FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

INCOME STATEMENT (*)

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

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF FINANCIAL POSITION (*)

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

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

STATEMENT OF CHANGES IN EQUITY

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

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

STATEMENT OF CASH FLOWS

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

DETAIL OF CASH AND CASH EQUIVALENTS

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

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

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

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

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

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

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

GENERAL PRINCIPLES

The Financial Statements were prepared under the historical cost convention, modified as required for the measurement of certain financial instruments. The criterion of fair value was adopted as defined by IFRS 9.

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

These Financial Statements are expressed in Euros and are compared to the Financial Statements of the previous year prepared in accordance with the same principles.

These Financial Statements have been drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.

The fiscal year consists of a twelve (12) month period and closes on the 31 December each year.

FINANCIAL STATEMENTS

The Financial Statements include statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.

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

The Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.

The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.

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

TANGIBLE ASSETS

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

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

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

GOODWILL

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

OTHER INTANGIBLE ASSETS

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

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

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

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

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

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

IMPAIRMENT

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

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

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

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

EQUITY INVESTMENTS

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

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

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

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

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

TRANSFER OF FINANCIAL ASSETS

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

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

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

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

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

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

CASH AND CASH EQUIVALENTS

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

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

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

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

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

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

EMPLOYEE BENEFITS

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

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

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

SHARE-BASED PAYMENT PLANS

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

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

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

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

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

FINANCIAL INCOME AND EXPENSES

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

TAXATION

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

EARNINGS PER SHARE

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

USE OF ESTIMATIONS

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

CHANGES IN ESTIMATIONS AND RECLASSIFICATIONS

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

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY FROM 1 JANUARY 2018

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

Ifrs 15 Revenue From Contracts With Customers

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

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

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.
There are no effects of adopting IFRS 15 over the Company.

a) Classification and measurement

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

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

- Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Company's Trade and other receivables, and Loans included under Other non-current financial assets.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Company's debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Company's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

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

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

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

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

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

b) Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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

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

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

taking into account any credit enhancements held by the Company.
The adoption of the ECL requirements of IFRS 9 did not result in a significant impact in impairment allowances of the Company's debt financial assets.

c) Hedge accounting

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

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

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

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

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

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

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

The Company will apply these amendments when they become effective.

IFRS 16 Leases

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Anticipated application is allowed, but not before the entity has adopted IFRS 15. A lessee may choose to apply IFRS 16 using a retrospective approach or a modified retrospective approach. Transitional rules provided by IFRS 16 require some facilities.

The main impacts on the financial statements of the Company, which are still being assessed and refined, may be summarized as follows:

- Statements of financial position: higher non-current assets due to the recognition of "Right of Use" as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be recognized between 1 and 1.5 million euros during the transition.
- Statements of Cash Flows: lease payments for the principal of the debt repayment will be reclassified from "Cash flows from operating activities" to "Cash flows from financing activities".

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.

These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

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

These improvements include:

IFRS 3 Business Combinations

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

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

IFRS 11 Joint Arrangements

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

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

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

IAS 12 Income Taxes

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

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

IAS 23 Borrowing Costs

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

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

NOTE 3 - RISK MANAGEMENT

Reply S.p.A. operates at a world-wide level and for this reason its activities are exposed to various types of financial risks: market risk (broken down in exchange risk, interest rate risk on financial flows and on "fair value", price risk), credit risk and liquidity risk.

To minimize risks Reply utilizes derivative financial instruments. At a central level it manages the hedging of principle operations. Reply S.p.A. does not detain derivate financial instruments for negotiating purposes.

CREDIT RISK

For business purposes, specific policies are adopted in order to guarantee that clients honor payments.

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

LIQUIDITY RISK

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

The cash flows, funding requirements and liquidity of companies are monitored and managed on a centralized basis through the Group Treasury. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of the Group's current and future capital resources (maintaining an adequate level of cash and cash equivalents and the availability of reserves of liquidity that are readily convertible to cash and committed credit).

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

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

As the company operates mainly in a "Euros area" the exposure to currency risks is limited.

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

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

The interest rate risk to which the Company is exposed derives from bank loans; to mitigate such risks, Reply S.p.A., when useful, uses derivative financial instruments designated as "cash flow hedges". The use of such instruments is disciplined by written procedures in line with the Company's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 4 - OTHER INFORMATION

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

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

FISCAL CONSOLIDATION

The Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.
Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.
Each company adhering to the Fiscal Consolidation transfers to Reply S.p.A. its entire taxable income, recognizing a liability with respect to the Company corresponding to the payable IRES; The companies that transfer fiscal losses can register a receivable with Reply, corresponding to IRES on the part of the loss off-set at a Group level and remunerated according to the terms established in the consolidation agreement stipulated among the Group companies.

NOTE 5 - REVENUE

Revenues amounted to 565,910,271 Euros and are detailed as follows:

(EUROS)	2018	2017	CHANGE
Revenues from services	505,271,709	324,994,951	180,276,758
Royalties on "Reply" trademark	29,637,712	25,400,909	4,236,804
Intercompany services	21,620,527	19,722,944	1,897,583
Other intercompany revenues	9,380,322	8,669,950	710,372
Total	**565,910,271**	**378,788,753**	**187,121,517**

Reply manages business relationships on behalf of some of its major clients, such activities were recorded in the item Revenues from services to third parties which increased by 180,276,758 Euros.

Revenues from Royalties on the “Reply” trademark refer to charges to subsidiaries, corresponding to 3% of the subsidiaries’ turnover with respect to third parties.

Revenues from Intercompany services and Other intercompany charges refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

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

NOTE 6 - OTHER INCOME

Other revenues that as at 31 December 2018 amounted to 10,986,426 Euros (10,201,787 Euros at 31 December 2017) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, telephone and training courses.

NOTE 7 - PURCHASES

Detail is as follows:

(EUROS)	2018	2017	CHANGE
Software licenses for resale	19,916,046	16,589,844	3,326,202
Hardware for resale	4,515,122	2,227,370	2,287,752
Other	439,825	381,702	58,123
Total	**24,870,993**	**19,198,916**	**5,672,077**

The items software and hardware licenses for resale refer to the costs incurred for software licenses for resale to third parties carried out for the Group companies.

The item Other mainly includes the purchase of supplies, e-commerce material, stationary and printed materials (154,541 Euros) and fuel (258,233 Euros).

NOTE 8 - PERSONNEL EXPENSES

Personnel costs amounted to 20,421,751 Euros, with an increase of 600,193 Euros and are detailed in the following table:

(EUROS)	2018	2017	CHANGE
Payroll employees	15,636,465	14,977,542	658,923
Directors	4,785,287	4,844,017	(58,731)
Total	**20,421,752**	**19,821,559**	**600,193**

Detail of personnel by category is provided below:

(NUMERO)	2018	2017	CHANGE
Directors	65	60	5
Managers	7	10	(3)
Staff	14	18	(4)
Total	**86**	**88**	**(2)**

The average number of employees in 2018 was 87 (in 2017 87).

NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

(EUROS)	2018	2017	CHANGE
Commercial and technical consulting	1,900,992	2,185,682	(284,690)
Travelling and training expenses	2,147,938	1,799,415	348,523
Professional services from group companies	489,758,978	315,109,360	174,649,618
Marketing expenses	4,352,769	3,942,874	406,895
Administrative and legal services	1,505,550	1,328,557	176,993
Statutory auditors and Independent auditors fees	182,077	248,356	(66,279)
Leases and rentals	1,454,798	1,302,133	152,665
Office expenses	2,592,515	2,367,859	224,656
Other services from group companies	8,785,806	2,586,691	6,199,114
Expenses incurred on behalf of group companies	10,006,849	8,098,789	1,908,059
Other	4,093,061	3,450,901	642,160
Total	**526,781,333**	**342,420,618**	**184,360,714**

Professional Services from Group companies, which changed during the year by 174,649,618 Euros, relate to revenues from services to third parties.

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

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

NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2018 to an overall cost of 277,299 Euros, Details of depreciation are provided at the notes to tangible assets.

