CONSOLIDATED FINANCIAL STATEMENT AS AT 31 DECEMBER 2019

CONSOLIDATED INCOME STATEMENT (*)

(THOUSAND EUROS)	NOTE	2019 (**)	2018
Revenues	5	1,182,528	1,035,793
Other income	6	23,159	14,996
Purchases	7	(21,250)	(20,513)
Personnel	8	(578,263)	(508,652)
Services and other costs	9	(414,077)	(379,730)
Amortization, depreciation and write-downs	10	(37,239)	(13,848)
Other operating and non-recurring (cost)/income	11	466	4,364
Operating income		**155,324**	**132,410**
(Loss)/gain on investments	12	11,364	6,862
Financial income/(expenses)	13	(5,268)	(55)
Income before taxes		**161,419**	**139,217**
Income taxes	14	(44,829)	(38,230)
Net income		**116,590**	**100,987**
Non-controlling interest		(2,732)	(1,075)
Group net result		**113,858**	**99,913**
Earnings per share and diluted	15	3.04	2.67

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 38.

(**) The impacts on the main economic figures relating to the application of the new Accounting Standard IFRS 16 are disclosed in the Report on Operations and in Note 2 at the paragraph "Adoption of accounting standard IFRS 16".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSAND EUROS)	NOTE	2019	2018
Profit of the period (A)		**116,590**	**100,987**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) from employee benefit plans		(3,043)	634
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**28**	**(3,043)**	**634**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		(1,157)	(1,338)
Gains/(losses) on exchange differences on translating foreign operations		4,347	1,090
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**3,190**	**(249)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**28**	**147**	**385**
Total comprehensive income (A)+(B)		**116,737**	**101,373**
Total comprehensive income attributable to:			
Owners of the parent		114,005	100,298
Non-controlling interests		2,732	1,075

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

(THOUSAND EUROS)	NOTE	31/12/2019 (**)	31/12/2018
Tangible assets	17	48,298	44,452
Goodwill	18	267,542	243,236
Intangible assets	19	13,676	14,201
RoU Assets	20	90,569	-
Equity investments	21	56,991	47,512
Other financial assets	22	7,567	5,255
Deferred tax assets	23	33,527	27,299
Non-current assets		**518,170**	**381,955**
Inventories	24	75,328	77,061
Trade receivables	25	432,240	434,389
Other receivables and current assets	26	39,566	53,642
Financial assets	22	1,666	997
Cash and cash equivalents	27	240,943	128,060
Current assets		**789,743**	**694,149**
TOTAL ASSETS		**1,307,913**	**1,076,104**
Share Capital		4,863	4,863
Other reserves		465,000	380,521
Net result of the period		113,858	99,913
Group shareholders' equity		**583,722**	**485,297**
Non-controlling interest	28	3,339	1,315
NET EQUITY	**28**	**587,061**	**486,612**
Due to minority shareholders	29	51,468	45,295
Financial liabilities	30	26,857	24,247
Financial liabilities from RoU	30	71,710	-
Employee benefits	31	43,355	37,738
Deferred tax liabilities	32	19,810	17,128
Provisions	33	8,897	7,021
Non-current liabilities		**222,098**	**131,430**
Financial liabilities	30	18,557	38,258
Financial liabilities from RoU	30	20,454	-
Trade payables	34	119,951	123,387
Other current liabilities	35	339,113	296,109
Provisions	33	680	308
Current liabilities		**498,755**	**458,061**
TOTAL LIABILITIES		**720,853**	**589,492**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,307,913**	**1,076,104**

(*) 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 38.
(**) The impacts on the main economic figures relating to the application of the new Accounting Standard IFRS 16 are disclosed in the Report on Operations and in Note 2 at the paragraph "Adoption of accounting standard IFRS 16".

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(THOUSAND EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	TRANSLATION RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	NON-CONTROLLING INTERESTS	TOTAL
On 1 January 2018	**4,863**	**(25)**	**72,836**	**338,442**	**(34)**	**(11,171)**	**(3,508)**	**668**	**402,072**
Dividends distributed	-	-	-	(13,093)	-	-	-	(650)	(13,743)
Total profit (loss)	-	-	-	99,913	(1,338)	1,090	634	1,075	101,373
Other changes	-	-	-	(3,312)	-	-	-	222	(3,090)
On 31 December 2018	**4,863**	**(25)**	**72,836**	**421,950**	**(1,372)**	**(10,081)**	**(2,874)**	**1,315**	**486,612**

(THOUSAND EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	TRANSLATION RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	NON-CONTROLLING INTERESTS	TOTAL
On 1 January 2019	**4,863**	**(25)**	**72,836**	**421,950**	**(1,372)**	**(10,081)**	**(2,874)**	**1,315**	**486,612**
Dividends distributed	-	-	-	(16,883)	-	-	-	(787)	(17,620)
Increase for acquisition of treasury shares	-	-	50,000	(50,000)	-	-	-	-	-
Total profit (loss)	-	-	-	113,858	(1,157)	4,347	(3,043)	2,732	116,737
Other changes	-	-	-	1,253	-	-	-	79	1,332
On 31 December 2019	**4,863**	**(25)**	**122,836**	**470,228**	**(2,529)**	**(5,735)**	**(5,916)**	**3,339**	**587,061**

CONSOLIDATED STATEMENT OF CASH FLOWS

(THOUSAND EUROS)	2019	2018
Group net income	113,858	99,913
Income taxes	44,829	38,230
Amortization and depreciation	37,239	13,848
Other non-monetary expenses/(income)	(10,351)	(12,166)
Change in inventories	1,733	16,589
Change in trade receivables	6,185	(62,651)
Change in trade payables	(7,108)	8,527
Change in other assets and liabilities	55,532	49,695
Income tax paid	(38,230)	(31,765)
Interest paid	(1,175)	(696)
Interest collected	281	311
Net cash flows from operating activities (A)	**202,793**	**119,835**
Payments for tangible and intangible assets	(16,600)	(30,050)
Payments for financial assets	(3,399)	1,090
Payments for RoU assets	(23,850)	-
Payments for the acquisition of subsidiaries net of cash acquired	(12,157)	(65,219)
Net cash flows from investment activities (B)	**(56,006)**	**(94,179)**
Dividends paid	(17,620)	(13,751)
In payments from loans	2,800	45,000
Financial liabilities for leasing	2,386	-
Repayment of loans	(17,264)	(20,821)
Net cash flows from financing activities (C)	**(29,698)**	**10,428**
Net cash flows (D) = (A+B+C)	**117,090**	**36,084**
Cash and cash equivalents at the beginning of period	122,481	86,398
Cash and cash equivalents at period end	239,571	122,481
Total change in cash and cash equivalents (D)	**117,090**	**36,084**

DETAIL OF CASH AND CASH EQUIVALENTS

(THOUSAND EUROS)	2019	2018
Cash and cash equivalents at beginning of period:	**122,481**	**86,398**
Cash and cash equivalents	128,060	109,195
Bank overdrafts	(5,578)	(22,798)
Cash and cash equivalents at period end:	**239,571**	**122,481**
Cash and cash equivalents	240,943	128,060
Bank overdrafts	(1,372)	(5,578)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

Reply specializes in the implementation of solutions based on new communication channels and digital media. Reply, consisting of a network of specialist companies, supports important European industries belonging to the Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration segments, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply offers consultancy, system integration and application management and business process outsourcing (www.reply.com).

NOTE 2 – ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union. The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"). Following the coming into force of European Regulation No. 1606 of July 2002, starting from 1 January, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared in accordance with Consob regulations regarding the format of financial statements, in application of Art. 9 of Legislative Decree 38/2005 and other CONSOB regulations and instructions concerning financial statements.

GENERAL PRINCIPLES

The consolidated financial statement is prepared on the basis of the historic cost principle, modified as requested for the appraisal of some financial instruments for which the fair value criterion is adopted in accordance with IFRS 9.

The consolidated financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's

assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist with regards its ability to continue as a going concern.
These consolidated financial statements are expressed in thousands of Euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.
Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

FINANCIAL STATEMENTS

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

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

The Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.

It should be noted that in order to comply with the indications contained in Consob Resolution no. 15519 of 27 July 2006 "as to the format of the financial statements", additional statements: income statement and statement of financial position have been added showing the amounts of related party transactions.

BASIS OF CONSOLIDATION

SUBSIDIARIES

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year and consolidated on a line-by-line basis.
The Consolidated Financial Statements comprise the financial statements of the parent Company Reply S.p.A. and those of its subsidiaries, being those entities over which the

Company has control, either directly or indirectly, through exposure or rights to their variable returns and the ability to affect those returns through its power over the investees. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee's returns.
Subsidiaries are consolidated, on the basis of consistent accounting policies, from the date on which control is obtained until the date that control ceases. Assets, liabilities, income and expenses of consolidated subsidiaries are fully recognized with those of the parent in the Consolidated Financial Statements; the parent's investment in each subsidiary is eliminated against the corresponding parent's portion of equity of each subsidiary.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Non-controlling interest is stated separately with respect to the Group's net equity. Such Non-controlling interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post-acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.
Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

All significant intercompany balances and transactions and any unrealized gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the company's interest in those entities.

BUSINESS COMBINATIONS

Business combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is the sum of the acquisition-date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer. Acquisition-related costs are accounted for as expenses when incurred.
The acquirer shall measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values, unless another measurement basis is required by IFRSs. The

excess of the consideration transferred over the Group's share of the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed is recognized, in the balance sheet, as goodwill; conversely, a gain on a bargain purchase is recognized in the profit and loss account.

Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognized.

The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

INVESTMENTS IN ASSOCIATE COMPANIES

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.

Where a group company transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.

With regard to investments in associated companies held, either directly or indirectly through venture capital or similar entities, in order to realize capital gains, these are carried at fair value. This treatment is permitted by IAS 28 "Investments in Associates", which requires that these investments are excluded from its scope and are designated, from the time of initial recognition, at fair value through profit or loss and accounted for in accordance with IFRS 9 "Financial instruments: recognition and measurement "and any change therein is recognized in profit and loss.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the income statement.

CONSOLIDATION OF FOREIGN ENTITIES

All assets and liabilities of foreign consolidated companies with a functional currency other than the Euro are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment. Average rates of exchange are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recorded in the relevant functional currency of the foreign entity and are translated using the period end exchange rate. In the context of IFRS First-time Adoption, the cumulative translation difference arising from the consolidation of foreign operations was set at nil, as permitted by IFRS 1; gains or losses on subsequent disposal of any foreign operation only include accumulated translation differences arising after 1 January 2004.

The following table summarizes the exchange rates used in translating the 2019 and 2018 financial statements of the foreign companies included in consolidation:

	AVERAGE 2019	ON 31 DECEMBER 2019	AVERAGE 2018	ON 31 DECEMBER 2018
GBP	0.87777	0.8508	0.88471	0.89453
Brazilian Real	4.4134	4.5157	4.3085	4.444
Rumanian Leu	4.7453	4.783	4.654	4.6635
Belarusian Ruble	2.3414	2.3687	2.4057	2.473
US Dollar	1.1195	1.1234	1.181	1.145
Chinese Yuan	7.7355	7.8205	7.8081	7.8751
Polish Zloty	4.2976	4.2568	4.2615	4.3014
Kuna	7.418	7.4395	7.4182	7.4125

TANGIBLE ASSETS

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

Buildings	6%
Equipment	30%
Plants	40%
Hardware	40%
Furniture and fittings	24%

The recoverable value of such assets is determined through the principles set out in IAS 36 and outlined in the paragraph "Impairment" herein.
Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.

Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.
Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as a debt. The assets are amortized over their estimated useful life or over the duration of the lease contract if lower.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

GOODWILL

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Group's interest at the time of acquisition, after having

recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their fair value.
Goodwill is not amortized but is (tested for impairment) annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Impairment losses are recognized immediately as expenses that cannot be recovered in the future.
On disposal of a subsidiary or associate, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

OTHER INTANGIBLE ASSETS

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

Development costs can be capitalized on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.
An internally-generated intangible asset arising from the Group's e-business development (such as informatics solutions) is recognized only if all of the following conditions are met:

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

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

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

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

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
The recoverable amount of an asset is the higher of fair value, less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, the so-called Cash generating unit.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where the value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.

