 the Group had 7,606 employees compared to 6,456 in 2017.

## **GENERAL DATA PROTECTION REGULATION (GDPR)**

The governance model of the Group privacy policy reflects what is required by the existing code for the protection of personal data and the European Regulation 679/16 (GDPR).

Privacy fulfilments are managed uniformly at the Reply Group level in order to maintain adequate levels of internal coherence and to facilitate external relations, in particular with authorities, customers and suppliers.

To ensure compliance in 2018 a GDPR program was implemented, which provided several activities including:

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

## **TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES**

During the period, there were no transactions with related parties, including intergroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

The company in the notes to the financial statements and consolidated financial statements provides the information required pursuant to Art. 154-ter of the TUF [Consolidated Financial Act] as indicated by Consob Reg. no. 17221 of 12 March 2010, indicating that there were no significant transactions concluded during the period.

Information on transactions with related parties as per Consob communication of 28 July 2006 is disclosed at the Note to the Consolidated financial statements and Notes to the financial statements.

## **TREASURY SHARES**

At the balance sheet date, the Parent Company holds 4,028 treasury shares amounting to 24,502 Euros, nominal value equal to 524 Euros. At the balance sheet item net equity, the company has posted an unavailable reserve for the same amount.

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

## **FINANCIAL INSTRUMENTS**

In relation to the use of financial instruments, the company has adopted a policy for risk management through the use of financial derivatives, with the scope of reducing the exposure to interest rate risks on financial loans.

Such financial instruments are considered as hedging instruments as they can be traced to the object being hedged (in terms of amount and expiry date).

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

# EVENTS SUBSEQUENT TO 31 DECEMBER 2018

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

## OUTLOOK ON OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

*Turin, 14 March 2019*

For the Board of Directors

The Chairman

**Mario Rizzante**