Amortization of intangible assets amounted in 2018 to an overall cost of 910,898 Euros, Details of depreciation are provided at the notes to intangible assets.

NOTE 11 - OTHER OPERATING AND NON-RECURRING INCOME/ (EXPENSES)

Other operating and non-recurring income amounted to 344,134 Euros and refer to the fair value adjustment of payables to minority shareholders and for Earn-out.

NOTE 12 – GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is a follows:

(EUROS)	2018	2017	CHANGE
Dividends	56,829,538	108,140,467	(51,310,929)
Loss on equity investments	(5,990,000)	(12,229,832)	6,239,832
Total	**50,839,538**	**95,910,635**	**(45,071,096)**

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

Detail is as follows:

(EUROS)	2018
Air Reply S.r.l.	65,000
Aktive Reply S.r.l.	1,280,000
Arlanis Reply S.r.l.	495,000
Blue Reply S.r.l.	6,655,000
Bridge Reply S.r.l.	150,000
Business Reply S.r.l.	2,115,000
Cluster Reply Roma S.r.l.	915,000
Cluster Reply S.r.l.	8,375,000
Data Reply S.r.l.	1,315,000
Discovery Reply S.r.l.	1,335,000
E*finance Consulting S.r.l.	1,745,000
Ekip Reply S.r.l.	65,000
Eos Reply S.r.l.	338,982
Go Reply S.r.l.	100,000
Hermes Reply S.r.l.	1,070,000
Hemes Reply Polska	475,556
Iriscube Reply S.p.A.	4,525,000
Like Reply S.r.l.	35,000
Logistics Reply S.r.l.	1,400,000
Open Reply S.r.l.	1,940,000
Pay Reply S.r.l.	100,000
Portaltech Reply S.r.l.	730,000
Power Reply S.r.l.	950,000
Reply Consulting S.r.l.	940,000
Retail Reply S.r.l.	150,000
Ringmaster S.r.l.	550,000
Security Reply S.r.l.	3,940,000
Syskopan Reply S.r.l.	725,000
Sytel Reply Roma S.r.l.	1,640,000
Sytel Reply S.r.l	4,770,000
Tamtamy Reply S.r.l.	435,000
Target Reply S.r.l.	1,460,000
Technology Reply S.r.l.	5,080,000
Technology Reply Roma S.r.l.	460,000
Whitehall Reply S.r.l.	505,000
Total	**56,829,538**

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

For further details see Note 19 herein.

NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(EUROS)	2018	2017	CHANGE
Interest income from subsidiaries	9,740,870	6,942,047	2,798,823
Interest income on bank accounts	18,825	9,207	9,618
Interest expenses	(651,268)	(567,826)	(83,442)
Other	1,692,012	(3,411,853)	5,103,865
Total	**10,800,438**	**2,971,575**	**7,828,863**

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

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

The item Other mainly includes a loss on exchange rate differences amounting to 1,134 thousand Euros and a gain on exchange rate differences amounting to 2,826 thousand Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 - INCOME TAXES

The details are provided below:

(EUROS)	2018	2017	CHANGE
IRES	1,385,050	2,146,714	(761,664)
IRAP	-	166,000	(166,000)
Corporate tax - previous years	77,397	(398,461)	475,858
Current taxes	**1,462,447**	**1,914,253**	**(451,806)**
Deferred tax liabilities	710,065	93,283	616,781
Deferred tax assets	(133,654)	(1,616,722)	1,483,068
Deferred taxes	**576,411**	**(1,523,438)**	**2,099,849**
Total income taxes	**2.038.858**	**390.815**	**1.648.044**

IRES THEORETICAL RATE

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

(EUROS)	AMOUNT	TAXATION
Result before taxes	**65,618,532**	
Theoretical tax rate	**24.0%**	**15,748,448**
Temporary differences, net	(59,808,672)	
Taxable income	**5,809,860**	**1,394,366**
Total IRES		**1,399,000**
Benefit arising from the National Fiscal Consolidation	13,950	
Total current IRES		**1,385,050**

Temporary differences, net refer to:

- deductible differences amounting to 70,231 thousand Euros arising mainly from the non-taxable share of the dividends received in the financial year (53,988 thousand Euros) and from the subsidized taxation (Patent box) on the Reply trademark related to the fiscal year 2018 (10,447 thousand Euros);
- non-deductible differences amounting to 10,422 thousand Euros owing mainly to write-

down/losses of equity investments (5,990 thousand Euros), Directors' fees to be paid (3,100 thousand Euros) and the exchange rate losses related to foreign currency interest-free loans (560 thousand Euros).

CALCULATION OF TAXABLE IRAP

(EUROS)	AMOUNT	TAXATION
Difference between value and cost of production	**3,978,556**	
IRAP net	(5,181,346)	
Taxable IRAP	**(1,202,790)**	
Total IRAP		-

Temporary differences, net refer to:

- non-deductible differences amounting to 5,704 thousand Euros mainly due to emoluments to Directors (4,678 thousand Euros);
- deductible differences amounting to 10,885 thousand Euros mainly due to the subsidized taxation (Patent Box) on the Reply trademark related to the fiscal year 2018 (10,447 thousand Euros).

NOTE 15 - EARNINGS PER SHARE

Basic earnings and diluted earnings per share as at 31 December 2018 was calculated with reference to the net profit which amounted to 63,579,674 Euros (102,067,710 Euros at 31 December 2017) divided by the weighted average number of shares outstanding as at 31 December 2018, net of treasury shares, which amounted to 37,407,400 (37,407,400 at 31 December 2017).

(EUROS)	2018	2017
Net profit of the year	63,579,674	102,067,710
Weighted number of shares	37,407,400	37,407,400
Basic earnings per share	1.70	2.73

The Group does not have any financial instruments potentially convertible in shares (stock options) therefore the basic earnings per share corresponds to the diluted earnings per share.

NOTE 16 - TANGIBLE ASSETS

Tangible assets as at 31 December 2018 amounted to 310,380 Euros are detailed as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Plant and machinery	113,414	230,242	(116,828)
Hardware	72,959	83,500	(10,541)
Other tangible assets	124,007	164,083	(40,076)
Total	**310,380**	**477,824**	**(167,444)**

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

Change in Tangible assets during 2018 is summarized below:

(EUROS)	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical cost	1,714,159	1,680,978	1,686,789	5,081,926
Accumulated depreciation	(1,483,918)	(1,597,478)	(1,522,706)	(4,604,102)
31/12/2017	**230,242**	**83,500**	**164,083**	**477,824**
Historical cost				
Increases	3,525	58,940	48,948	111,413
Disposals/write off	-	(5,468)	(1,624)	(7,092)
Accumulated depreciation				
Depreciation	(120,353)	(68,822)	(88,124)	(277,299)
Disposals/write off	-	4,809	724	5,534
Historical cost	1,717,684	1,734,449	1,734,114	5,186,247
Accumulated depreciation	(1,604,270)	(1,661,491)	(1,610,106)	(4,875,867)
31/12/2018	**113,414**	**72,959**	**124,007**	**310,380**

During the year under review the Company made investments amounting to 111,413 Euros, which mainly refer to hardware and mobile phone.

NOTE 17 - GOODWILL

Goodwill as at 31 December 2018 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000.

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

NOTE 18 - OTHER INTANGIBLE ASSETS

Intangible assets as at 31 December 2018 amounted to 2,971,751 Euros (2,096,599 Euros at 31 December 2017) and are detailed as follows:

(EUROS)	HISTORICAL COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE ATL 31/12/2018
Software	8,865,849	(6,430,162)	2,435,687
Trademark	536,064	-	536,064
Total	**9,401,913**	**(6,430,162)**	**2,971,751**

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

(EUROS)	NET BOOK VALUE AT 31/12/2017	INCREASES	DECREASES	DEPRECIATION	NET BOOK VALUE AT 31/12/2018
Software	1,560,535	2,322,702	(536,652)	(910,898)	2,435,687
Trademark	536,064	-	-	-	536,064
Total	**2,096,599**	**2,322,702**	**(536,652)**	**(910,898)**	**2,971,751**

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

The item Trademark expresses the value of the “Reply” trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the

Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA, such amount is not subject to systematic amortization, and the expected future cash flows are deemed adequate.