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

INVESTMENTS IN OTHER COMPANIES

Investments in other companies that are available-for-sale financial assets are measured at fair value, when this can be reliably determined. Gains or Losses arising from change in fair value are recognized in Other comprehensive income/(losses) until the assets are sold or are impaired, at that time, the cumulative Other comprehensive income/(losses) are recognized in the Income Statement. Investments in other companies for which fair value is not available are stated at cost less any impairment losses.

Dividends received are included in Other income/(expenses) from investments.

In the event of write-down for impairment, the cost is recognized in the income statement; the original value is restored in subsequent years if the assumptions for the write-down no longer exist.

The risk resulting from possible losses beyond equity is entered in a specific provision for risks to the extent to which the Parent Company is committed to fulfil its legal or implicit obligations towards the associated company or to cover its losses.

CURRENT AND NON-CURRENT FINANCIAL ASSETS

Financial assets are classified, on the basis of both contractual cash flow characteristics and the entity's business model for managing them, in the following categories:

(i) financial assets measured at amortized cost;

(ii) financial assets measured at fair value through other comprehensive income (hereinafter also OCI);

(iii) financial assets measured at fair value through profit or loss.

At initial recognition, a financial asset is measured at its fair value; at initial recognition, trade receivables that do not have a significant financing component are measured at their transaction price. After initial recognition, financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (the so-called hold to collect business model). For financial assets measured at amortized cost, interest income determined using the effective interest rate, foreign exchange differences and any impairment losses (see the accounting policy for "Impairment of financial assets") are recognized in the profit and loss account.

Conversely, financial assets that are debt instruments are measured at fair value through OCI (hereinafter also FVTOCI) if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (the so-called hold to collect and sell business model).

In these cases:

(i) interest income determined using the effective interest rate, foreign exchange differences and any impairment losses (see the accounting policy for "Impairment of financial assets") are recognized in the profit and loss account;

(ii) changes in fair value of the instruments are recognized in equity, within other comprehensive income.

The accumulated changes in fair value, recognized in the equity reserve related to other comprehensive income, is reclassified to the profit and loss account when the financial asset is derecognized. A financial asset represented by a debt instrument that is neither measured at amortized cost nor at FVTOCI, is measured at fair value through profit or loss (hereinafter FVTPL); financial assets held for trading fall into this category. Interest income on assets held for trading contributes to the fair value measurement of the instrument and is recognized in

"Finance income (expense)", within "Net finance income (expense) from financial assets held for trading".
When the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, the transaction is accounted for on the settlement date.

TRANSFER OF FINANCIAL ASSETS
The Group removes financial assets from its balance sheet when, and only when, the contractual rights to the cash flows from the assets expire or the Group transfers the financial asset. In the case of transfer of the financial asset
- if the entity substantially transfers all the risks and rewards of ownership of the financial asset, the Group removes the asset from the balance sheet and recognizes separately as assets or liabilities any rights and obligations created or retained with the transfer;
- if the Group substantially retains all the risks and rewards of ownership of financial assets, it continues to recognize the financial asset;
- if the Group neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset, it determines whether or not it has retained control of the financial asset. In this case:
  - if the Group has not retained control, it removes the asset from its balance sheet and separately recognizes as assets or liabilities any rights and obligations created or retained in the transfer;
  - if the Group has retained control, it continues to recognize the financial asset to the extent of its residual involvement in the financial asset.

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

WORK IN PROGRESS
Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from

the order, except for that which is not considered as representative of the state of progress of the order.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.
Product inventories are stated at the lower of cost and net realizable value. Cost comprises direct material and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

Trade receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
At initial recognition they are measured at fair value adjusted for transaction costs and subsequently measured at amortized cost determined using the effective interest rate, to account for foreign exchange differences and any impairment losses.
At each reporting date, all financial assets, with the exception of those measured at fair value through profit and loss, are analyzed for any impairment indicators.
Under IFRS 9, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring.
The allowance is the sum of these probability weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it from the moment of its origination or acquisition.
Trade payables and other liabilities are measured at amortized cost.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

CASH

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

TREASURY SHARES

Treasury shares are presented as a deduction from equity. The original cost of treasury shares and proceeds of any subsequent sale are presented as movements in equity.

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

- Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortized cost, using the prevailing market interest rate method.

- Equity instruments

Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.

- Non-current financial liabilities.

Liabilities are stated according to the amortization cost.

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

In accordance with 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 the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately in the Income Statement.
If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.
For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For effective hedging against a change in fair value, the hedged item is adjusted by the changes in fair value attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.
Changes in the fair value of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.

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

EMPLOYEE BENEFITS

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the "2007

Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Consolidated financial statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.

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

Through actuarial valuation, current service costs are recognized as "personnel expenses" in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the interest cost is recognized as "Financial gains or losses" and represents the figurative expenditure the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR").
Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity without being ever included in the consolidated income statement.

PENSION PLANS

According to local conditions and practices, some employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.
In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.
The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the "ongoing single premiums" method. The portion of net cumulative actuarial gains and losses which exceeds the greater

of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.

The post-employment benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, arising from the application of the corridor method and past service costs to be recognized in future years, reduced by the fair value of plan assets.

SHARE-BASED PAYMENT PLANS

The Group has applied the standard set out by IFRS 2 “Share-based payment”. Share-based payments are measured at fair value at granting date. Such amount is recognized in the Income Statement, with a balancing entry in Shareholders’ equity, on a straight-line basis over the “vesting period”. The fair value of the option, measured at the granting date, is measured through actuarial calculations, taking into account the terms and conditions of the options granted. Following the exercise of the options assigned in previous years, the Group has no more stock option plans.

For cash-settled share-based payment transactions, the Group measures the goods and services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with the changes in value recognized in profit or loss for the period.

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

Revenue from contracts with customers is recognized on the basis of the following five steps:
(i) identifying the contract with the customer;
(ii) identifying the performance obligations, that are promises in a contract to transfer goods and/or services to a customer;
(iii) determining the transaction price;
(iv) allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each good or service; and
(v) recognizing revenue when (or as) a performance obligation is satisfied, that is when a promised good or service is transferred to a customer.

A promised good or service is transferred when (or as) the customer obtains control of it. Control can be transferred over time or at a point in time.
Revenue is measured at the fair value of the consideration to which the Group expects to be entitled in exchange for transferring promised goods and/or services to a customer, excluding amounts collected on behalf of third parties. Therefore, revenue is recognized when control over the goods or services is transferred to the customer either "over time" or "at a point in time".

Following are the major types of services and products that the Group provides:

TURNKEY PROJECTS: The Group fulfills its obligations and recognizes revenue "over time", based on the percentage of the accrued costs or the progress of the services provided. The unconditional right to payment by the customer emerges as a result of the accrual of the costs or the underlying progress of each contract.

OTHER SERVICES: The Group fulfills its obligations and recognizes revenue "at a point in time" based on the underlying events of the supply of products and services. The unconditional right to receive payment from the customer emerges as a result of these events occurring.

In determining the transaction price, the promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The promised amount of consideration is not adjusted for the effect of the significant financing component if, at contract inception, it is expected that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

GOVERNMENT GRANTS

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

TAXATION

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

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

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

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

USE OF ESTIMATIONS

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

CHANGES IN ACCOUNTING PRINCIPLES

The accounting principles newly adopted by the Group and their outcomes are described in the subsequent paragraph "Accounting principles, amendments and interpretations applied since 1 January 2018. There have been no further changes other than those described in the aforementioned paragraph.

CHANGES IN ACCOUNTING ESTIMATES AND RECLASSIFICATIONS

At the reporting date, there are no significant estimates regarding the unforeseeable outcome of future events and other causes of uncertainty that might result in significant adjustments being made to the value of assets and liabilities in the coming year.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED SINCE JANUARY 1ST, 2019

Pursuant to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the IFRS in effect since January 1, 2019 are indicated and briefly described hereafter.

Adoption of accounting standard IFRS 16

The application of the IFRS 16 accounting standard, in use since 1 January 2019, did not result in the restatement of the previous periods used for comparison (modified retrospective approach). According to this standard, liabilities for leasing are measured based on the residual payments set forth in the lease agreement, discounted using the incremental borrowing rate on the date of first adoption. The book value of the right-of-use asset ("RoU asset") is equal to the book value of the liabilities for leasing on the date of first application. The effects resulting from the application of the new standard are as follows:

ECONOMIC FIGURES (THOUSAND EUROS)	2018	31/12/2019		
		pre IFRS 16	post IFRS 16	Impact
Services and other costs	364,734	414,873	390,918	(23,956)
EBITDA	**144,836**	**167,351**	**191,307**	**23,956**
Amortization and depreciation	13,848	13,948	37,239	23,292
EBIT	**132,410**	**154,660**	**155,324**	**664**
Financial expenses	55	3,038	5,268	2,231
Income before taxes	**139,217**	**162,986**	**161,419**	**(1,567)**

FINANCIAL FIGURES (THOUSAND EUROS)	31/12/2018	01/01/2019	31/12/2019		
			pre IFRS 16	post IFRS 16	Impact
RoU asset	**-**	**89,788**	**-**	**90,569**	**90,569**
Net financial position	**66,552**	**89,788**	**197,195**	**105,031**	**(92,164)**

The commitments existing on December 31, 2018 arising from operating leases (in application of IAS 17) and the lease liabilities recognized in the statements of financial position at January 1, 2019 (in application of IFRS 16) are essentially in line with the financial liability accounted for in the Consolidated statement of financial position as at January 1, 2019 with the exception of the impacts deriving from the discounted cash flows amounting to approximately 10 million Euros and the effects of the exemptions for short term leases or low value leases which did not have a significant impact.

The reconciliation between the commitments existing on December 31, 2018 and the commitments recognized at January 1, 2019, is the following:

(THOUSAND EUROS)	
Commitments at 31 December 2018	**104,031**
Short term and low value leases	(995)
Financial leases	(1,597)
Other contracts not granting right of use	(2,441)
Discounting effect	(10,036)
Other	826
Commitments at 1 January 2019	**89,788**

The average discount rate applied to the lease liabilities recognized in the statements of financial position at the initial application date (January 1, 2019) was between 2 and 3%.

The Group adopted for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.
The nature and the impact of each amendment is described below:

IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

On October 23, 2018, Regulation EU no. 2018/1595 was issued which implemented IFRIC 23 - Uncertainty over income tax treatments.

AMENDMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

On March 22, 2018 Regulation EU no. 2018/498 was issued which implemented several amendments to IFRS 9 - Financial instruments.

IMPROVEMENTS TO THE IFRS (2015–2017 CYCLE)

On March 14, 2019 Regulation EU no. 2019/412 was issued which implemented several amendments to IAS 12 - Income taxes, IAS 23 - Borrowing costs, IFRS 3 - Business combinations and IFRS 11 - Joint arrangements.

IAS 28 (INVESTMENTS IN ASSOCIATES AND JOINT VENTURES)

On February 8, 2019 Regulation EU no. 2019/237 was issued which implemented several amendments to IAS 28 - Investments in associates and joint ventures.

IAS 19 (EMPLOYEE BENEFITS)

On March 13, 2019 Regulation EU no. 2019/402 was issued which implemented several amendments to IAS 19 - Employee Benefits.

The adoption of these amendments/interpretations had no impact on the Financial Statements at December 31, 2019.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- Amendments to IFRS 3 Business Combinations: since 1 January 2020
- Amendments to IAS 1 and IAS 8: definition of materiality: since 1 January 2020
- Amendments to the references to the "Conceptual Framework" in the IFRS: since 1 January 2020
- IFRS 17: Insurance contracts: since 1 January 2021.

The Group does not expect any significant effects on its consolidated financial statements deriving from the new Standards/Interpretations.

NOTE 3 - RISK MANAGEMENT

CREDIT RISK

For business purposes, specific policies are adopted to assure its clients' solvency.
With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

LIQUIDITY RISK

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

The cash flows, funding requirements and liquidity of the Group companies are monitored and centrally managed under the control of the Group Treasury. The aim is to guarantee the efficiency and effectiveness of the management of current and perspective capital resources (maintaining an adequate level of reserves of liquidity and availability of funds via a suitable amount of committed credit lines).

The difficult economic situation of the markets and of financial markets necessitates special attention being given to the management of the liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and maintaining an adequate level of liquid assets.

The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

EXCHANGE RATE AND INTEREST RATE RISK

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

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

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

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

NOTE 4 - CONSOLIDATION

Companies included in consolidation are consolidated on a line-by-line basis.