NOTE 19 - EQUITY INVESTMENTS

The item Equity investments at 31 December 2018 amounted to 145,001,792 Euros, with an increase of 1,741,829 Euros compared to 31 December 2017.

(EUROS)	BALANCE AT 31/12/2017	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	BALANCE AT 31/12/2018	INTEREST
Air Reply S.r.l.	558,500		170,000	(170,000)	558,500	85.00%
Aktive Reply S.r.l.	512,696				512,696	100.00%
Arlanis Reply S.r.l.	588,000		269,000	(269,000)	588,000	100.00%
Atlas Reply S.r.l.	12,575				12,575	100.00%
Avantage Ltd	7,322,484				7,322,484	100.00%
Blue Reply S.r.l.	527,892				527,892	100.00%
Breed Reply Ltd.	12,477				12,477	100.00%
Breed Reply Investment Ltd.	103				103	80.00%
Bridge Reply S.r.l.	6,000				6,000	60.00%
Business Reply S.r.l.	268,602				268,602	100.00%
Cluster Reply S.r.l.	2,540,848				2,540,848	100.00%
Cluster Reply Roma S.r.l.	296,184				296,184	100.00%
Consorzio Reply Public Sector	32,500				32,500	35.91%
Consorzio Reply Energy	1,000				1,000	25.00%
Core Reply S.r.l.	-	9,000			9,000	90.00%
Data Reply S.r.l.	317,662				317,662	100.00%
Discovery Reply S.r.l.	1,311,669				1,311,669	100.00%
e*finance Consulting Reply S.r.l.	3,076,385				3,076,385	100.00%
Ekip Reply S.r.l.	30,000				30,000	100.00%
Envision Reply S.r.l.	-	8,800	455,000		463,800	88.00%
Eos Reply S.r.l.	155,369	340,000			495,369	100.00%
Forge Reply S.r.l.	12,000		640,000	(640,000)	12,000	100.00%
Go Reply S.r.l.	1,920,000				1,920,000	100.00%
Hermes Reply Polska zoo	10,217				10,217	100.00%

(EUROS)	BALANCE AT 31/12/2017	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	BALANCE AT 31/12/2018	INTEREST
Hermes Reply S.r.l.	199,500				199,500	100,00%
IrisCube Reply S.p.A.	6,724,952				6,724,952	100.00%
Lem Reply S.r.l.	400,012		130,000	(170,000)	360,012	100.00%
Like Reply S.r.l.	132,317			(45,000)	87,317	100.00%
Logistics Reply S.r.l.	1,049,167				1,049,167	100.00%
Open Reply S.r.l.	1,417,750				1,417,750	100.00%
Pay Reply S.r.l.	10,000				10,000	100.00%
Portaltech Reply S.r.l.	106,000				106,000	100.00%
Power Reply S.r.l.	2,500,850				2,500,850	100.00%
Protocube Reply S.r.l.	287,000		421,000	(696,000)	12,000	100.00%
Reply Consulting S.r.l.	3,518,434				3,518,434	100.00%
Reply AG	57,835,781				57,835,781	100.00%
Reply Digital Experience S.r.l.	4,227,019				4,227,019	100.00%
Reply do Brasil Sistemas de Informatica Ltda	206,816				206,816	98.50%
Reply Inc	40,596		2,774,029		2,814,625	100.00%
Reply Ltd.	11,657,767				11,657,767	100.00%
Reply Services S.r.l.	95,212				95,212	100.00%
Retail Reply S.r.l. (formerly Square Reply S.r.l.)	100,000				100,000	100.00%
Ringmaster S.r.l.	5,000				5,000	50.00%
Santer Reply S.p.A.	11,386,966				11,386,966	100.00%
Sense Reply S.r.l.	15,700				15,700	90.00%
Security Reply S.r.l.	392,866				392,866	100.00%
Spark Reply S.r.l.	672,500	200,000	170,000		1,042,500	100.00%
Sprint Reply S.r.l.	10,000		145,000		155,000	100.00%
Storm Reply S.r.l. (*)	986,000				986,000	95.00%
Syskoplan Reply S.r.l.	949,571				949,571	100.00%
Sytel Reply S.r.l.	4,991,829				4,991,829	100.00%
Sytel Reply Roma S.r.l.	894,931				894,931	100.00%
Tamtamy Reply S.r.l.	263,471				263,471	100.00%
Target Reply S.r.l.	600,338				600,338	100.00%
Technology Reply Roma S.r.l.	10,000				10,000	100.00%
Technology Reply S.r.l.	216,658				216,658	100.00%
Technology Reply S.r.l. (Romania)	9,919				9,919	100.00%
Twice Reply S.r.l.	521,203				521,203	98.00%

(EUROS)	BALANCE AT 31/12/2017	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	BALANCE AT 31/12/2018	INTEREST
Whitehall Reply S.r.l.	160.212				160,212	100.00%
Xister Reply S.r.l.(*)	11,150,465			(2,000,000)	9,150,465	89.20%
Total	**143,259,963**	**557,800**	**5,174,029**	**(3,990,000)**	**145,001,792**	

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

ACQUISITIONS AND SUBSCRIPTIONS

Envision Reply S.r.l.

In the month of March 2018 Envision Reply S.r.l. was constituted, a company in which Reply S.p.A. holds 88% of the share capital.

Core Reply S.r.l.

In the month of October 2018 Core Reply S.r.l. was constituted, a company in which Reply S.p.A. holds 90% of the share capital.

FINANCIAL LOAN REMISSION

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

WRITE-DOWNS

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

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

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

NOTE 20 - NON CURRENT FINANCIAL ASSETS

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Guarantee deposits	241,063	80,125	160,938
oans to subsidiaries	157,095,800	80,326,954	76,768,846
Loans to third parties	13,000	-	13,000
Total	**157,349,863**	**80,407,079**	**76,942,784**

Guarantee deposits are mainly related to deposits on lease contracts.

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

COMPANY	AMOUNT
Breed Reply Investments Ltd.	36,945,417
Breed Reply Ltd.	5,393,894
Cluster do Brasil (ex Mind Services Informàtica LTDA)	1,215,000
Core Reply S.r.l.	300,000
Hermes Reply Polska Sp Zoo	519,481
Implico LLC	262,009
Reply AG	29,959,000
Reply do Brasil Sistemas de Informatica Ltda	2,181,740
Reply Inc.	31,019,448
Reply Ltd	35,949,803
Reply Services S.r.l.	12,500,000
Sense Reply S.r.l.	300,000
Technology Reply S.r.l. Romania	550,000
Total	**157,095,800**

NOTE 21 - DEFERRED TAX ASSETS

This item amounted to 4,767,855 Euros at 31 December 2018 (4,634,202 Euros at 31 December 2017) and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductible items.

TEMPORARY DEDUCTIBLE DIFFERENCES	TAXABLE AMOUNT	TAX
Total deferred tax assets at 31/12/2017	**18,298,423**	**4,634,202**
Accrued	3,739,717	897,532
Utilization	(3,182,825)	(763,878)
Total deferred tax assets at 31/12/2018	**18,855,314**	**4,767,855**
Of which:		
- directors fees and employee bonuses accrued but not yet paid	6,548,000	1,700,220
- unrealized foreign exchange losses	8,915,782	2,139,788
- taxable amounts greater than book value	3,391,532	927,848
Total	**18,855,314**	**4,767,855**

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

NOTE 22 - TRADE RECEIVABLES

Trade receivables at 31 December 2018 amounted to 341,729,413 Euros and are all collectible within 12 months.

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Third party trade receivables	229,623,113	197,571,158	32,051,955
Credit notes to be issued	(4,145,023)	(65,529)	(4,079,494)
Allowance for doubtful accounts	(340,157)	(264,883)	(75,274)
Third party trade receivables	**225,137,933**	**197,240,746**	**27,897,187**
Receivables from subsidiaries	116,566,702	175,692,624	(59,125,922)
Receivables from Parent Company	24,778	435	24,343
Trade receivables from subsidiaries and Parent Company	**116,591,480**	**175,693,058**	**(59,101,579)**
Total trade receivables	**341,729,413**	**372,933,805**	**(31,204,392)**

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third Party Receivables which increased by 27,897,187 Euros.

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

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

In 2018 the provision for doubtful accounts was increased by 75,274 Euros following a specific risk analysis of all the trade receivables.

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

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Tax receivables	7,448,675	10,566,546	(3,117,871)
Other receivables from subsidiaries	15,124,356	5,650,457	9,473,899
Other receivables	523,562	262,848	260,715
Accrued income and prepaid expenses	7,714,628	4,851,046	2,863,581
Total	**30,811,220**	**21,330,897**	**9,480,324**

The item Tax receivables includes VAT receivables net (6,936,777 Euros) and IRAP and IRES tax prepayments (441,694 Euros).

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

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

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

NOTE 24 - CURRENT FINANCIAL ASSETS

This item amounted to 67,655,451 Euros (82,843,389 Euros at 31 December 2017) and refers to the total of interest yielding cash pooling accounts of subsidiaries included in the centralized pooling system of the Parent Company Reply S.p.A.; the interest yield on these accounts is in line with current market conditions.

NOTE 25 - CASH AND CASH EQUIVALENTS

This item amounted to 71,016,284 Euros, with an increase of 7,406,042 Euros compared to 31 December 2017 and is referred to cash at banks and on hand at year-end.

NOTE 26 - SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2018 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,863,486 Euros and is made up of no. 37,411,428 ordinary shares having a nominal value of euro 0.13 each.

Treasury shares

The value of the Treasury shares, amounting to 24,502 Euros, refers to the shares of Reply S.p.A. that at 31 December 2018 were equal to no. 4,028.

Capital reserves

At 31 December 2018 amounted to 79,183,600 Euros, and included the following:

- Share premium reserve amounting to 23,302,692 Euros.
- Treasury share reserve amounting to 24,502 Euros, relating to the shares of Reply S.p.A which at 31 December 2018 were equal to no. 4,028.
- Reserve for the purchase of treasury shares amounting to 49,975,498 Euros.
- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
  - › Share swap surplus reserve amounting to 3,445,485 Euros;
  - › Surplus annulment reserve amounting to 2,902,479 Euros.

Earnings Reserve

Earning reserves amounted to 258,615,553 Euros and were comprised as follows:

- The Legal reserve amounting to 972,697 Euros (972,697 Euros at 31 December 2017);
- Extraordinary reserve amounting to 191,240,481 Euros (102,265,360 Euros at 31 December 2017);

- Retained earnings amounting to 2,822,701 Euros (2,822,701 Euros at 31 December 2017);
- Net result totaling 63,579,674 Euros (102,067,710 Euros at 31 December 2017).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(EUROS)	31/12/2018	31/12/2017
Other comprehensive income that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) from employee benefit plans	4,282	2,503
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**4,282**	**2,503**
Other comprehensive income that may be reclassified subsequently profit or loss:		
Gains/(losses) on cash flow hedges	(1,338,190)	28,013
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	**(1,338,190)**	**28,013**
Total Other comprehensive income, net of tax (B) = (B1) + (B2)	**(1,333,908)**	**30,516**

NOTE 27 - DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out at 31 December 2018 amounted to 2,019,980 Euros (2,364,114 Euros on 31 December 2017) and are detailed as follows:

(EUROS)	31/12/2017	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	31/12/2018
Due to minority shareholders and Earn-out	2,364,114	-	(344,134)	-	2,019,980

The item Fair value adjustments in 2018 amounted to 344,134 Euros with a balancing entry in Profit and loss, reflects the best estimate in relation to the deferred consideration originally posted at the time of acquisition.

NOTE 28 - FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2018			31/12/2017		
(EUROS)	**CURRENT**	**NON CURRENT**	**TOTAL**	**CURRENT**	**NON CURRENT**	**TOTAL**
Bank overdrafts	4,004,540	-	4,004,540	21,534,927	-	21,534,927
Bank loans	30,214,285	21,071,429	51,285,714	16,267,199	13,071,428	29,338,628
Transaction accounts	56,786,827	-	56,786,827	43,139,346	-	43,139,346
Other	1,320,814	-	1,320,814	(17,376)	-	(17,376)
Total financial liabilities	**92,326,466**	**21,071,429**	**113,397,895**	**80,924,097**	**13,071,428**	**93,995,525**

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

	31/12/2018				31/12/2017		
(EUROS)	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**TOTAL**
Bank overdrafts	4,004,540	-	-	4,004,540	21,534,927	-	21,534,927
Bank loans	30,214,285	8,571,429	-	38,785,714	16,267,199	13,071,428	29,338,628
Mortgage loans	-	3,125,000	9,375,000	12,500,000	-	-	-
Transaction accounts	56,786,827	-	-	56,786,827	43,139,346	-	43,139,346
Other	1,320,814	-	-	1,320,814	(17,376)	-	(17,376)
Total	**92,326,466**	**11,696,429**	**9,375,000**	**113,397,895**	**80,924,097**	**13,071,428**	**93,995,525**

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

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

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

- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
  - Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line was used for 3,000 thousand Euros at 31 December 2018.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 December 2016. The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 8,571,000 Euros at 31 December 2018.
- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500,000 was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500,000 Euros at 31 December 2018.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa San Paolo S.p.A. for a total amount of 49,000 thousand Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. Such credit line was used for 25,714,000 Euros at 31 December 2018.
- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 28 February 2018. As at December 31, 2018 this line had not been used.

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

As contractually defined, such ratios are as follows:

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

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

It should be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000,000 Euros and for a maximum duration of 156 months

(13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. On 25 May 2018 the first draft of 12,500,000 Euros was made.

The item Other refers to the valuation of derivative hedging instruments. The underlying IRS amounted to 47,000,000 Euros.

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

Net financial position

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's "Recommendations for the consistent implementation of the European's regulation on Prospectuses" issued on 10 February 2005 the Net financial position at 31 December 2018 was as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Cash and cash equivalents	71,016,284	63,610,242	7,406,042
Transaction accounts, asset	67,655,451	82,843,389	(15,187,938)
Total current financial assets	**138,671,735**	**146,453,630**	**(7,781,896)**
Loans to subsidiaries	157,095,800	80,326,954	76,768,846
Total non current financial assets	**157,095,800**	**80,326,954**	**76,768,846**
Total financial assets	**295,767,535**	**226,780,584**	**68,986,951**
Due to banks	(35,539,639)	(37,784,750)	2,245,111
Transaction accounts	(56,786,827)	(43,139,346)	(13,647,480)
Current financial liabilities	**(92,326,466)**	**(80,924,097)**	**(11,402,369)**
Due to banks	(21,071,429)	(13,071,428)	(8,000,000)
Non current financial liabilities	**(21,071,429)**	**(13,071,428)**	**(8,000,000)**
Total financial liabilities	**(113,397,895)**	**(93,995,525)**	**(19,402,369)**
Total net financial position	**182,369,641**	**132,785,059**	**49,584,581**
of which related parties	*167,964,424*	*120,030,996*	*47,933,428*

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

Change in Financial liabilities during 2018 is summarized below:

(EUROS)	
TOTAL FINANCIAL LIABILITIES 2017	**93,995,525**
Bank overdrafts	(21,534,927)
Transaction accounts, liability	(43,139,346)
Fair value IRS	17,376
Non current financial liabilities 2017	**29,338,628**
Cash flows	21,947,086
NON CURRENT FINANCIAL LIABILITIES 2018	**51,285,714**
Bank overdrafts	4,004,540
Transaction accounts, liability	56,786,827
Fair value IRS	1,320,814
TOTAL FINANCIAL LIABILITIES 2018	**113,397,895**

NOTE 29 - EMPLOYEE BENEFITS

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

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;

- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations.