Change in consolidation compared to 31 December 2018 are related to:

- neveling.net GmbH, a company acquired in the month of January 2019 under German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies;
- Blowfish Digital Holdings Ltd and its subsidiaries Threepipe Ltd and Spot Digital Ltd, companies incorporated under the English law of which Reply Ltd. Holds 100% of share capital, acquired in the month of October 2019, specializing in digital marketing and creative agency.

Change in the consolidation does not significantly affect the Group's revenues and profits before tax on 31 December 2019.

Furthermore, the list of the Reply Group's companies and equity investments, presented as an annex herein, also includes in consolidation with respect to 31 December 2019 the newly incorporated company Hermes Reply Consulting (Nanjing) Co. Ltd., a company incorporated in the month of May 2019 of which Reply S.p.A. holds 100% of the share capital, and WM Reply Inc., a company incorporated in the month of December 2019 under American law in which Reply Inc. holds 80% of the share capital.

NOTE 5 - REVENUE

Revenues from sales and services, including changes in work in progress on orders, amounted to 1,182,528 thousand Euros (1,035,793 thousand Euros in 2018).
This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.

The following table shows the percentage breakdown of revenues by geographic area. Moreover, the breakdown reflects the business management of the Group by Top Management and the allocation approximates the localization of services provided:

REGION (*)	2019	2018
Region 1	67.20%	68.50%
Region 2	22.70%	19.80%
Region 3	10.00%	11.50%
IoT Incubator	0.10%	0.2%
Total	**100.0%**	**100.0%**

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

Disclosure required by IFRS 8 (“Operating segment”) is provided in Note 36 herein.

NOTE 6 – OTHER REVENUES

Other revenues, amounted to 23,159 thousand Euros (14,996 thousand Euros in 2018), and mainly refer to miscellaneous income, non-recurring income and R&D contributions.

NOTE 7 - PURCHASES

Detail is as follows:

(THOUSAND EUROS)	2019	2018	CHANGE
Software licenses for resale	12,334	12,109	225
Hardware for resale	2,707	2,686	21
Other	6,209	5,718	491
Total	**21,250**	**20,513**	**737**

Purchases of Software licenses and Hardware licenses for resale are recognized net of any change in inventory.
The item Other includes the purchase of fuel for 2,756 thousand Euros and the purchase of consumption material for 1,100 thousand Euros.

NOTE 8 - PERSONNEL

Detail is as follows:

(THOUSAND EUROS)	2019	2018	CHANGE
Payroll employees	541,654	472,132	69,522
Executive Directors	36,609	36,520	89
Total	**578,263**	**508,652**	**69,611**

The increase in the cost of employees, amounting to 69,611 thousand Euros, is attributable to the total registered increase in the Group's business and in the increase in employees.

Detail of personnel by category is provided below:

(NUMBER)	2019	2018	CHANGE
Directors	276	262	14
Managers	990	847	143
Staff	6,891	6,497	394
Total	**8,157**	**7,606**	**551**

On 31 December 2019 the Group had 8,157, employees compared with 7,606 at the end of 2018.
Change in consolidation brought an increase of 520 employees.
The average number of employees in 2019 was 7,915 marking an increase with respect to 7,041 in the previous year.
Payroll employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Universities.

NOTE 9 – SERVICES AND OTHER COSTS

Services and other costs comprised the following:

(THOUSAND EUROS)	2019	2018	CHANGE
Commercial and technical consulting	269,528	227,064	42,465
Travelling and professional training expenses	39,798	37,269	2,529
Other services costs	75,257	65,016	10,241
Office expenses	13,372	27,776	(14,404)
Lease and rentals	4,281	8,547	(4,266)
Other	11,840	14,059	(2,219)
Total	**414,077**	**379,730**	**34,347**

The change in Services and other costs, amounting to 34,347 Euros, is attributable to an overall increase in the Group's business.

The item Other services mainly include marketing services, administrative and legal services, telephone and canteen.

Office expenses include services rendered by related parties in relation to contracts for the use of premises, domiciliation and secretarial services for 1,158 thousand Euros, rent charged by third parties for 1,344 thousand Euros, utility costs for 6,797 thousand Euros, cleaning expenses for 1,831 thousand Euros and maintenance expenses for 756 thousand Euros.

The decrease of the items Office charges and Rental and leasing compared to the previous year is mainly due to the reversal of the rent fees following the application of IFRS 16.

NOTE 10 – AMORTIZATION, DEPRECIATION AND WRITE DOWNS

Depreciation of tangible assets, calculated on the basis of economic-technical rates determined in relation to the residual useful lives of the assets, resulted in an overall charge as at 31 December 2019 of 9,802 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization of intangible assets for the year ended 2019 amounted to an overall loss of 4,146 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization related to RoU assets arising from the adoption of IFRS 16 amounted to 23,292 thousand Euros.

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

Other operating and non-recurring net income is related to events and transactions that do not occur in the regular course of business amounted to 466 thousand Euros (4,364 thousand Euros in 2018) and refer to:

- A negative charge of 790 thousand Euros in relation to provisions for risks and charges for contractual, commercial and legal disputes and to provisions made to adjust asset items;
- A positive charge of 1,256 thousand Euros in relation to the fair value adjustment of the liability referred to the deferred consideration for the acquisition of shareholdings in subsidiary companies (Business combination).

NOTE 12 – (LOSS)/GAIN ON INVESTMENTS

This item amounting to positive 11,364 thousand Euros is related to the fair value adjustments to equity investments in start-up companies made by the Investment company Breed Investments Ltd. and more specifically to:

- positive fair value adjustments for 15,965 thousand Euros;
- impairment of investments in the amount of negative 4,601 thousand Euros.

NOTE 13 – FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(THOUSAND EUROS)	2019	2018	CHANGE
Financial income	533	361	172
Interest expenses	(1,975)	(1,224)	(751)
Other	(3,826)	808	(4,633)
Total	**(5,268)**	**(55)**	**(5,213)**

Financial gains mainly include interest on bank accounts amounting to 281 thousand Euros.
Interest expenses mainly include expenses related to loans for M&A operations.

The item Other includes:

- the Exchange rate differences from the translation of balance sheet items not stated in Euros in a net income of 192 thousand Euros (positive 30 thousand Euros at 31 December 2018);
- the net changes in fair value of Convertible Loans including capitalized interest amounting to positive 54 thousand Euros (positive 1.024 thousand Euros al 31 December 2018);
- the changes in fair value of financial liabilities pursuant to IFRS 9 in a net loss of 1,864 thousand Euros (negative 158 thousand Euros al 31 December 2018);
- the interest expenses arising from the adoption of the new International Accounting Standard IFRS 16 for 2,231 thousand Euros.

NOTE 14 – INCOME TAXES

Income taxes for the financial year ended 2019 amounted to 44,829 thousand Euros and is detailed as follows:

(THOUSAND EUROS)	2019	2018	CHANGE
IRES and other taxes	43,028	38,412	4,616
IRAP (Italy)	6,968	5,812	1,156
Current taxes	**49,996**	**44,223**	**5,773**
Deferred tax expenses	2,184	452	1,732
Deferred tax income	(7,200)	(5,997)	(1,203)
Deferred taxes	**(5,016)**	**(5,545)**	**529**
Corporate tax - previous years	(151)	(448)	298
Total income taxes	**44,829**	**38,230**	**6,600**

The tax burden on the result before taxes was equivalent to 27.8% (27.5% in the financial year of 2018).

The reconciliation between the tax charges recorded in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rate in effect in Italy, is the following:

Profit/(loss) before taxes from continuing operations	**161,419**	
Theoretical income taxes	38,741	24.0%
Effect of fiscal permanent differences	(2,232)	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	1,353	
Other differences	(1)	
Current and deferred income tax recognized in the financial statement excluding IRAP	**37,861**	**23.5%**
IRAP current and deferred	6,968	4.3%
Current and deferred income recognized in the financial statements	**44,829**	**27.8%**

In order to render the reconciliation between income taxes recognized in the financial statements and theoretical income taxes more meaningful, IRAP tax is not taken into consideration since it has a taxable basis that is different from the result before tax of continuing operations. Theoretical income taxes are therefore calculated by applying only the tax rate in effect in Italy ("IRES"), equal to 24.0%, on the result before tax of continuing operations.

NOTE 15 – EARNINGS PER SHARE

The basic and diluted earnings per share as at 31 December 2019 was calculated on the basis of the Group's net result amounting to 113,858 thousand Euros (99,913 thousand Euros as at 31 December 2018) divided by the weighted average number of shares, net of treasury shares, as at 31 December 2019 which amounted to 37,407,400 (37,407,400 as at 31 December 2018).

(EUROS)	2019	2018
Group net result	113,858,000	99,913,000
Average no. shares	37,407,400	37,407,400
Earnings per share	**3.04**	**2.67**

The basic earnings per share is the same of diluted earnings per share because there aren't financial instruments potentially convertible in shares (stock options).

NOTE 16 – OTHER INFORMATION

Disclosure on the transparency of public disbursements required by Article 1, paragraph 125 of Law 124/2017 Pursuant to Article 1, paragraph 125 of Law 124/2017, the Group has received the following public contributions from Italian entities in 2019:

AMOUNTS COLLECTED FOR SERVICES RENDERED

ENTITY	AMOUNT
Agenzia delle entrate	1,018
Agenzia di controllo appalti pubblici	9
Agenzia nazionale servizi per il lavoro	253
Agenzia regionale protezione ambiente	67
Agenzia regionale trasporti pubblici	68
Agenzia tutela salute regionale	620
Azienda nazionale gestione e manutenzione strade	394
Azienda socio-sanitario	2,638
Cassa nazionale previdenza e assistenza	14
Municipals	29
Ente governativo gestione servizi pubblici di navigazione	19
Ente pubblico nazionale di ricerca	64
Ente sanitorio pubblico	125
Foundations	660
Ministries	1,108
Previdenza sociale	2,551
Universities	247
Regions and provinces	427
Azienda ICT Regionale	22,552
Public health entity	958
Banca d'Italia	386
Total	**34,208**

CONTRIBUTIONS

ENTITY	AMOUNT
Commission Europeenne	1,439
EIT Digital Italy	750
MIUR	159
Programma Operativo Nazionale	776
Regione Piemonte	44
Lazio Inova	741
Total	**3,908**

The beneficiary companies are: Reply S.p.A., Consorzio Reply Public Sector, Santer Reply S.p.A., Lem Reply S.r.l., EOS Reply S.r.l., Storm Reply S.r.l.; Tamtamy Reply S.r.l., Protocube S.r.l.; Xister S.r.l., Retail Reply S.r.l., and Whitehall Reply S.r.l. For further details, please refer to the individual company's 2019 annual report.

NOTE 17 – TANGIBLE ASSETS

Tangible assets as at 31 December 2019 amounted to 48,298 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Buildings	20,878	18,480	2,398
Plant and machinery	5,152	3,868	1,284
Hardware	6,403	6,134	269
Other	15,865	15,970	(105)
Total	**48,298**	**44,452**	**3,846**

Change in tangible assets during 2019 is summarized below:

(THOUSAND EUROS)	BUILDINGS	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical cost	21,041	12,722	37,260	33,157	104.180
Accumulated depreciation	(2,561)	(8,854)	(31,126)	(17,187)	(59,728)
31/12/2018	**18,480**	**3,868**	**6,134**	**15,970**	**44,452**
Historical cost					
Increases	2,594	2,923	4,674	3,424	13,615
Disposal	(70)	(2,014)	(1,174)	(1,027)	(4,285)
Change in consolidation	-	62	344	744	1,150
Other changes	169	251	83	477	980
Accumulated depreciation					
Depreciations	(267)	(1,535)	(4,049)	(3,950)	(9,802)
Utilized	-	1,841	789	782	3,412
Change in consolidation	-	-	(119)	(322)	(441)
Other changes	(27)	(244)	(279)	(233)	(783)
Historical cost	23,733	13,944	41,187	36,775	115,640
Accumulated depreciation	(2,855)	(8,792)	(34,784)	(20,911)	(67,342)
31/12/2019	**20,878**	**5,152**	**6,403**	**15,865**	**48,298**

During the financial year the Group carried out total investments for 13,614 thousand Euros (29,774 thousand Euros at 31 December 2018).