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

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

ECONOMIC AND FINANCIAL ASSUMPTIONS

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

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

31/12/2017	**474,932**
Actuarial gains/(losses)	16,052
Interest cost	6,952
Indemnities paid	(3,550)
Transfers	76,725
31/12/2018	**571,111**

NOTE 30 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2018 amounted to 1,924,495 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

TEMPORARY TAXABLE DIFFERENCES	TAXABLE	TAX
Balance at 31/12/2017	**4,958,912**	**1,214,430**
Accruals	2,978,815	714,916
Utilization	(20,212)	(4,851)
Total at 31/12/2018	**7,917,515**	**1,924,495**
- deduction allowance for doubtful accountsi	718,805	172,513
- different goodwill/trademark measurements	622,828	173,769
- gains on unrecognized differences and other minor differences	6,575,882	1,578,213
Total at 31/12/2018	**7,917,515**	**1,924,495**

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2018 amounted to 329,992,215 Euros with a decrease of 20,006,235 Euros.

(EUROS)	31/12/2018	31/12/2017	CHANGE
Due to suppliers	13,815,457	18,032,095	(4,216,639)
Due to suppliers	243,342,900	196,329,834	47,013,066
Due to Parent company	128,100	-	128,100
Advance payments from customers - asset	72,705,758	135,636,521	(62,930,762)
Total	**329,992,215**	**349,998,450**	**(20,006,235)**

Due to suppliers mainly refers to services from domestic suppliers.

Due to subsidiary companies recorded a change of 47,013,066 Euros, and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

Advance payments from customers include advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.
The carrying amount of trade payables is deemed to be in line with its fair value.

NOTE 32 - OTHER CURRENT LIABILITIES

Detail is as follows:

(EUROS)	31/12/2018	31/12/2017	CHANGE
Income tax payable	847,337	-	847,337
Withholding tax and other	675,634	680,461	(4,827)
Total payable to tax authorities	**1,522,971**	**680,461**	**842,510**
INPS (National Italian insurance payable)	965,616	928,410	37,206
Othe	309,040	292,441	16,598
Total social security payable	**1,274,656**	**1,220,852**	**53,804**
Employee accruals	2,071,859	1,874,052	197,806
Payable to subsidiary companies	7,093,771	7,374,233	(280,463)
Miscellaneous payables	3,384,611	3,393,086	(8,475)
Accrued expenses and deferred income	4,935,132	1,746,136	3,188,996
Total other payables	**17,485,371**	**14,387,507**	**3,097,864**
Total other current liabilities	**20,282,998**	**16,288,820**	**3,994,179**

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

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

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

Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2018 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

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

NOTE 33 - PROVISIONS

The item Provisions amounting to 12,248,412 Euros is summarized as follows:

(EUROS)	31/12/2017	ACCRUALS	UTILIZED	31/12/2018
Provision for risks	9,448,000	-	(4,985,588)	4,462,412
Provision for losses on equity investments	5,786,000	2,000,000	-	7,786,000
Total	**15,234,000**	**2,000,000**	**(4,985,588)**	**12,248,412**

The item Provision for risks reflects the best estimate of contingent liabilities deriving from ongoing legal litigations; at 31 December 2018 a utilization of 4,985,588 euros was made.
The item Utilization is related to the merger by incorporation described in Note 37 where in 2018 the German court took note of the agreement reached between the parties, recognizing to the minority shareholders the payment of the sums established. The expenses arising from this agreement were accrued in previous years.
The item Provision for losses on equity investments has been adjusted following the impairment test related to the value of the equity investments.

NOTE 34 - TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2018 Financial Statements related to such transactions are summarized below.
Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiaries and associate companies are carried out at normal market conditions.

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

(THOUSAND EUROS)	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	NATURE OF TRANSACTION
FINANCIAL TRANSACTIONS	**31/12/2018**		**31/12/2017**		
Financial receivables	157,096	-	80,327	-	Financial loans
Garantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	10,869	-	39,704	-	Transaction accounts held by the Parent company
Trade receivables and other	131,701	25	181,348	-	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	250,437	128	203,720	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	3,100	-	2,950	Compensation paid to Directors and Key Management
ECONOMIC TRANSACTIONS	**2018**		**2017**		
Revenues from Royalties	29,638	-	25,401	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	37,048	22	33,165	13	Administrations services, marketing, quality management and office rental
Revenues from management services	7,382	-	7,071	-	Strategic management services
Costs for professional services	523,320	-	337,191	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,561	420	1,497	420	Services related to office rental and office of the secretary
Personnel	-	6,630	-	5,877	Emoluments to Directors and Key Management
Interest income, net	9,741	-	6,942	-	Interest on financial loans: 3 month Euribor + spread of 3 percentage points

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

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

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

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

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

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

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

CREDIT RISK

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

Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down

takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the fair value of any guarantees received. General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience.
Refer to the note on trade receivables for a quantitate analysis.

LIQUIDITY RISK

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

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

Reply S.p.A. makes use of external funds obtained in the form of financing and invest in

monetary and financial market instruments. Changes in market interest rates can affect the cost of the various forms of financing, including the sale of receivables, or the return on investments, and the employment of funds, causing an impact on the level of net financial expenses incurred by the company.
In order to manage these risks, the Reply S.p.A uses interest rate derivative financial instruments, mainly interest rate swaps, with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates on the net result.

SENSITIVITY ANALYSIS

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).
Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2018 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 266 thousand Euros.
This analysis is based on the assumption that there is a general and instantaneous change of 50 basis points in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

FAIR VALUE HIERARCHY LEVELS

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

- Level 1 inputs are prices quoted (not rectified) in markets active for identical assets and liabilities which the entity can access on the date of assessment;

- Level 2 inputs are variable and different from the prices quoted included in Level 1 observable directly or indirectly for assets or liabilities;
- Level 3 inputs are variable and not observable for assets or liabilities.

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

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Financial securities		-	-	-
Other assets		-	-	-
Total Assets		**-**	**-**	**-**
Derivative financial liabilities (IRS)	28	-	1,372	-
Liabilities to minority shareholders and earn out	27	-	-	2,020
Total Liabilities		**-**	**1,372**	**2,020**

The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
As at 31 December 2018, there have not been any transfers within the hierarchy levels.

NOTE 36 - SIGNIFICANT NON-RECURRING TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non-recurring transaction during 2018.

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

Pursuant to Consob communication no. 6064293 of 28 July 2006, in 2018 Reply S.p.A. has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the Financial Statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

NOTE 38 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

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

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

On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.
At present, some minority shareholders have commenced the aforementioned procedures. Following exchanges with the minority shareholders and their appointed representative, the Company has reached a settlement agreement where the payment of an additional amount of 4.41 Euros per share of Reply Deutschland was agreed plus legal interest, in addition to the flat-rate reimbursement of proceedings costs. On 18 June 2018, the German court took note of the agreement reached between the parties. The expenses arising from this agreement amounting to approximately 5 million Euros total is covered by specific provisions.

CONTINGENT LIABILITIES

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

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

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

NOTE 40 - EVENTS SUBSEQUENT TO 31 DECEMBER 2018

No significant events have occurred subsequent to 31 December 2018.

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

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

ANNEXED TABLES

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

(EUROS)	2018	OF WHICH WITH RELATED PARTIES	%	2017	OF WHICH WITH RELATEDI PARTIES	%
Revenues	565,910,271	65,397,321	11.6%	378,788,753	58,321,419	15.4%
Other income	10,986,426	10,170,354	92.6%	10,201,787	8,084,930	79.3%
Purchases	(24,870,993)	(24,214,860)	97.4%	(19,198,916)	(18,817,214)	98.0%
Personnel	(20,421,751)	(6,630,000)	32.5%	(19,821,559)	(5,877,000)	29.6%
Personnel	(526,781,333)	(510,672,593)	96.9%	(342,420,618)	(327,970,367)	95.8%
Amortization and depreciation	(1,188,197)			(973,395)		
Other operating and non-recurring income/(expenses)	344,134			(2,999,737)		
Operating income (EBIT)	**3,978,556**			**3,576,315**		
Gain/(loss) on equity investments	50,839,538			95,910,635		
Financial income/(loss)	10,800,438	9,740,870	90.2%	2,971,575	6,942,047	233.6%
Income before taxes	**65,618,532**			**102,458,525**		
Income taxes	(2,038,858)			(390,815)		
Net income	**63,579,674**			**102,067,710**		
Net and diluted income per share	*1.70*			*2.73*		