The item Buildings mainly includes:

- the net value of a building owned by the group amounting to 5,058 thousand Euros located in Guetersloh, Germany. In 2019 the Group has invested approximately 1,221 thousand Euros to extend the office spaces.
- the real estate complex located in Turin and called "ex Caserma De Sonnaz" in the amount of 15,344 thousand Euros, that after proper renovation will be used to host the offices of the Group.

Increase in the item Plant and machinery mainly refers to purchases of general devices and to plant systems for the offices in which the Group operates.

Change in the item Hardware is due to investments made by companies included in Region 1 for 2,424 thousand Euros, 1,843 thousand Euros for purchases made by the companies included in Region 2 and 407 thousand Euros for purchases made by the companies included in Region 3. Furthermore, this item includes financial leases for 5 thousand Euros (137 at 31 December 2018).

The item Other as at 31 December 2019 mainly includes improvements to third party assets and office furniture. The increase of 3,4242 thousand Euros mainly refers to the purchase of office furniture for 1,739 thousand Euros and to improvements made to the offices where the Group's companies operate for 798 thousand Euros.

Other changes mainly refer to translation differences.

As at 31 December 2019 tangible assets were depreciated by 58.2% of their value, compared to 57.3% at the end of 2018.

NOTE 18 - GOODWILL

This item includes goodwill arising from consolidation of subsidiaries purchased against payment made by some Group companies.

Goodwill in 2019 developed as follows:

(THOUSAND EUROS)	
Beginning balance	**243,236**
Increases	22,154
Impairment	-
Total	**265,390**
Exchange rate differences	2,152
Ending balance	**267,542**

Increase in Goodwill compared to 31 December 2018 owes to:

- the acquisition of Neveling GmbH, a company incorporated under the German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies;
- the acquisition of Blowfish Digital Holdings Ltd and its subsidiaries Threepipe Ltd and Spot Digital Ltd, companies incorporated under the English law of which Reply Ltd. Holds 100% of share capital, specializing in digital marketing and creative agency.

The following table summarizes the calculation of goodwill and the aggregate book value of the companies as at the acquisition date.

(THOUSAND EUROS)	
Tangible and intangible assets	492
Trade receivables and other current assets	4,036
Cash and cash equivalents	2,073
Trade payables and other current liabilities	(3,672)
Deferred tax liabilities, net	(161)
Net assets acquires	**2,768**
Transaction value	24,922
Goodwill	**22,154**

The above situation is to be considered definitive for Neveling GmbH whereas for Blowfish Digital Holdings Ltd. the allocation of goodwill is temporary, the process will be completed within the limits of 12 months.
At 31 December 2019 no impairment indicators were highlighted.
Goodwill was allocated to the cash generating units ("CGU"), identified in the Region in which the Group operates. Moreover, the breakdown reflects the business management of the Group by Top Management and is summarized as follows:

(THOUSAND EUROS)	AT 31/12/2018	INCREASES	TRANSLATION DIFFERENCES	AT 31/12/2019
Region 1	89,974	-	763	90,737
Region 2	99,892	8,993	-	108,885
Region 3	53,369	13,161	1,389	67,919
Total	**243,236**	**22,154**	**2,152**	**267,542**

Reply has adopted a structured and periodic planning and budgeting system aimed at defining objectives and business strategies in order to draft the annual budget.
The impairment model adopted by the Reply Group is based on future cash flows calculated using the Discounted cash flow analysis.

In applying this model, Management uses different assumptions, which are applied to the single CGU over two years of extrapolation subsequent to the annual budget, in order to estimate:

- Increase in revenues,
- Increase in operating costs,
- Investments,
- Change in net capital.

The recoverable value of the CGU, to which the single goodwill is referred, is determined as the highest between the fair value less any selling costs (net selling price) and the present value of the estimated future cash flows expected from the continuous use of the good (value in use). If the recoverable value is higher than the carrying amount of the CGU there is no impairment of the asset; in the contrary case, the model indicates a difference between the carrying amount and the recoverable value as the effect of impairment.

The following assumptions were used in calculating the recoverable value of the Cash Generating Units:

ASSUMPTION	REGION 1	REGION 2	REGION 3
Terminal value growth rates:	1%	1%	1%
Discount rate, net of taxes:	6,60%	4.25%	5.75%
Discount rate, before taxes:	8,69%	6.08%	7.09%
Multiple of EBIT	10.8	10.8	10.8

As to all CGUs subject to the impairment tests at 31 December 2019 no indications emerged that such businesses may have been subject to impairment.

On 31 December 2019 the positive difference between the headroom estimated and the book value of the net invested capital inclusive of the goodwill initially recognized, is equal to 574.5% for Region 1,329.0% for Region 2 and 124.7% for Region 3.

Reply has also developed a sensitivity analysis of the estimated recoverable value. The Group considers that the growth rate of revenues and the discount rate are key indicators in estimating the fair value and has therefore determined that:

- a decrease of up to 30% of the revenue growth;
- an increase of 100 basis points in the discount rate.

This analysis would not lead to an excess of the carrying value of the CGU compared to its recoverable value, which tends to be significantly higher.

Finally, it is appropriate to note that the estimates and budget data to which the above mentioned parameters have been applied are those determined by management on the basis of past performance and expectations of developments in the markets in which the Group operates. Moreover, estimating the recoverable amount of the Cash-Generating Units requires discretion and the use of estimates by Management. The Group cannot guarantee that there will be no goodwill impairment in future periods. Circumstances and events which could potentially cause further impairment losses are constantly monitored by Reply management.

NOTE 19 – INTANGIBLE ASSETS

Net intangible assets as at 2019 amounted to 13,676 thousand Euros (14,201 thousand Euros on 31 December 2018) and are detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Development costs	3,191	4,584	(1,393)
Software	5,303	3,811	1,492
Trademark	537	537	-
Other intangible assets	4,646	5,270	(624)
Total	**13,676**	**14,201**	**(525)**

Change in intangible assets during 2019 is summarized in the table below:

(THOUSAND EUROS)	DEVELOPMENT COSTS	SOFTWARE	TRADEMARK	OTHER INTANGIBLE ASSETS	TOTAL
Historical cost	28,524	26,270	537	7,944	63,275
Cumulative amortization	(23,940)	(22,459)	-	(2,675)	(49,074)
31/12/2018	**4,584**	**3,811**	**537**	**5,270**	**14,201**
Historical cost					
Increases	1,138	2,484	-	6	3,628
Disposals	-	(947)	-	-	(947)
Other changes	-	72	-	361	433
Cumulative amortization					
Amortization	(2,532)	(761)	-	(854)	(4,146)
Utilized		763	-	-	763
Other changes		(119)	-	(138)	(257)
Historical cost	29,663	27,880	537	8,312	66,391
Cumulative amortization	(26,471)	(22,576)	-	(3,667)	(52,714)
31/12/2019	**3,191**	**5,303**	**537**	**4,646**	**13,676**

Development costs refer to software products and are accounted for in accordance with provisions of IAS 38.

The item Software mainly refers to software licenses purchased and used internally by the Group companies. This item includes 1,359 thousand Euros related to software development for internal use.

The item Trademark mainly refers to the value of the "Reply" trademark granted on 9 June 2000 to the Parent Company Reply S.p.A. (at the time Reply Europe Sàrl), in connection with the share capital increase that was resolved and subscribed to by the Parent Company. Such amount is not subject to systematic amortization and the expected future cash flows are deemed adequate.

The item Other intangible assets is related to the consolidation difference (Purchase price allocation) following several Business combinations related to previous years.

NOTE 20 – ROU ASSETS

The application of the IFRS 16 accounting standard, in use since 1 January 2019, resulted in the accounting of the book value of the right-of-use asset (“RoU Asset”) that is equal to the book value of the liabilities for leasing on the date of first application, net of any accrued income/costs or deferred revenue/expenses related to the lease. The table below shows the RoU Assets divided by category:

(THOUSAND EUROS)	01/01/2019	NET CHANGES	EXCHANGE DIFFERENCE	AMORTIZATION	31/12/2019
Buildings	79,724	19,102	359	(18,324)	80,861
Vehicles	9,859	4,666	(141)	(4,849)	9,535
Office equipment	205	82	5	(119)	173
Total	**89,788**	**23,850**	**223**	**(23,292)**	**90,569**

The net changes mainly refer to the signing of new financial leasing agreements, resulting in an increase in the value of the right of use, the redetermination of certain liabilities, increases in rents and the renegotiation of existing contracts.

NOTE 21 - EQUITY INVESTMENTS

The item Equity investments amounts to 56,992 thousand Euros and includes investments in start-up companies principally in the IoT field made by the Investment company Breed Investments Ltd.

Note that the investments in equity investments mainly held through an Investment Entity are designated at fair value and accounted for in accordance with IFRS 9 “Financial Instruments: Recognition and Measurement”. The fair value is determined using the International Private Equity and Venture Capital valuation guideline (IPEV) and any change therein is recognized in profit (loss) in the period in which they occurred.

Detail is as follows:

(THOUSAND EUROS)	VALUE AT 31/12/2018	FOLLOW-ON INVESTMENTS	NET FAIR VALUE ADJUSTMENTS	DECREASES	CONVERTIBLE LOANS CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2019
Investments	47,503	2,359	11,364	(6,915)	667	2,013	56,992

FOLLOW-ON INVESTMENTS

The increase is related to follow-on investments existing at December 31, 2018.

NET FAIR VALUE ADJUSTMENTS

The net fair value adjustment amounting to 11,364 thousand Euros reflects the market values of the last rounds that took place in 2019 on investments already in portfolio.

CONVERTIBLE LOANS CONVERSION

The increase is related to the conversion of Convertible Loans in shares of several equity investments.

All fair value assessments shall be part of the hierarchy level 3.

NOTE 22 – FINANCIAL ASSETS

Current and non-current financial assets amounted to a total of 9,233 thousand Euros with compared to 6,253 thousand Euros as at 31 December 2018.
Detail is as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Short term securities	1,666	697	969
Financial receivables from not consolidated subsidiaries	-	300	(300)
Current financial assets	**1,666**	**997**	**669**
Receivables from insurance companies	3,183	3,127	56
Guarantee deposits	1,189	1,115	74
Other financial assets	1,251	31	1,219
Convertible loans	1,944	982	962
Non-current financial assets	7,567	5,255	2,312
Total	**9,233**	**6,253**	**2,980**

The item Receivables from insurance companies mainly refers to the insurance premiums paid against pension plans of some German companies and to directors' severance indemnities.

Convertible loans relate to the option to convert into shares of the following start-up company in the field of IoT, detail is as follows:

(THOUSAND EUROS)	VALUE AT 31/12/2018	INCREASES	CAPITALIZED INTERESTS	DECREASES	EQUITY CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2019
Convertible loans	982	1.528	197	(147)	(667)	52	1.944

INCREASES
The amount is referred to new investments in convertible loans during the year.

CONVERSION IN EQUITY
The decrease is related to the conversion of the loans into equity investments inclusive of fair value adjustments.

Short term securities mainly refer to Time Deposit investments.

Note that the items Receivables from insurance companies, Convertible loans, Guarantee deposits and Other financial assets are not shown in Net financial position.

Cash and cash equivalents is disclosed at Note 25.

NOTE 23 – DEFERRED TAX ASSETS

Deferred tax assets, amounting to 33,527 thousand Euros as at 31 December 2019 (27,299 thousand Euros as at 31 December 2018), include the fiscal charge corresponding to the temporary differences originating among the anti-tax result and taxable income relating to entries with deferred deductibility.
Detail of Deferred tax assets is provided at the table below:

(THOUSAND EUROS)	31/12/2018	ACCRUALS	UTILIZATION	31/12/2019
Prepaid tax on costs that will become deductible in future years	7,300	1,096	(932)	7,464
Prepaid tax on greater provisions for doubtful accounts	6,442	5,261	(652)	11,051
Deferred fiscal deductibility of amortization	1,799	402	(260)	1,941
Consolidation adjustments and other items	11,758	3,275	(1,962)	13,070
Total	**27,299**	**10,034**	**(3,806)**	**33,527**

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 24 – WORK IN PROGRESS

Contract work in progress amounting to 136,808 is recognized net of a provision amounting to 31,271 thousand Euros and is detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Contract work in progress	136,808	131,663	5,145
Advance payments from customers	(61,480)	(54,602)	(6,878)
Total	**75,328**	**77,061**	**(1,733)**

Any advance payments made by the customers are deducted from the value of the inventories, within the limits of the accrued consideration; the exceeding amounts are accounted as liabilities.

NOTE 25 – TRADE RECEIVABLES

Trade receivables as at 31 December 2019 amounted to 432,240 thousand Euros with a net decrease of 2,149 thousand Euros.

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Domestic clients	320,712	324,047	(3,335)
Foreign trade receivables	119,006	120,511	(1,505)
Credit notes to be issued	(3,598)	(4,440)	842
Total	**436,120**	**440,118**	**(3,998)**
Allowance for doubtful accounts	(3,880)	(5,729)	1,849
Total trade receivables	**432,240**	**434,389**	**(2,149)**

Trade receivables are shown net of allowances for doubtful accounts, calculated by using the expected credit loss approach pursuant to IFRS 9, amounting to 3,880 thousand Euros on 31 December 2019 (5,729 thousand Euros at 31 December 2018).

The Allowance for doubtful accounts in 2019 developed as follows:

(THOUSAND EUROS)	31/12/2018	ACCRUALS	UTILIZATION	REVERSAL	OTHER CHANGES	31/12/2019
Allowance for doubtful accounts	5,729	1,991	(3,840)	(175)	174	3,880

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2018, are summarized in the tables below:

AGING AT 31/12/2019

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	436,120	354,390	65,442	10,752	2,694	2,841	81,730
Allowance for doubtful accounts	(3,880)	(1,022)	(709)	(251)	(549)	(1,349)	(2,858)
Total trade receivables	**432,240**	**353,368**	**64,733**	**10,502**	**2,145**	**1,492**	**78,871**

AGING AT 31/12/2018

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	440,118	394,432	37,786	2,719	2,281	2,901	45,687
Allowance for doubtful accounts	(5,729)	(229)	(160)	(1,146)	(1,776)	(2,406)	(5,489)
Total trade receivables	**434,389**	**394,203**	**37,625**	**1,573**	**505**	**495**	**40,198**

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

Trade receivables are all collectible within one year.

NOTE 26 – OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Tax receivables	10,365	21,960	(11,595)
Advances to employees	143	125	18
Accrued income and prepaid expenses	15,912	18,590	(2,678)
Other receivables	13,146	12,967	179
Total	**39,566**	**53,642**	**(14,076)**

- The item Tax receivables mainly includes:
- credits to the Treasury for VAT amounting to 4,453 thousand Euros (16,812 thousand Euros at 31 December 2018);
- income tax prepayments net of the allocated liability amounting to 1,600 thousand Euros (1,722 thousand Euros at 31 December 2018);
- receivables for withholding tax amounting to 857 thousand Euros (479 thousand Euros at 31 December 2018).

The change compared to the previous year, mainly attributable to the VAT balance, is a temporary phenomenon due to the dynamics of receiving and posting invoices in the last month of the fiscal year.

The item Other receivables mainly includes the contributions receivable in relation to research projects for 6,355 thousand Euros (6,742 thousand Euros at 31 December 2018).

NOTE 27 – CASH AND CASH EQUIVALENTS

The balance of 240,943 thousand Euros, with an increase of 112,883 thousand Euros compared with 31 December 2018, represents cash and cash equivalents as at the end of the year. Changes in cash and cash equivalents are fully detailed in the Consolidated statement of cash flow.

NOTE 28 – SHAREHOLDERS' EQUITY

SHARE CAPITAL

On 31 December 2019 the company capital of Reply S.p.A, wholly undersigned and paid up, amounted to 4,863,486 Euros and is composed of n. 37,411,428 ordinary shares with nominal value of 0.13 Euros each.

The number of shares in circulation as at 31 December 2019 totaled 37,407,400 unchanged compared to year-ended 2018.

TREASURY SHARES

The value of the Treasury shares, amounting to 25 thousand Euros, refers to the shares of Reply S.p.A. held by the parent company, that at 31 December 2019 were equal to n. 4,028.

CAPITAL RESERVES

On 31 December 2019 Capital reserves, amounting to 122,836 thousand Euros, were mainly comprised as follows:

- Share premium reserve amounting to 23,303 thousand Euros;
- Treasury share reserve amounting to 25 thousand Euros, relating to the shares of Reply S.p.A held by the Parent Company;
- Reserve for the purchase of treasury shares amounting to 99,976 thousand Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 19 April 2019 Reply S.p.A. re-authorized, in accordance with and for the purposes of Article 2357 of the Italian Civil Code, the purchase of a maximum of 100 million Euros of ordinary shares, corresponding to 20% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

EARNING RESERVES

Earnings reserves amounted to 470,228 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 973 thousand Euros;
- Retained earnings amounted to 355,397 thousand Euros (retained earnings amounted to 321,065 thousand Euros on 31 December 2018);
- Profits/ attributable to shareholders of the Parent Company amounted to 113,858 thousand Euros (99,913 thousand Euros as on 31 December 2018).

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018
Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax:		
Actuarial gains/(losses) from employee benefit plan	(3,043)	634
Total Other comprehensive income that will not be classified subsequently to profit or loss, net of tax (B1):	**(3,043)**	**634**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(1,157)	(1,338)
Gains/(losses) from the translation of assets in foreign currencies	4,347	1,090
Total Other comprehensive income that may be classified subsequently to profit or loss, net of tax (B2):	**3,190**	**(249)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**147**	**385**

NOTE 29 – DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out owed on 31 December 2019 amount to 51,468 thousand Euros inclusive of an exchange difference amounting to 524 thousand Euros and are detailed as follows:

This item refers to the variable consideration defined in the business combination. The distinction between Payables to Minority Shareholders and Earn-Out stems solely from whether or not there is any legal minority interest related to the initial transition.

(THOUSAND EUROS)	31/12/2018	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	EXCHANGE DIFFERENCES	31/12/2019
Payables to minority shareholders	23,817	-	767	(4,885)	325	20,025
Payables for earn-out	21,478	13,823	(1,256)	(2,801)	199	31,443
Total due to minority share-holders and Earn-out	**45,295**	**13,823**	**(489)**	**(7,686)**	**524**	**51,468**

The increase in this item amounting to 13,823 thousand Euros reflects the best estimate of future considerations for earn-outs in relation to the original contracts signed.

In particular:

- in the month of January 2019 the acquisition of Neveling GmbH, a company incorporated under the German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies;
- Blowfish Digital Holdings Ltd and its subsidiaries Threepipe Ltd and Spot Digital Ltd, companies incorporated under the English law of which Reply Ltd. Holds 100% of share capital, acquired in the month of October 2019, specializing in digital marketing and creative agency.

The item Fair value adjustments in 2019 amounted to 489 thousand Euros with a balancing entry in Profit and loss and reflects the best estimate in relation to the deferred consideration initially posted at the time of acquisition.

Total payments made amounted to 7,686 thousand Euros and refer to the consideration paid in relation to the initial contracts signed at the time of acquisition.

NOTE 30 – FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2019			31/12/2018		
(THOUSAND EUROS)	**CURRENT**	**NON-CURRENT**	**TOTAL**	**CURRENT**	**NON-CURRENT**	**TOTAL**
Bank overdrafts	1,372	-	1,372	5,578	-	5,578
Bank loans	16,648	25,846	42,493	31,990	23,366	55,356
Total due to banks	**18,020**	**25,846**	**43,866**	**37,569**	**23,366**	**60,935**
Other financial borrowings	537	1,011	1,548	689	881	1,570
IFRS 16 financial liabilities	20,454	71,710	92,164	-	-	-
Total financial liabilities	**39,011**	**98,567**	**137,578**	**38,258**	**24,247**	**62,505**

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

	31/12/2019				31/12/2018			
(THOUSAND EUROS)	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Bank overdrafts	1,372	-	-	1,372	5,578	-	-	5,578
M&A loans	13,429	8,571	-	22,000	30,214	8,571	-	38,785
Mortgage loans	321	6,834	10,440	17,595	455	4,235	10,560	15,250
Other financial borrowings	537	1,011	-	1,548	689	881	-	1,570
IFRS 16 financial liabilities	20,454	48,485	23,225	92,164	-	-	-	-
Derivative financial instruments	2,899	-	-	2,899	1,321	-	-	1,321
Total	**39,012**	**64,901**	**33,665**	**137,578**	**38,258**	**13,687**	**10,560**	**62,505**

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

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

- On 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 thousand Euros detailed as follows:
  - Tranche A, amounting to 10,000 thousand 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 1,000 thousand Euros at 31 December 2019.
  - Tranche B, amounting to 20,000 thousand 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 2,857 thousand Euros at 31 December 2019.
- 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 thousand Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500 thousand Euros 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 1,000 thousand Euros at 31 December 2019.
- 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 17,143 thousand Euros at 31 December 2019.
- 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 thousand Euros to be used by 28 February 2020. As at December 31, 2019 this line had not been used.
- On 29 October 2019 Reply S.p.A. entered into a line of credit with Intesa San Paolo S.p.A. for a total amount of 50,000 thousand Euros to be used by 31 March 2021. The loan will be reimbursed on a half basis deferred to commence on 30 September 2021 and will expire on 30 September 2024. As at December 31, 2019 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 31 December 2019 the Covenants under the various contracts were satisfied.

The item Mortgages refers to financing granted to Tool Reply GmbH, for the acquisition of the building where the German company has its registered office. Reimbursement takes place via six monthly instalments (at 4.28%) with expiry on 31 March 2021.
It should be noted that during the year 2018 Tool Reply GmbH entered into a line of credit with Commerzbank for a total amount amounting to 2,500 thousand Euros to be used by 30 June 2028. The loan is reimbursed on a quarter-year basis (at 0.99%).
It should also 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 thousand 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. Such credit line was used for 15,293 thousand Euros at 31 December 2019.
The item IFRS 16 financial liabilities is related to the financial lease liabilities at 31 December 2019 related to the adoption of the new Accounting Standard IFRS 16.

The item Derivative financial instruments refers to several loans established with primary financial institutions (Intesa Sanpaolo S.p.A. and Unicredit S.p.A.) to hedge changes in floating interest rates on loans and/or mortgages; the total underlying notional amounts to 47,000 thousand Euros. The effective component of the instrument is stated In the Statement of changes in net equity whereas the ineffective portion of the Derivative instrument is recorded at the income statement.

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

NET FINANCIAL POSITION

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's Recommendations for the consistent implementation of the European's regulation on Prospectuses issued on 10 February 2005, the Net financial position of the Reply Group at 31 December 2019.

(THOUSAND EUROS)	**31/12/2019**	**31/12/2018**	**CHANGE**
Cash and cash equivalents	240,943	128,060	112,883
Current financial assets	1,666	997	669
Total financial assets	**242,609**	**129,057**	**113,552**
Current financial liabilities	(18,557)	(38,258)	19,701
Current IFRS 16 financial liabilities	(20,454)	-	(20,454)
Non-current financial liabilities	(26,857)	(24,247)	(2,610)
Non-current IFRS 16 financial liabilities	(71,710)	-	(71,710)
Total financial liabilities	**(137,578)**	**(62,505)**	**(75,073)**
Total net financial position	**105,031**	**66,552**	**38,479**

For further details with regards to the above table see Note 27 as well as Note 30.
Pursuant to the aforementioned recommendations long term financial assets are not included in the net financial position.

Change in financial liabilities during 2019 is summarized below:

(THOUSAND EUROS)	
Total financial liabilities 2018	62,505
Bank overdrafts	(5,578)
IRS	(1,321)
Non-current financial liabilities 2018	**55,606**
IFRS 16 financial liabilities	92,165
Cash flows	(14,464)
Total non-current financial liabilities 2019	**133,307**
Bank overdrafts	1,372
IRS	2,899
Total financial liabilities 2019	**137,578**

NOTE 31 – EMPLOYEE BENEFITS

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Employee severance indemnities	29,385	25,707	3,679
Employee pension funds	12,385	10,518	1,867
Directors severance indemnities	1,569	1,498	71
Other	16	16	-
Total	**43,355**	**37,738**	**5,616**

EMPLOYEE SEVERANCE INDEMNITIES

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

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

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

Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations. In order to allow for the changes introduced by Law 296/06, the re-proportioning was only carried out for employees of companies with fewer than 50 employees that do not pay Employee severance indemnities into supplementary pension schemes.
Reassessment of Employee severance indemnities in accordance with IAS 19 was carried out "ad personam" and on the existing employees, that is analytical calculations were made on each employee in force in the company at the assessment date without considering future work force.