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

(EUROS)	31/12/2018	OF WHICH WITH RELATED PARTIES	%	31/12/2017	OF WHICH WITH RELATED PARTIES	%
Tangible assets	310,380			477,824		
Goodwill	86,765			86,765		
Other intangible assets	2,971,751			2,096,599		
Equity investments	145,001,792			143,259,963		
Other financial assets	157,349,863	157,095,800	99.8%	80,407,079	80,326,954	99.9%
Deferred tax assets	4,767,855			4,634,202		
Non current assets	**310,488,406**			**230,962,432**		
Trade receivables	341,729,413	116,591,480	34.1%	372,933,805	175,692,870	47.1%
Other receivables and current assets	30,811,220	15,134,083	49.1%	21,330,897	5,655,321	26.5%
Financial assets	67,655,451	67,655,451	100.0%	82,843,389	82,843,389	100.0%
Cash and cash equivalents	71,016,284			63,610,242		
Current assets	**511,212,368**			**540,718,332**		
TOTAL ASSETS	**821,700,774**			**771,680,764**		
Share Capital	4,863,486			4,863,486		
Other reserves	272,820,509			185,179,297		
Net income	63,579,674			102,067,710		
SHAREHOLDERS' EQUITY	**341,263,668**			**292,110,492**		
Due to minority shareholders	2,019,980			2,364,114		
Financial liabilities	21,071,429			13,071,428		
Employee benefits	571,111			474,932		
Deferred tax liabilities	1,924,495			1,214,430		
Provisions	4,462,412			9,448,000		
Non current liabilities	**30,049,427**			**26,572,905**		
Financial liabilities	92,326,466	56,786,827	61.5%	80,924,097	43,139,346	53.3%
Employee benefits	329,992,215	243,235,580	73.7%	349,998,450	196,329,645	56.1%
Other current liabilities	20,282,998	7,031,731	34.7%	16,288,820	7,418,873	45.5%
Provisions	7,786,000			5,786,000		
Current liabilities	**450,387,679**			**452,997,366**		
TOTAL LIABILITIES	**480,437,106**			**479,570,271**		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**821,700,774**			**771,680,764**		

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

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2018
Air Reply S.r.l.	Turin	€	10,000	20,446	(169,920)	85.00%	558,500
Arlanis Reply S.r.l.	Turin	€	10,000	21,276	(328,279)	100.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	1,586,121	1,490,335	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	338,859	325,957	100.00%	12,575
Avantage Ltd	London	GBP	5,086	3,139,556	65,262	100.00%	7,322,484
Blue Reply S.r.l.	Turin	€	10,000	9,976,316	9,917,164	100.00%	527,892
Breed Reply Ltd.	London	GBP	10,000	(7,546,840)	(2,973,492)	100.00%	12,477
Breed Reply Investment Ltd.	London	GBP	100	1,531,062	2,309,263	80.00%	103
Bridge Reply S.r.l.	Turin	€	10,000	306,955	273,847	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	3,362,471	3,217,608	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	10,926,297	10,692,542	100.00%	2,540,848
Cluster Reply Roma S.r.l.	Turin	€	10,000	1,489,634	1,453,625	100.00%	296,184
Consorzio Reply Public Sector	Turin	€	92,500	24,320	-	35.91%	32,500
Consorzio Reply Energy	Turin	€	4,000	4,000	-	25.00%	1,000
Core Reply S.r.l.	Turin	€	10,000	-	-	90.00%	9,000
Data Reply S.r.l.	Turin	€	10,000	2,131,655	2,095,748	100.00%	317,662
Discovery Reply S.r.l.	Turin	€	10,000	2,135,870	2,033,024	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	3,327,946	3,185,441	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	124,621	83,376	100.00%	30,000
Envision Reply S.r.l.	Turin	€	10,000	11,336	(453,664)	88.00%	463,800
Eos Reply S.r.l.	Turin	€	200,000	1,047,745	838,259	100.00%	495,369
Forge Reply S.r.l.	Turin	€	10,000	11,331	(639,861)	100.00%	12,000
Go Reply S.r.l.	Turin	€	50,000	1,838,662	347,260	100.00%	1,920,000
Hermes Reply Polska zoo	Katowice	ZLT	40,000	7,071,675	1,710,375	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,241,276	1,180,273	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	9,153,100	8,275,443	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	51,668	(127,242)	100.00%	360,012
Like Reply S.r.l.	Turin	€	10,000	88,070	74,361	100.00%	87,317
Logistics Reply S.r.l.	Turin	€	78,000	1,044,236	870,770	100.00%	1,049,167

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2018
Open Reply S.r.l.	Turin	€	10,000	3,936,750	3,905,677	100.00%	1,417,750
Pay Reply S.r.l.	Turin	€	10,000	2,738,638	2,706,207	100.00%	10,000
Portaltech Reply S.r.l.	Turin	€	10,000	1,070,492	1,054,050	100.00%	106,000
Power Reply S.r.l.	Turin	€	10,000	1,537,629	1,425,148	100.00%	2,500,850
Protocube Reply S.r.l.	Turin	€	10,200	12,431	(420,537)	100.00%	12,000
Reply Consulting S.r.l.	Turin	€	10,000	1,922,474	1,875,861	100.00%	3,518,434
Reply AG	Guetersloh	€	100,200	54,097,567	(8,535,431)	100.00%	57,835,781
Reply Services S.r.l.	Turin	€	10,000	710,353	654,767	100.00%	95,212
Reply Inc	Michigan, USA	$	3,406,420	(503,728)	(2,595,056)	100.00%	2,814,625
Reply Ltd.	London	GBP	54,175	3,814,985	(2,787,856)	100.00%	11,657,767
Reply Digital Experience S.r.l.	Turin	€	29,407	869,284	833,786	100.00%	4,227,019
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte Brazil	R$	650,000	702,043	615,792	98.50%	206,816
Ringmaster S.r.l.	Turin	€	10,000	1,450,432	1,358,639	50.00%	5,000
Santer Reply S.p.A.	Milan	€	2,209,500	6,911,388	(3,187,424)	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	5,324,491	5,167,632	100.00%	392,866
Sense Reply S.r.l.	Turin	€	10,000	281,436	271,351	90.00%	15,700
Retail Reply S.r.l. (formerly Square Reply S.r.l.)	Turin	€	10,000	223,563	196,458	100.00%	100,000
Spark Reply S.r.l.	Turin	€	10,000	15,349	(165,738)	100.00%	1,042,500
Sprint Reply S.r.l.	Turin	€	10,000	10,177	(144,823)	100.00%	155,000
Storm Reply S.r.l.	Turin	€	10,000	7,530,486	3,086,937	95.00%	986,000
Syskoplan Reply S.r.l.	Turin	€	32,942	1,675,497	1,562,904	100.00%	949,571
Sytel Reply S.r.l.	Turin	€	115,046	12,017,966	11,790,568	100.00%	4,991,829
Sytel Reply Roma S.r.l.	Turin	€	10,000	2,843,212	2,777,263	100.00%	894,931
TamTamy Reply S.r.l.	Turin	€	10,000	414,618	385,259	100.00%	263,471
Target Reply S.r.l.	Turin	€	10,000	2,472,758	2,397,155	100.00%	600,338
Technology Reply Roma	Turin	€	10,000	1,276,842	950,382	100.00%	10,000
Technology Reply S.r.l.	Turin	€	79,743	8,617,785	8,322,033	100.00%	216,658
Technology Reply S.r.l. (Romania)	Romania	RON	44,000	(575,482)	1,262,003	100.00%	9,919
Twice Reply S.r.l.	Turin	€	10,000	3,954,746	215,298	98.00%	521,203
Whitehall Reply S.r.l.	Turin	€	21,224	426,682	299,604	100.00%	160,212
Xister Reply S.r.l.	Rome	€	10,000	3,350,706	458,904	89.20%	9,150,465

DETAILS OF SHAREHOLDERS' EQUITY STATED ACCORDING TO ORIGIN, POSSIBILITY OF UTILIZATION, POSSIBILITY OF DISTRIBUTION, AVAILABILITY AND THE UTILIZATION IN THE PREVIOUS THREE FISCAL YEARS.

				SUMMARY OF THE AMOUNTS USED IN THE PRIOR THREE FISCAL YEARS	
NATURE/DESCRIPTION	**AMOUNT**	**POSSIBILITY OF UTILIZATION**	**AVAILABLE**	**FOR COVERAGE OF LOSSES**	**OTHER**
Capital	**4,863,486**				
Capital reserve					
Reserve for treasury shares	24,502				
Share premium	23,302,692	A,B,C	23,302,692		
Reserve for treasury shares	29,990,873	A,B,C	29,990,873		
Income reserves					
Legal reserve	972,697	B			
Extraordinary reserve	191,240,480	A,B,C	191,240,480		
Surplus merger reserve	6,347,964	A,B,C	6,347,964		
Retained earnings	674,740	A,B,C	674,740		
Reserve for purchases of treasury shares	19,984,625	A,B,C	19,984,625		
Total			**271,541,374**		
Not available amount			-		
Residual available amount			**271,541,374**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,147,961				
Reserve for cash flow hedge	(1,372,438)				
Reserve for treasury shares	(24,502)				
IAS reserve	(2,030)				
Accounting expenses according to IAS 32	(770,448)				
	281,936				

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

DISCLOSURES PURSUANT TO ARTICLE 149-DUODECIES BY CONSOB

The following table, prepared in accordance with Art. 149-duodecies of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2018 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

(EUROS)	SERVICE PROVIDER	2018 FEES
Audit	EY S.p.A.	49,100
Audit related services	EY S.pA. (1)	1,400
	EY S.p.A. (2)	49,000
Total		**99,500**

(1) Attestation of tax forms (tax return, IRAP and Form 770)
(2) DNF

ATTESTATION OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The undersigned also certify that:

3.1 the Financial Statements

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

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

Turin, 14 March 2019

Chairman
and Chief Executive Officer
Mario Rizzante

Director in charge of signing
the financial statements
Giuseppe Veneziano

REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to article 153 of the Legislative Decree 58/1998 on the financial statements as at 31 December 2018

Dear Shareholders,
pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activities performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
We remind you that the Board of Statutory Auditors currently in office was nominated by the General Shareholders' Meeting on April 23, 2018 approving the 31 December 2017 Financial statements as the term of office had expired for the previous mandate.
During the year ended 31 December 2018 the Board of statutory Auditors carried out the supervisory activities provided for by the law (in particular by art. 149 of Legislative Decree No. 58/1998 and art. 19 of legislative Decree 39/2010), by the Rules of Conduct issued by the National Council of Chartered Accountants and accounting Experts, from Consob recommendations in the field of corporate controls and activities of the Board of Statutory auditors and the indications contained in the Code of Conduct and We note the following:

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

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2018 or subsequent to the end of the financial year, among which we note:

- In the month of February 2018 Reply Services S.r.l. acquired a building in Turin, the former Caserma De Sonnaz.

In order to finance the purchase of this property and the subsequent restructuring, Reply S.p.A. and Reply Services S.r.l., the latter as "third-party guarantor", have concluded a loan agreement with Unicredit S.p.A., assisted by mortgage guarantee.

- in the month of April 2018, Reply Inc., a subsidiary of Reply S.p.A., acquired 70% of the US company Valorem LLC;
- in the month of July 2018, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Modcomp GmbH and its subsidiaries CSPi GmbH and MCG Systems AG, a company incorporated under German law;
- in the month of November 2018, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Elbkind GmbH, a company incorporated under German law;
- in the month of January 2019, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Neveling GmbH a company constituted under German law.

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

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

With reference to intercompany transactions, we give notice that:

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

Transactions with related parties in 2018, which took place in accordance with market conditions, are related to Emoluments to Directors and Key Management and to “office services”, in particular to the office situated in Corso Francia, 110 Turin, provided by Alika S.r.l.. For these operations the Procedure for Related party transactions was not applied as these transactions are exempt as defined by art. 4.1 and 4.4. of the Procedure.

3. INFORMATION PROVIDED IN THE REPORT ON OPERATIONS ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTERCOMPANY TRANSACTIONS AND THOSE WITH RELATED PARTIES.

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2018 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2018 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.

The Report on Operations, the information received by the Board of Directors and those received by the Chairman and the managing Directors, by management, by the supervisory bodies of the subsidiaries and the auditors have not revealed the existence of atypical and/or unusual transactions, including intercompany or related parties, which have been perfected during the year or at the date following the closure of the same.

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

The Directive 2014/56/EU amended Directive 2006/43/EC concerning the statutory audit; the directive was implemented in Italy with Legislative Decree 135/2016 which amended Legislative Decree 39/2010. The regulation (EU) 537/2014 of 16 April 2014, art. 10, defines the specific requirements of the audit report for public interest entities.

Pursuant to art. 19 of Legislative Decree 39/2010, during 2018 and up to the date of this Report, the Board of Statutory Auditors carried out a continuous monitoring process of the activities carried out by the auditing firm through a series of meetings during which among other things, has examined: the purpose of the audit, materiality and significant risks and the audit plan.

The Board of Statutory Auditors analyzed the methodological framework adopted by the auditor and acquired the necessary information going forward, receiving updates on the progress of

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

- the reports on the audit of the financial statements and the audit of the consolidated financial statements issued on March 26, 2019 pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of the Regulation (EU) n. 537/2014;
- the additional report issued on March 26, 2019, pursuant to Article 11 of the aforementioned Regulation, to the Board of Statutory Auditors in capacity of the Internal Control and Auditing Committee;
- the annual confirmation of independence, issued March 26, 2019, pursuant to art. 6 par. 2) let. a) of the Regulations and pursuant to paragraph 17 of ISA Italia 260.

The aforementioned annual audit reports of the consolidated financial statements show that the individual financial statements and the consolidated financial statements of the Group provide a true and fair view of the balance sheet and financial situation of Reply S.p.A. and of the Reply Group at December 31, 2018, of the economic result and cash flows for the year ended on that date, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

Furthermore, in the opinion of the auditor, the management report and some specific information disclosed in the report on corporate governance and ownership structure indicated in art. 123-bis, paragraph 4, of Legislative Decree 58/1998, is consistent with the financial statements of Reply S.p.A. and with the consolidated financial statements of the Reply Group at December 31, 2018 and are prepared in accordance with the law. With reference to the possible identification of significant errors in the management report (Article 14, paragraph 2, letter e) of Legislative Decree 39/2010), the auditor declared that nothing had emerged.
The audit reports on the financial statements and the consolidated financial statements describe, according to professional judgement, the most significant audit aspects of the individual and consolidated financial statements for the year under exam.

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

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

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

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

No complaints have been acknowledged pursuant to Article 2408 of the Italian Civil Code in 2018 and at present.

6. FILED COMPLAINTS/LAWSUITS.

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

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

During 2018, in addition to the engagement of auditing the Financial Statements as at 31 December 2018, EY S.p.A. received the following engagements:

- The signing of Reply S.p.A.'s various tax forms (Modelli Unico, IRAP, 770)
  The consideration for such engagement was 1 thousand Euros;
- The signing of various tax forms of Reply S.p.A.'s Italian subsidiaries (Modelli Unico, IRAP, 770)

The consideration for such engagement was 18 thousand Euros.

- Limited review of the financial and earning position of EOS Reply S.r.l. as at 30 September 2018.

The fee for this engagement was agreed at 4 thousand Euros.

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

Beyond what has already been reported in the report of the Board of Statutory auditors on the financial statements closed on 31 December 2018, during the financial year the following professional assignments were conferred to persons linked to EY S.p.A. by continuous and /or to persons belonging to the network thereof.
In 2018 EY GmbH was assigned to perform a Due Diligence on a target acquisition company incorporated under German law.
The consideration for such engagement was 5 thousand Euros.

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

During the financial year the opinions requested by the Board of Statutory Auditors were issued as provided by law.
In particular, on 24 April 2018 the Board of statutory Auditors delivered a favorable opinion on the appointment of Dr. Giuseppe Veneziano as Manager in the drafting of accounting and company documents.