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2019: 2.50% frequency of turnover in 2019: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Average annual rate of 1.2%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. An annual constant rate equal to 0.77% was used for the year 2019.
Annual increase in salaries	Annual increase in salaries equal to 2.4%
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%

From a sensitivity analysis concerning the hypotheses related to the parameters involved in the calculation a:

- change in turnover rate by 1%;
- change in the annual rate of inflation by 1.25%;
- change in the annual discount rate by 1.25%

would not have determined a significant effect on the calculation of the liability.

In accordance with IAS 19, Employment severance indemnities at 31 December 2019, are summarized in the table below:

(THOUSAND EUROS)	
Balance at 31/12/2018	**25,707**
Cost relating to current (service cost) work	4,645
Actuarial gain/loss	1,652
Interest cost	380
Indemnities paid during the year	(2,999)
Balance at 31/12/2019	**29,385**

EMPLOYEE PENSION FUNDS

The Pension fund item relates to liability as regards the defined benefit pensions of some German companies and is detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018
Present value of liability	13,453	11,539
Fair value of plan assets	(1,068)	(1,021)
Net liability	**12,384**	**10,518**

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

(THOUSAND EUROS)	
Present value at beginning of the year	**11,539**
Service cost	40
Interest cost	216
Actuarial gains/(losses)	2,027
Indemnities paid during the year	(369)
Present value at year end	**13,453**

The assumptions adopted were as follows:

Discount rate	0,8%
Rate of future compensation increases	2,0%
Rate of pension increases	1%-2%

DIRECTORS SEVERANCE INDEMNITIES

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 71 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2019.

NOTE 32 – DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2019 amounted to 19,810 thousand Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(THOUSAND EUROS)	31/12/2019	31/12/2018
Deductible items off the books	3,077	1,870
Other	16,733	15,258
Total	**19,810**	**17,128**

The item Other mainly includes the measurement of contract work in progress, employee benefits, capitalization of development costs and reversal of amortization of intangible assets.

Deferred tax liabilities have not been recognized on retained earnings of the subsidiary companies as the Group is able to control the timing of distribution of said earnings and in the near future does not seem likely.

NOTE 33 - PROVISIONS

Provisions amounted to 9,577 thousand Euros (of which 8,897 thousand Euros are non-current).

Change in 2019 is summarized in the table below:

(THOUSAND EUROS)	BALANCE AT 31/12/2018	ACCRUALS	UTILIZATION	REVERSALS	OTHER CHANGES	BALANCE AT 31/12/2019
Fidelity fund	319	141	(8)	(2)	-	450
Provision for risks	7,010	3,605	(915)	(520)	(54)	9,127
Total	**7,329**	**3,746**	**(922)**	**(522)**	**(54)**	**9,577**

Employee fidelity provisions refer mainly to provisions made for the employees of some German companies in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.

The Provision for risks represents the best estimate for contingent liabilities. The accrual of the year is referred to the update of this estimate and to new legal ongoing controversies, lawsuits with former employees and other liabilities in Italy and abroad.
The item Utilization is related to the merger by incorporation described in Note 40 recognizing to the minority shareholders the payment of the sums established. The expenses arising from this agreement were accrued in previous years.
Other changes mainly refer to translation differences.

NOTE 34 – TRADE PAYABLES

Trade payables at 31 December 2019 amounted to 119,951 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Domestic suppliers	97,719	99,600	(1,881)
Foreign suppliers	22,788	24,376	(1,588)
Advances to suppliers	(556)	(590)	34
Total	**119,951**	**123,387**	**(3,436)**

NOTE 35 – OTHER CURRENT LIABILITIES

Other current liabilities at 31 December 2019 amounted to 339,113 thousand Euros with an increase of 43,005 thousand Euros with respect to the previous financial year.

Detail is as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Income tax payable	8,750	8,000	750
VAT payable	20,651	13,802	6,850
Withholding tax and other	8,163	7,423	740
Total due to tax authorities	**37,564**	**29,224**	**8,340**
National social insurance payable	31,552	28,308	3,244
Other	2,997	2,417	580
Total due to social securities	**34,549**	**30,725**	**3,824**
Employee accruals	90,503	80,354	10,150
Other payables	159,890	139,043	20,847
Accrued expenses and deferred income	16,608	16,764	(156)
Total other payables	**267,001**	**236,160**	**30,814**
Other current liabilities	**339,113**	**296,109**	**43,005**

Due to tax authorities amounting to 37,564 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.

Due to social security authorities amounting to 34,549 thousand Euros, is related to both Company and employees' contribution payables.

Other payables at 31 December 2019 amount to 267,001 thousand Euros and mainly include:

- amounts due to employees that at the balance sheet date had not yet been paid;
- remuneration of directors recognized as participation in the profits of the subsidiary companies;
- advances received from customers exceeding the value of the work in progress amounting to 115,512 thousand Euros.

The increase of other payables owes mainly to the increase in advances received from customers exceeding the amount of the work in progress.

Accrued Expenses and Deferred Income mainly relate to advance invoicing in relation to T&M consultancy activities to be delivered in the subsequent financial year.

NOTE 36 – SEGMENT REPORTING

Segment reporting has been prepared in accordance with IFRS 8, determined as the area in which the services are executed.

(THOUSAND EUROS)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2019	%
Revenues	803,803	100	271,324	100	120,513	100	504	100	(13,616)	1,182,528	100
Operating costs	(666,464)	(82.9)	(229,869)	(84.7)	(104,326)	(86.6)	(4,178)	(828.6)	13,616	(991,221)	(83.8)
Gross operating income	**137,339**	**17.1**	**41,455**	**15.3**	**16,188**	**13.4**	**(3,674)**	**(728.6)**	**-**	**191,307**	**16.2**
Amortization, depreciation and write-downs	(22,295)	(2.8)	(9,238)	(3.4)	(5,560)	(4.6)	(147)	(29.1)		(37,239)	(3.1)
Other non-recurring (costs)/ income	-	-	1,673	0.6	(417)	(0.3)	-	-		1,256	0.1
Operating income	**115,044**	**14.3**	**33,890**	**12.5**	**10,210**	**8.5**	**(3,821)**	**(757.6)**	**-**	**155,324**	**13.1**
Gain/(loss) on investments	-	-	-	-	(28)	-	11,392	2,259		11,364	1.0
Financial income/ (loss)	993	0	(3,344)	(1.2)	(1,515)	(1.3)	(1,402)	(278.0)		(5,268)	(0.4)
Income before taxes	**116,037**	**14.4**	**30,545**	**11.3**	**8,668**	**7.2**	**6,169**	**1,223**	**-**	**161,419**	**13.7**

(THOUSAND EUROS)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2018	%
Revenues	716,099	100	207,518	100	120,661	100	1,683	100	(10,167)	1,035,793	100
Operating costs	(607,138)	(84.8)	(181,779)	(87.6)	(107,037)	(88.7)	(5,170)	(307.2)	10,167	(890,957)	(86.0)
Gross operating income	**108,961**	**15.2**	**25,738**	**12.4**	**13,624**	**11.3**	**(3,487)**	**(207.2)**	**-**	**144,836**	**14.0**
Amortization, depreciation and write-downs	(9,590)	(1.3)	(2,442)	(1.2)	(1,793)	(1.5)	(23)	(1.4)		(13,848)	(1.3)
Other non-recurring (costs)/ income	1,713	-	205	-	(496)	(0.4)	-	-		1,422	-
Operating income	**101,084**	**14.0**	**23,501**	**11.3**	**11,335**	**9.4**	**(3,510)**	**(208.5)**	**-**	**132,410**	**12.8**
Gain/(loss) on investments	-	-	-	-	-	-	6,862	408.0		6,862	0.6
Financial income/ (loss)	5,625	1	(715)	(0.3)	(862)	(0.7)	(4,103)	(243.8)		(55)	-
Income before taxes	**106,709**	**14.9**	**22,786**	**11.0**	**10,473**	**8.7**	**(751)**	**(44.6)**	**-**	**139,217**	**13.4**

Breakdown of revenues by type is as follows:

(THOUSAND EUROS)	REGION 1		REGION 2		REGION 3		IOT INCUBATOR	
BUSINESS LINE	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
T&M	136,647	110,506	141,088	117,932	62,667	63,600	-	-
Fixed price projects	667,156	605,593	130,236	89,586	57,846	57,061	-	-
Other business	-	-	-	-	-	-	504	1,683
Total	**803,803**	**716,099**	**271,324**	**207,518**	**120,513**	**120,661**	**504**	**1,683**

The following table provides a breakdown of net invested capital by Region:

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEGMENT	TOTAL 2019
Current operating assets	438,195	96,720	47,120	703	(35,604)	547,134
Current operating liabilities	(363,886)	(80,186)	(36,095)	(15,180)	35,604	(459,744)
Net working capital (A)	**74,308**	**16,534**	**11,025**	**(14,477)**	**-**	**87,390**
Non-current assets	187,425	167,119	103,459	60,167		518,170
Non-financial liabilities long term	(61,233)	(47,959)	(14,338)	-		(123,530)
Fixed capital (B)	**126,192**	**119,160**	**89,121**	**60,167**	**-**	**394,640**
Net invested capital (A+B)	**200,500**	**135,694**	**100,146**	**45,690**	**-**	**482,030**

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEGMENT	TOTAL 2018
Current operating assets	465,884	76,609	45,146	163	(22,710)	565,092
Current operating liabilities	(338,074)	(61,973)	(28,678)	(13,787)	22,710	(419,803)
Net working capital (A)	**127,810**	**14,636**	**16,467**	**(13,625)**	**-**	**145,288**
Non-current assets	142,988	122,281	65,914	48,600		379,783
Non-financial liabilities long term	(56,097)	(42,397)	(6,517)	-		(105,011)
Fixed capital (B)	**86,891**	**79,884**	**59,397**	**48,600**	**-**	**274,772**
Net invested capital (A+B)	**214,701**	**94,520**	**75,864**	**34,975**	**-**	**420,060**

Breakdown of employees by Region is as follows:

REGION	2019	2018	CHANGE
Region 1	5,702	5,435	267
Region 2	1,715	1,516	199
Region 3	737	642	95
IoT Incubator	3	13	(10)
Total	**8,157**	**7,606**	**551**

NOTE 37 – ADDITIONAL DISCLOSURES 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 2019 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. To mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as “cash flow hedges”.

SENSITIVITY ANALYSIS

In assessing the potential impact of changes in interest rates, the company separates fixed rate financial instruments (for which the impact is assessed in terms of fair value)) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).

Floating rate financial instruments include principally cash and cash equivalents and part of debt.

A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2019 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 241 thousand Euros.

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

FAIR VALUE ASSESSMENT HIERARCHY LEVELS

The IFRS 13 establishes a fair value hierarchy which classifies the input of evaluation techniques on three levels adopted for the measurement of fair value. Fair value hierarchy attributes maximum priority to prices quoted (not rectified) in active markets for identical assets and liabilities (Level 1 data) and the non-observable minimum input priority (Level 3 data). In some cases, the data used to assess the fair value of assets or liabilities could be classified on three different levels of the fair value hierarchy. In such cases, the evaluation of fair value is wholly classified on the same level of the hierarchy in which input on the lowest level is classified, taking account its importance for the assessment.

The levels used in the hierarchy are:

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

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2019, according to the fair value hierarchical assessment level.

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Investments	21	-	-	56,992
Convertible loans	22	-	-	1,944
Financial securities	22	1,666	-	-
Total financial assets		**1,666**	**-**	**58,936**
Derivative financial liabilities (IRS)			2,899	
Liabilities to minority shareholders and earn out	29	-	-	51,468
Total financial liabilities		**-**	**2,899**	**51,468**

The valuation of investments in start-up within the Internet of Things (IoT) business, through the acquisition of equity investments and through the issuance of convertible loans, is based on data not directly observable on active stock markets, and therefore falls under the fair value hierarchical Level 3.

The item Financial securities is related to securities listed on the active stock markets and therefore falls under the fair value hierarchical level 1.
To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes). The latter, in the calculation of their estimates made use of data observed on the market directly (interest rates) or indirectly (interest rate interpolation curves observed directly): consequently, for the purposes of IFRS7 the fair value used by the Group for the exploitation of hedging derivatives contracts in existence as at 30 June 2019 re-enters under the hierarchy profile in level 2.

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 2019, there have not been any transfers within the hierarchy levels.

NOTE 38 – TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 Related parties are Group companies and persons that are able to exercise control, joint control or have significant influence on the Group and on its subsidiaries. Transactions carried out by the group companies with related parties that as of the reporting date are considered ordinary business and are carried out at normal market conditions.

The main economic and financial transactions with related parties is summarized below.

(THOUSAND EUROS)

FINANCIAL TRANSACTIONS	31/12/2019	31/12/2018	NATURE OF TRANSACTION
Trade receivables	153	25	Receivables from professional services
Trade payables and other	-	136	Payables for professional services and official rentals offices
Other payables	5,210	4,522	Payables for emoluments to Directors and Managers with strategic responsibilities and Board of Statutory Auditors
ECONOMIC TRANSACTIONS	**2019**	**2018**	**NATURE OF TRANSACTION**
Revenues from professional services	158	21	Receivables from professional services
Services from Parent company and related parties	1,158	1,098	Service contracts relating to office rental, and office administration
Personnel	9,268	8,596	Emoluments to Directors and Key Management with strategic responsibilities
Services and other costs	122	122	Emoluments to Statutory Auditors

With reference the Cash flows statement, the above mentioned transactions impact the change in working capital by 424 thousand Euros.

REPLY GROUP MAIN ECONOMIC AND FINANCIAL TRANSACTIONS

In accordance with IAS 24, emoluments to Directors, Statutory Auditors and Key Management are also included in transactions with related parties (please see the Annual Report on remuneration).

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006 the financial statements present the Consolidated Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption.

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

NOTE 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 function, including those in other subsidiary companies, are as follows:

(THOUSAND EUROS)	2019	2018
Executive Directors	6,804	6,630
Statutory auditors	122	122
Total	**6,926**	**6,752**

Emoluments to Key management amounted to approximately 2,464 thousand Euros (1,966 thousand Euros at 31 December 2018).

NOTE 40 – GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

Note that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euros). On June 2018, the German court took note of the agreement reached between the parties also affected by the agreement related to the merger of the following point. With regard to shareholders who did not join the settlement agreement, in February 2019, the German Court issued a judgment that provides for an increase of 1.81 euros in the price paid per share and an increase of 0.07 euros gross of the dividends paid in 2010-2013. The financial effects on the Group are covered by specific provisions.

- 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 past, 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 is covered by specific provisions (please see Note 33).

CONTINGENT LIABILITIES

As an international company, the Group is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Group financial position and results.

Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Group recognizes specific provision for this purpose.

NOTE 41 – EVENTS SUBSEQUENT TO 31 DECEMBER 2019

Reply has responded to the pandemic generated by the corona virus by implementing on a large scale- in all countries and with almost all customers - a new way of working: our systems are in the Cloud and we have advanced individual productivity tools that have allowed us to instantly reconfigure all our activities in "smart working/ home office" ensuring the safety of our people and the continuity of our services.

In this regard, it important to remark the organizational structure (including the supplier ecosystem), the financial strength of the Group, the diversification of the business in various countries, markets and industrial sectors, allows us to act/react quickly by locally implementing the actions necessary to minimize on a global scale the economic impacts of the pandemic.

Over time Reply has developed a number of solutions and technologies for digital workplace and remote learning (TamTamy), Telemedicine (Ticuro) and Crowd Sourcing (StarBytes) that are available in order to help and support this new way of living now commonly referred to as "stay at home".

NOTE 42 – APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The Consolidated financial statements at 31 December 2019 were approved by the Board of Directors on March 13, 2020 which authorized the publication within the terms of law.

ANNEXED TABLES

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

(THOUSAND EUROS)	2019	OF WHICH WITH RELATED PARTIES	%	2018	OF WHICH WITH RELATED PARTIES	%
Revenues	**1,182,528**	**158**	**0.01%**	**1,035,793**	**21**	**-**
Other income	23,159	-	-	14,996	-	-
Purchases	(21,250)	-	-	(20,513)	-	-
Personnel	(578,263)	(9,268)	1.6%	(508,652)	(8,596)	1.7%
Services and other costs	(414,077)	(1,280)	0.3%	(379,730)	(1,220)	0.3%
Amortization, depreciation and write-downs	(37,239)	-	-	(13,848)	-	-
Other unusual (cost)/income	466	-	-	4,364	-	-
Operating income	**155,324**	**-**	**-**	**132,410**	**-**	**-**
Income from associate companies	11,364	-	-	6,862	-	-
Financial income/(expenses)	(5,268)	-	-	(55)	-	-
Income before taxes	**161,419**	**-**	**-**	**139,217**	**-**	**-**
Income taxes	(44,829)	-	-	(38,230)	-	-
Net income	**116,590**	**-**	**-**	**100,987**	**-**	**-**
Non-controlling interest	(2,732)	-	-	(1,075)	-	-
Group net result	**113,858**	**-**	**-**	**99,913**	**-**	**-**

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

(THOUSAND EUROS)	31/12/2019	OF WHICH WITH RELATED PARTIES	%	31/12/2018	OF WHICH WITH RELATED PARTIES	%
Tangible assets	48,298	-	-	44,452	-	-
Goodwill	267,541	-	-	243,236	-	-
Intangible assets	13,676	-	-	14,201	-	-
RoU Assets	90,569			-		
Equity investments	56,991	-	-	47,512	-	-
Other financial assets	7,567	-	-	5,255	-	-
Deferred tax assets	33,527	-	-	27,299	-	-
Non-current assets	**518,170**	**-**	**-**	**381,955**	**-**	**-**
Inventories	75,328	-	-	77,061	-	-
Trade receivables	432,240	153	0.04%	434,389	25	-
Other receivables and current assets	39,566	-	-	53,642	-	-
Financial assets	1,666	-	-	997	-	-
Cash and cash equivalents	240,943	-	-	128,060	-	-
Current assets	**789,743**	**-**	**-**	**694,149**	**-**	**-**
TOTAL ASSETS	**1,307,913**	**-**	**-**	**1,076,104**	**-**	**-**
Share Capital	4,863	-	-	4,863	-	-
Other reserves	465,000	-	-	380,521	-	-
Net result of the period	113,858	-	-	99,913	-	-
Group shareholders' equity	**583,722**	**-**	**-**	**485,297**	**-**	**-**
Non-controlling interest	3,339	-	-	1,315	-	-
NET EQUITY	**587,061**	**-**	**-**	**486,612**	**-**	**-**
Due to minority shareholders	51,468	-	-	45,295	-	-
Financial liabilities	26,857	-	-	24,247	-	-
Financial liabilities from RoU	71,710			-		
Employee benefits	43,355	-	-	37,738	-	-
Deferred tax liabilities	19,810	-	-	17,128	-	-
Provisions	8,897	-	-	7,021	-	-
Non-current liabilities	**222,098**	**-**	**-**	**131,430**	**-**	**-**
Financial liabilities	18,557	-	-	38,258	-	-
Financial liabilities from RoU	20,454	-	-	-	-	-
Trade payables	119,951	-	-	123,387	136	0.1%
Other current liabilities	339,113	5,210	1.5%	296,109	4,522	1.5%
Provisions	680	-	-	308	-	-
Current liabilities	**498,755**	**-**	**-**	**458,061**	**-**	**-**
TOTAL LIABILITIES	**720,853**	**-**	**-**	**589,492**	**-**	**-**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,307,913**	**-**	**-**	**1,076,104**	**-**	**-**

LIST OF COMPANIES AT 31 DECEMBER 2019

COMPANY NAME	HEADQUARTERS	GROUP INTEREST
Parent company		
Reply S.p.A.	Turin – Corso Francia, 110 - Italy	
Companies consolidates on a line-by-line basis		
4brands Reply GmbH & CO. KG. (**)	Minden, Germany	51.00%
Air Reply S.r.l. (*)	Turin, Italy	85.00%
Arlanis Reply S.r.l.	Turin, Italy	100.00%
Arlanis Reply AG	Potsdam, Germany	100.00%
Aktive Reply S.r.l.	Turin, Italy	100.00%
Atlas Reply S.r.l.	Turin, Italy	100.00%
Avantage Reply Ltd. (***)	London, United Kingdom	100.00%
Avantage Reply GmbH (formerly Xuccess Reply GmbH)	Munich, Germany	100.00%
Avantage Reply (Belgium) Sprl	Brussels, Belgium	100.00%
Avantage Reply (Luxembourg) Sarl	Itzig, Luxembourg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherland	100.00%
Avvio Reply Ltd	London, United Kingdom	100.00%
Blowfish Digital Holdings Ltd.	London, United Kingdom	100.00%
Blue Reply S.r.l.	Turin, Italy	100.00%
Blue Reply GmbH	Guetersloh, Germany	100.00%
Bridge Reply S.r.l.	Turin, Italy	60.00%
Business Reply S.r.l.	Turin, Italy	100.00%
Breed Reply Ltd	London, United Kingdom	100.00%
Breed Reply Investment Ltd	London, United Kingdom	80.00%
Cluster Reply S.r.l.	Turin, Italy	100.00%
Cluster Reply GmbH & CO. KG (**)	Munich, Germany	100.00%
Cluster Reply Informatica LTDA.	San Paolo, Brazil	100.00%
Cluster Reply Roma S.r.l.	Turin, Italy	100.00%
Comsysto D.O.O.	Zagreb, Croatia	100.00%
ComSysto GmbH (*)	Munich, Germany	100.00%
Concept Reply GmbH	Munich, Germany	100.00%
Consorzio Reply Public Sector	Turin, Italy	100.00%
Core Reply S.r.l.	Turin, Italy	100.00%
Data Reply S.r.l.	Turin, Italy	100.00%
Data Reply GmbH (*)	Munich, Germany	92.50%

Discovery Reply S.r.l.	Turin, Italy	100.00%
e*finance consulting Reply S.r.l.	Turin, Italy	100.00%
Ekip Reply S.r.l.	Turin, Italy	100.00%
Elbkind Reply GmbH	Hamburg, Germany	100.00%
Eos Reply S.r.l.	Turin, Italy	100.00%
Envision Reply S.r.l.	Turin, Italy	88.00%
Forge Reply S.r.l.	Turin, Italy	100.00%
France Reply Ltd (***)	London, United Kingdom	100.00%
Go Reply S.r.l.	Turin, Italy	100.00%
Go Reply GmbH	Guetersloh, Germany	100.00%
Hermes Reply S.r.l.	Turin, Italy	100.00%
Hermes Reply Consulting (Nanking) Co. Ltd.	China	100.00%
Hermes Reply Polska zo.o	Katowice, Poland	100.00%
Implico LLC	Seattle, USA	100.00%
Industrie Reply GmbH	Munich, Germany	100.00%
Industrie Reply LLC	Michigan, USA	100.00%
Infinity Reply GmbH	Düsseldorf, Germany	100.00%
IrisCube Reply S.r.l.	Turin, Italy	100.00%
Leadvise Reply GmbH	Darmstadt, Germany	100.00%
Lem Reply S.r.l.	Turin, Italy	100.00%
Like Reply S.r.l.	Turin, Italy	100.00%
Live Reply GmbH	Düsseldorf, Germany	100.00%
Logistics Reply S.r.l.	Turin, Italy	100.00%
Lynx Recruiting Ltd (***)	London, United Kingdom	100.00%
Macros Reply GmbH	Munich, Germany	100.00%
MCG Systems AG	Colony, Germany	100.00%
Modcomp GmbH	Colony, Germany	100.00%
Neveling.net GmbH	Hamburg, Germany	100.00%
Open Reply GmbH	Guetersloh, Germany	100.00%
Open Reply S.r.l.	Turin, Italy	100.00%
Pay Reply S.r.l	Turin, Italy	100.00%
Portaltech Reply Ltd.	London, United Kingdom	100.00%
Portaltech Reply S.r.l.	Turin, Italy	100.00%
Portaltech Reply GmbH	Guetersloh, Germany	100.00%