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

During the financial year, the Board of Directors met 5 times, and the Board of Statutory Auditors 6 times.
The Internal Control and Risk Management Committee 4 times, whereas the Remuneration Committee met once, and the Committee for Related Party Transactions did not meet.
The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

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

The instructions given by Reply S.p.A. to subsidiaries, pursuant to the second paragraph of Article 114 of Legislative Decree 58/1998 appear to be adequate; similarly, the subsidiaries provided the Parent Company with the necessary information for its timely knowledge of the business situation.

We advise you that in order to guarantee the timely communication of the information requested, Mr. Daniele Angelucci, Executive Director and Chief Financial Officer of Reply S.p.A., also acts as advisor within all of the administrative bodies of the Italian subsidiaries, with the exeption of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries and is also a member of the Supervisory Board of Reply AG.

We further advise you that:

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

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

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

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

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A., and revised in July 2018.

On 14 March 2019 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

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

The Board's supervisory activity was carried out through:

- Activities aimed at controlling compliance with laws and the by-laws;
- Participation at the meetings of the Company's governing bodies;
- Acquiring information during periodic meetings with the Independent Auditor concerning both the activity it performed as well as any risks related to its independence;
- Acquiring information during meetings with members of the Board of Statutory Auditors of the subsidiaries to exchange information on the Group's activities and coordinate control and supervisory activities;
- Gathering additional information during meetings with the Chairman of the Company, the Director responsible for drawing up the Company's Financial Statements, the Person in charge of internal control and the Supervisory Body;
- Participation at the meetings of the Internal Control and Risk Management Committee and the Remuneration Committee;
- The analysis of any new provisions of law or Consob communications of interest to the Company.

The Board confirmed that the organizational requirements were met and comply with the relevant Company by-laws, laws and regulations, in the constant evolution and search for improvement.

In particular, we advise the Shareholders that:

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently modified on 14 May 2015 and on 2 August 2018, as well as compliance to it;

- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- we monitored the financial reporting process and its integrity;
- we have verified the effectiveness of the company's internal control, quality and risk management systems, with regard to financial reporting;
- we monitored the statutory audit of the financial statements and of the consolidated financial statements;
- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- we monitored compliance with the provisions of art. 17, paragraph 4, of Legislative Decree 39/2010 and in this regard, we inform you that the new key manager for the review of the financial statements of Reply S.p.A. is Mr. Alessandro Davi;
- we verified and monitored the independence of the independent auditing firm EY S.p.A. pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010 and article 8 of Regulation (EU) 537/2014;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "Market abuse" and "Protection of savings" in matters of corporate disclosures of information and "Internal Dealings" based on the information provided by the Company. In this regard, we note on 14 March 2019 the Board of Directors approved the new text of Section I of the "Procedure for the management and communication to the market of privileged information, for the compilation of the Register of persons having access to insider information and concerning "Internal Dealing", whose Sections II and III had already been approved by the Board of Directors on 2 August 2018;
- we verified the fulfillment of the obligations related to the regulations pursuant to Legislative Decree 254/2016 of the national implementation of the Directive 2014/95 / EU, on the basis of which the Consolidated Disclosure of Non-Financial information was approved by the Board of Directors on March 14, 2019.

In this regard, we acknowledge that EY S.p.A., specifically appointed, issued on March 26, 2019 its opinion pursuant to art. 3, c. 10 of Legislative Decree 254/2016, regarding the compliance of the information provided in the Consolidated Disclosure of the Non-Financial information with respect to the requirements set forth in Legislative Decree 254/2016.

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

1) ADMINISTRATION

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

2) ORGANISATIONAL STRUCTURE

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

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

3) INTERNAL CONTROL SYSTEM

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

The participation of the Director in charge of the Internal Control, as well as our participation at the meetings of the Internal Control and Risk Management Committee, allowed us to coordinate our functions as the Internal Control and Audit Committee, assumed pursuant to Article 19 of Legislative Decree 39/2010, with the activities of the Internal Control and Risk Management Committee, and, in particular, to carry out the supervisory activities provided by Article 19 of

Legislative Decree No. 39/2010.
On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.
We have received from EY S.p.A. the report pursuant to in art. 11 of Regulation (EU) 537/2014, which stated tha, during the audit of the financial statements of Reply S.p.A. and the consolidated financial statements of the Group as at 31 December 2018, there were no significant aspects giving rise to discussions or correspondence with Management, and no significant gaps have been identified in the internal control system in relation to the financial reporting process, nor have significant difficulties been reported to bring to the attention of the Committee for Internal Control and Risk Management.
On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

4) ADMINISTRATIVE- ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive; these procedures have also been implemented throughout the Group companies.
We therefore deem that the administrative-accounting system is suitable to represent and monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.
The Chairman and the Director in charge of drawing up the Company's Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements, the attestation required by Article 154-bis (5) of TUF (Legislative Decree 58/1998).

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

In relation both to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998 and the general supervisory obligation pursuant to Article 149(1) of such Decree, as well as the agenda of the Shareholders' meeting which includes discussion of the Financial Statements for the reporting period, the Board of Statutory Auditors states that it has supervised compliance with the procedural rules and law with respect to their preparation.
We note that the Financial Statements as at 31 December 2018 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).

On the basis of the controls made directly and the information exchanged with the Independent Auditor, and also in view of the latter's report pursuant to Article 14 of Legislative Decree 39/2010 which expresses a judgment without reservations, the Board of Statutory Auditors has no comments or proposals with respect to the Financial Statements or Report on Operations and the proposals set forth therein, which it consequently considers, to the extent of its specific expertise, should meet your approval.
Similarly, with specific reference to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998, the Board does not have any proposals to make with respect to the other matters within its scope of expertise with the exception of the renewal of the Independent Auditor engagement following term of office, for which we refer to specific recommendations.
With reference to the point on the agenda concerning the purchase and disposal of treasury shares, recalling disclosures made by the Directors, the Board states that the resolution proposed is in accordance with articles 2357, 2357-ter of the Italian Civil Code, in accordance with Article 132 of Legislative Decree 58/1998, as well as those of Art. 144-bis of Consob's Issuers Regulation no. 11971 of 14 May 1999.

Turin, 28 March 2019
THE STATUTORY AUDITORS
(Dott. Giorgio Mosci)
(Dott.ssa Ada Alessandra Garzino Demo)
(Dott. Piergiorgio Re)

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Building a better working world

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

To the Shareholders of
Reply S.p.A.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

EY S.p.A.
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Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
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Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Equity investments	
As at 31 December 2018, the equity investments amounted to € 145 million. Management assesses the presence of impairment indicators for each equity investment at least annually, consistent with its strategy to manage the legal entities within the Group and, if they occur, performs impairment test on such assets; in particular, in the current year a loss in equity investments € 6 million was recorded, mainly related to the investments in Breed Reply Ltd and Xister Reply Srl. The processes and methods to evaluate and determine the recoverable amount of each individual equity investment are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by management, in particular with reference to the identification of impairment indicators, the forecast of future profitability, the definition of the market multiples and to the determination of the normalized cash flows used to estimate terminal value and long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in the estimation of the recoverable amount of the equity investments, we considered that this area represents a key audit matter. The disclosures related to the valuation of investments is given in note 2 - Accounting principles, in note 19 - Investments, and in note 33 - Provisions.	Our audit procedures in response to this key audit matter included, among others: • analysis of the procedure and of the key controls implemented by the company in relation to the identification of possible losses and the valuation of equity investments; • analysis of the expert's report who assisted management in the impairment test as well as of the evaluation of its competence, capacity and objectivity; • analysis of the forecast of future results, used in the determination of fair value; • assessment of the consistency of the forecast of expected results with the Group budget; • comparison of forecasts with previous ones and actual data. In performing our analysis, we involved our experts in valuation techniques, who have performed an independent evaluation according to market multiples and verified the discount rates. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and related to the valuation of equity investments.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

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

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

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

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

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

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

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

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

Turin, 26 March 2019

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

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

CORPORATE INFORMATION

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