Portaltech Reply Süd GmbH	Munich, Germany	100.00%
Power Reply S.r.l.	Turin, Italy	100.00%
Power Reply GmbH & CO. KG (**)	Munich, Germany	100.00%
Profondo Reply GmbH	Guetersloh, Germany	100.00%
Protocube Reply S.r.l.	Turin, Italy	70.00%
Reply Consulting S.r.l.	Turin, Italy	100.00%
Reply AG	Guetersloh, Germany	100.00%
Reply GmbH	Zurich, Switzerland	100.00%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte, Brazil	100.00%
Reply Inc.	Michigan, USA	100.00%
Reply Ltd.	London, United Kingdom	100.00%
Reply Belgium Sprl	Mont Saint Guibert, Netherland	100.00%
Reply Digital Experience S.r.l.	Turin, Italy	100.00%
Reply France Sarl	Paris, France	100.00%
Reply Luxembourg Sarl	Sandweiler, Luxembourg	100.00%
Reply NL Ltd. (***)	London, United Kingdom	100.00%
Reply Services S.r.l.	Turin, Italy	100.00%
Reply Verwaltung GmbH	Guetersloh, Germany	100.00%
Retail Reply S.r.l.	Turin, Italy	100.00%
Ringmaster S.r.l.	Turin, Italy	50.00%
Risk Reply Ltd (***)	London, United Kingdom	100.00%
Riverland Reply GmbH	Munich, Germany	100.00%
Santer Reply S.p.A.	Milan, Italy	100.00%
Security Reply S.r.l.	Turin, Italy	100.00%
Sense Reply S.r.l.	Turin, Italy	90.00%
Solidsoft Reply Ltd.	London, United Kingdom	100.00%
Spark Reply S.r.l.	Turin, Italy	100.00%
Spark Reply GmbH	Germany	100.00%
Spike Reply GmbH	Colony, Germany	100.00%
Sprint Reply S.r.l.	Turin, Italy	100.00%
Sprint Reply GmbH (formerly Twice Reply GmbH)	Munich, Germany	100.00%
Storm Reply S.r.l.	Turin, Italy	100.00%

Storm Reply GmbH	Guetersloh, Germany	100.00%
Syskoplan Reply S.r.l.	Turin, Italy	100.00%
Syskoplan Reply GmbH & CO. KG (**)	Guetersloh, Germany	100.00%
Sytel Reply Roma S.r.l.	Turin, Italy	100.00%
Sytel Reply S.r.l.	Turin, Italy	100.00%
Target Reply S.r.l.	Turin, Italy	100.00%
TamTamy Reply S.r.l.	Turin, Italy	100.00%
Technology Reply S.r.l.	Turin, Italy	100.00%
Technology Reply Roma S.r.l.	Turin, Italy	100.00%
Technology Reply S.r.l.	Bucharest, Romania	100.00%
TD Reply GmbH	Berlin, Germany	100.00%
TD Marketing Consultants, Beijing Co. Ltd	China	100.00%
Threepipe Reply Ltd.	London, United Kingdom	100.00%
Tool Reply Gmbh	Guetersloh, Germany	100.00%
Triplesense Reply GmbH	Frankfurt, Germany	100.00%
Valorem LLC (*)	Kansas City, USA	80.00%
Valorem Private Ltd	India	99.99%
Valorem GmbH	Zurich, Switzerland	100.00%
WM Reply Inc.	Illinois, USA	80.00%
WM Reply LLC (formerly First Development Hub LLC)	Minsk, Belarus	100.00%
WM Reply Ltd (***)	London, United Kingdom	100.00%
Whitehall Reply S.r.l.	Turin, Italy	100.00%
Xister Reply S.r.l. (*)	Turin, Italy	89.20%

Companies carried at fair value

Amiko Digital Health Limited	England	22.73%
Appy Parking	England	9.86%
Cage Eye	Norway	9.95%
Callsign	England	3.61%
Canard Drones	Spain	24.06%
Connecterra BV	Belgium	23.06%
FoodMarble	England	23.45%
iNova Design Ltd.	England	34.05%
Iotic Labs Limited	England	16.28%
Kokoon Technology Ltd	England	33.77%
Metron Sas	France	10.11%
RazorSecure Ltd	England	32.03%
Senseye Ltd	England	12.58%
Sensoria Inc.	USA	24.00%
TAG Sensors	Norway	15.60%
Ubirch	Germany	18.51%
We Predict Ltd	England	16.64%
Wearable Technologies Ltd	England	19.32%
Zeetta Networks Limited	England	29.28%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting reflects Management's best estimate as at the closing date of the 2019 Annual Financial Report.

(**) These companies are exempt from filing statutory financial statements in Germany under the German law § 264b HGB.

(***) As permitted under English law, these subsidiary companies have claimed audit exemption under Companies Act 2006: Avvio Reply Ltd Company No. 02865104, Avantage Reply Ltd Company No. 05177605, Lynx Recruitment Ltd Company No. 04289642, Portaltech Reply Ltd Company No. 03999284, Solidsoft Reply Ltd Company No. 02853022, Risk Reply Ltd Company No. 09030959, France Reply Ltd Company No. 08823238, Reply NL Ltd Company No. 09920476. The parent, Reply S.p.A has given a statement of guarantee under Companies Act Section 479C whereby Reply S.P.A will guarantee all outstanding liabilities to which aforementioned UK registered companies are subject as at 31 December 2019.

INFORMATION IN ACCORDANCE WITH ARTICLE 149-DUODECIES ISSUED BY CONSOB

The following table, prepared in accordance with Art. 149-duodeciesof Consob's Regulations for Issuers reports the amount of fees charged in 2019 for the audit and audit related services provided by the Independent Auditors and by entities that are part of the Independent Auditors' network.

(THOUSAND EUROS)	SERVICE PROVIDER	GROUP ENTITY	FEE 2019
Audit	PwC S.p.A.	Parent company - Reply S.p.A.	41
	PwC S.p.A.	Subsidiaries	319
	PwC LLP - US	Subsidiaries	85
	PwC GmbH	Subsidiaries	205
	PwC LLP - UK	Subsidiaries	117
	Total		**767**
Audit related services	PwC S.p.A.	Parent company - Reply S.p.A.[1]	3
	PwC S.p.A.	Parent company - Reply S.p.A. [2]	32
	PwC S.p.A.	Subsidiaries [1]	25
	PwC S.p.A.	Subsidiaries [3]	20
	Total		**80**
Total			**847**

[1] Signed tax forms (Modello Unico, IRAP and Form 770)
[2] DNF
[3] Audit of Research and development costs

ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2019.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2019 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 Consolidated Financial Statement

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

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

Turin, 13 March 2020

/s/ Mario Rizzante
Chairman
and Chief Executive Officer
Mario Rizzante

/s/ Giuseppe Veneziano
Director responsible of drawing up the
accounting documents
Giuseppe Veneziano

REPORT OF THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

related to the financial consolidated financial statements as at 31 December 2019

Dear Shareholders,

The Board of Directors is submitting to you the Consolidated Financial Statements as at 31 December 2019 prepared in conformity with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Changes in Shareholders' Equity, Consolidated Cash Flow Statement, and the Notes to the Financial Statements.

The Consolidated Financial Statements as at 31 December 2019 present a consolidated Shareholders' equity amounting to 583,108 thousand Euros, including a consolidated profit of 113,858 thousand Euros.

The Report on Operations adequately illustrates the financial, economic and earnings position, the trend, at a consolidated level, of Reply S.p.A. and its subsidiaries during the financial year and after its end, as well as the breakdown of the principal business lines and the consolidated results.

The consolidation area is determined in such context, which included as at 31 December 2019 in addition to the Parent Company, 120 companies and 1 consortium, all of which consolidated on a line-by-line basis.

The controls made by the Independent Auditor PricewaterhouseCoopers S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2019 are supported by the Parent Company's accounting records, in the financial statements for the reporting period of the subsidiaries, and in the information that they have formally communicated.

Such financial statements submitted by the subsidiaries to the Parent Company, for purposes of the preparation of the Consolidated Financial Statements, prepared by the respective competent corporate bodies, have been reviewed by the bodies and/or persons in charge of the audit of the individual companies, according to their respective legal systems, and by the Independent Auditor in the context of the procedures followed for the audit of the Consolidated

Financial Statements.

The Board of Statutory Auditors did not audit the financial statements of such companies.

PricewaterhouseCoopers S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements, has issued its report on March 30, 2020 in which it confirms that, in its opinion:

- the Consolidated Financial Statements of the Reply Group as at 31 December 2019 conform to the International Financial Reporting Standards (IFRS) endorsed by the European Union, as well as to the measures issued to implement Article 9 of Legislative Decree 38/2005 and, therefore, they were prepared with clarity and represent a true and fair view of the financial and economic position, the economic result and the cash flows of the Reply Group as at such date;
- the Report on Operations and some of the information pursuant to Article 123-bis, paragraph 4 of Legislative Decree 58/1998 presented in the Report on Corporate Governance and Ownership Structure are consistent with the Consolidated Financial Statements and are prepared in accordance to the law.

PricewaterhouseCoopers S.p.A. has identified the valuation of goodwill.

On the basis of the audits and controls carried out, we certify that:

- The consolidation area has been determined in a correct manner;
- The consolidation procedures adopted conform to legal requirements and have been properly applied;
- The review of the Report on Operations demonstrated that it is consistent with the consolidated Financial statements;
- All the information used for the consolidation refers to the entire administrative period represented by the financial year 2019;
- The measurement criteria are homogeneous with those used for the previous reporting period;
- Changes in consolidation compared to 31 December 2018 consist in the inclusion of the following companies:
  - Blowfish Digital Holding Ltd;
  - Core Reply S.r.l.;
  - Hermes Reply Consulting (Nanjing) Co. Ltd.;
  - Neveling.net GmbH;
  - Spot Digital Ltd;

- Threepipe Reply Ltd;
- WM Reply Inc;

- Whereas the following companies are no longer in consolidation:
  - Consorzio Reply Energy;
  - InEssence Reply GmbH;
  - Twice Reply S.r.l..

Genova-Turin, 30 March 2020

THE STATUTORY AUDITORS

(Dott. Giorgio Mosci)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Piergiorgio Re)

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Reply SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Reply Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2019, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and the explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Evaluation of the recoverability of goodwill	
Note 18 to the consolidated financial statements "Goodwill"	
The goodwill as of 31 December 2019 amounted to Euro 268 million, was related to the Region 1's cash generating unit ("CGU") for Euro 91 million, to the Region 2's CGU for Euro 109 million and to Region 3's CGU for Euro 68 million. Goodwill represents approximately 29% of total assets, therefore is a significant line item of the annual financial report.	The audit procedures performed included the analysis of the consistency between the impairment test procedures approved by the board of directors, the requirements of the International Accounting Standard 36 and the impairment test procedure effectively in place.
Group's management tests the impairment of each identified CGU's goodwill, by comparing the carrying amount with the recoverable amount in accordance with IAS 36 (impairment test), annually or when there is any indication of impairment based on which the value of the goodwill is expected to be recovered with difficulty. Group management with the support of external experts, performed the annual impariment test as at 31 December 2019 for all the CGUs identified. Based on the impariment test performed as at 31 December 2019 the recoverable amounts of all the CGUs identified resulted higher than the carrying values. The impairment test involved the usage of complex estimates for instance those related to future cash flows and related normalization, discount rates and growth rate used to estimate the terminal value beyond the projections of the explicit cash flows.	We analysed the key assumptions utilized to determine the net present value of the prospective cash flows. These activities have been performed through discussion held with Group's management, comparing discount rate and growth rate with market benchmark, with indications provided by external experts and with corresponding assumptions and parameters used in the context of impairment test performed for the previous annual financial report. Additionally, we evaluated the consistency between the expected cash flows used for the impairment test and the ones approved by the Board of Directors and we verified the accuracy of the underlying calculations. These activities have been integrated with the support of PwC experts with the review of Group's management sensitivity analyses performed on risk factors identified, and on some parameters used in the impariment test like discount rate and growth rate.
This was an area of particular audit focus because of the CGU's goodwill materiality and the complexity of the assumptions used to determine the value in use.	Lastly, we verified the adequacy of the financial disclosure based on international financial reporting standards requirements, also considering information and data obtained during our audit, with a particular

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	focus on the description of the impairment test process, disclosure of main assumptions, quantitative results of the impariment test and sensitivity analysis.

Other Matters

The consolidated financial statements of the Reply Group for the year ended 31 December 2018 have been audited by another auditor who, on 26 March 2019, expressed a judgment without modification on these financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Reply SpA or to cease operations or have no realistic alternative but to do so.
The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other 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 determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 19 April 2019, the shareholders of Reply SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2019 to 31 December 2027.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Reply SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Reply Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Reply Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Reply Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Reply SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Turin, 30 March 2020

PricewaterhouseCoopers SpA

Signed by

Mattia Molari
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers