



**REPLY
ANNUAL
FINANCIAL
REPORT
2019**

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BOARD OF DIRECTORS AND CONTROLLING BODIES

Chairman and Chief Executive Officer

Mario Rizzante

Chief Executive Officer

Tatiana Rizzante

Executive Directors

Filippo Rizzante

Daniele Angelucci

Claudio Bombonato

Elena Maria Previtiera

Fausto Forti ⁽¹⁾ ⁽²⁾ ⁽³⁾

Secondina Giulia Ravera ⁽¹⁾ ⁽²⁾

Francesco Umile Chiappetta ⁽¹⁾ ⁽²⁾

Board of Statutory Auditors**President**

Giorgio Mosci

Statutory Auditors

Piergiorgio Re

Ada Alessandra Garzino Demo

Auditing firm

PwC S.p.A.

(1) Directors not invested with operational proxies

(2) Independent Directors according to the Corporate Governance code drawn up by the Committee for Corporate Governance

(3) Lead Independent Director

This report has been translated into English from the original Italian version, in case of doubt the Italian version shall prevail.

THE GROUP'S FINANCIAL HIGHLIGHTS (*)

ECONOMIC FIGURES (THSD EUROS)	2019	%	2018	%	2017	%
Revenue	1,182,528	100.0	1,035,793	100.0	884,434	100.0
Gross operating income	191,307	16.2	144,836	14.0	123,244	13.9
Operating income	155,324	13.1	132,410	12.8	113,873	12.9
Income before taxes	161,419	13.7	139,217	13.4	110,310	12.5
Group net income	113,858	9.6	99,913	9.6	77,871	8.8

FINANCIAL FIGURES (THSD EUROS)	2019	2018	2017
Group shareholders' equity	583,722	485,297	401,404
Non-controlling interest	3,339	1,315	668
Total assets	1,307,913	1,076,104	871,154
Net working capital	87,390	145,288	167,870
Net invested capital	482,030	420,060	345,041
Cash flow	202,793	119,835	73,202
Net financial position	105,031	66,552	57,030

DATA PER SHARE	2019	2018	2017
Number of shares	37,411,428	37,411,428	37,411,428
Operating income per share	4.15	3.54	3.04
Net income per share	3.04	2.67	2.08
Cash flow per share	5.42	3.20	1.96
Shareholders' equity per share	15.60	12.97	10.73

OTHER INFORMATION	2019	2018	2017
Number of employees	8,157	7,606	6,456

(*) Reply applied the new Accounting Standard IFRS 16 prospectively from January 1, 2019 without restatement of comparative data.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

2019 has been a very positive year for Reply: Our sales have exceeded 1,180 million Euros, with net profit growing by more than 14% over the figures obtained at the end of 2018.

Reply's key strength is its ability to interpret digital innovation, making it functional to the needs of companies. 2019 in particular, was characterised by the important development of all our main product and service lines: Cloud, IoT and related products, data platforms and digital experience platforms. Over these 12 months, we have also witnessed an exponential growth in the demand for new applications related to the use of artificial intelligence, an area in which Reply has long shown a continued commitment and in which it has acquired a leadership position.

In 2019, our Group has become an important point of reference, not only in the technological field, but also in the main processes of change that all companies have introduced in order to be able to face increasingly global and interconnected contexts. The rapid evolution of digital technologies is, in

fact, driving the emergence of new markets and competition models, in turn triggering a profound transformation in all industrial and service sectors. These profound changes are made possible, and often accelerated, by the increasing diffusion of new technological paradigms such as artificial intelligence and cloud computing, towards which the entire world economy is moving.

However, we are only at the beginning of a very long journey, and the implications of what can be referred to as the industrial revolution of the 21st century appear to be extremely profound, even and especially in our sector.

Innovation will increasingly stem from the fusion between business and technology which does not readily fit traditional models. Soon, our daily lives will be increasingly made up of more intelligent machines and systems. We will live in ecosystems based on collaboration between humans and robots and immersed in a new reality, a synthesis of the internet, connected objects, artificial intelligence and virtual environments. It is precisely on these grounds that Reply is moving forward.

Reply's mission has always been to interpret new technologies and make them functional to the needs of its customers, as quickly as possible. Based on this principle, we have built a Group made up of highly specialised companies, capable of supporting organisations in a transformation path which, starting from technology, redefines the business models and the underlying competitive levers.

This ability to keep up with innovation is the result of a continuous commitment to the search for the very best people to include in our Group, for synergistic relationships with leading universities, as well as continuous investments in the evolution of our skills, both process-related and technological.

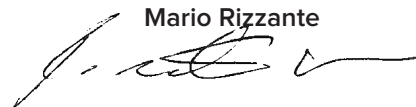
Today we are experiencing a situation heavily influenced by the effects of the global COVID-19 pandemic, causing upheavals in business operations, as well as sudden changes in people's everyday lives. The overall impact of this pandemic is not yet known, and the coming months will present us with unforeseen challenges. We will have to meet these challenges in a different way from what we are used to, but always with a great sense of responsibility, balance and responsiveness.

Reply is well-equipped to react to these new circumstances: our systems are in the cloud and we have advanced individual productivity tools that have allowed us to instantly reconfigure all our activities into "smart-working" mode. This guarantees the safety of our people as well as the continuity of our services. Our financial strength also allows us to face with confidence the inevitable difficulties that the coming months will present.

We have days of great work ahead of us, in which team spirit, continuous ability to innovate and meticulous attention to our customers will be more important than ever.

Chairman of the Board

Mario Rizzante



REPLY LIVING NETWORK

Reply is a group that specialises in consulting, technologies and digital services with a focus on the conception, design and development of solutions based on new communication channels and digital media.

Composed of a network of companies, Reply partners with key industrial groups in defining business models, enabled by new technological and communication paradigms such as artificial intelligence, big data, cloud computing, digital communication and the Internet of Things.

REPLY IS CHARACTERISED BY:

- a **culture** focused on technological innovation;
- a flexible **structure** that is able to anticipate market developments and interpret new technological drivers;
- a delivery **method** of proven success and scalability;
- a **network** of companies that specialize in specific areas of expertise;
- **teams** composed of specialists, recruited from the best universities;
- a highly experienced **management** team;
- continuous **investment** in research and development;
- long-term **relationships** with its customers.

THE ORGANISATIONAL MODEL

- With over 8,100 employees (as of 31 December 2019), Reply operates through a network of companies that specialise in processes, applications and technologies and are centres of excellence in their respective fields of expertise.
- **Processes** - for Reply, the understanding and use of technology establishes a new enabling factor for business processes, based on an in-depth market knowledge of the specific industrial contexts of implementation.
- **Applications** - Reply designs and implements software solutions aimed at satisfying a company's core business requirements.
- **Technologies** - Reply optimises the use of innovative technologies, by implementing solutions capable of ensuring maximum efficiency and operational flexibility for its customers.

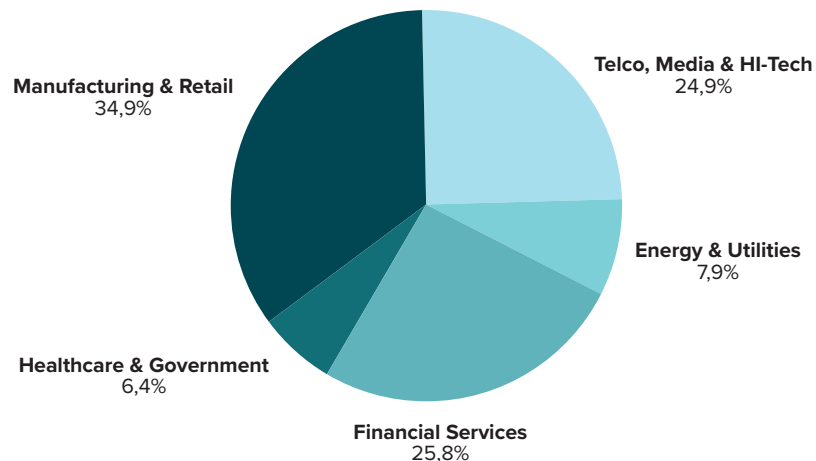
REPLY'S SERVICES INCLUDE:

- **Consulting** - with a focus on strategy, communication, design, processes and technology;
- **System Integration** - making the best use of the potential of technology, by combining business consulting with innovative technological solutions and high added value;
- **Digital Services** - innovative services based on new communication channels and digital trends.

MARKET FOCUS

In every market segment in which it operates, Reply combines specific sector expertise with broad experience in the provision of services and a wealth of advanced technological capabilities.

In 2019, the breakdown of the Group's sales in its various vertical sectors was as follows:



TELCO, MEDIA & HI-TECH

The convergence between the physical and virtual realms is profoundly revolutionising the relationship with customers and the approach adopted by today's Telco & Media companies. In this context, increasingly competitive and "hybrid" operators are having to tackle new challenges, to which they must respond with innovative and tailor-made offers, new business models and state-of-the-art operational processes.

In this scenario, characterised by rapid and profound change, Reply is collaborating with leading players in the sector to define and implement digital transformation strategies that leverage big data, using artificial intelligence and machine learning systems to design services increasingly more suitable and better targeted to customers' needs. Moreover, thanks to its extensive expertise and knowledge of the sector and its

operational dynamics, Reply is not only able to take appropriate actions to optimise processes, but also to automate them by leveraging specific Robotic Process Automation solutions.

The relationship with customers and attention to the service provided are not, however, the only aspects affected by the digital changes that are transforming the Telco sector. The ever-greater diffusion of connected objects also requires a corresponding change in networks, through a reconfiguration that enables the transmission – in real time – of huge volumes of data, no longer generated by smartphones and other mobile devices alone, but by a myriad of connected objects. Reply plays an active role in this new "smart connection" era, in which the network must adapt and reconfigure itself according to the constantly changing requirements of the user. With this in mind, Reply has defined an integrated offer of strategic and technological consulting services

to support the evolution related to the 5G network and to the design, definition and management of new generation networks based on the SDN paradigms. Networks that are capable of integrating and managing virtual networks through network engineering and network operations services.

Furthermore, in recent years, networks have been innovating faster and faster, driven not only by technological developments such as 5G, but also by the separation between HW and SW, the breakdown of networks, and by cloud and edge computing, which are all becoming elements of increasing distinction for operators. The software part will increasingly cover the core of network intelligence, to leave transmission areas to be dedicated to HW devices. In this context, Reply has gained a profound experience in its projects relating to unbundled networks, combining the specialized skills of networks with the ability to create software systems in an agile way, and with highly performing devops development methodologies that guarantee low latency and “Carrier grade” solutions.

FINANCIAL SERVICES

The digital world is radically transforming the financial institutions sector. Leading market analysts are predicting that the digital financial platforms market will explode over the next few years, both in terms of the increased number of natively digital retail customers, as well as the technological evolution towards highly scalable cloud platforms.

The growing penetration of solutions based on artificial intelligence and robotics is another powerful element of transformation, based on new decision-making models made possible by the explosion of available data (big data), the increasing digitisation of internal services/processes and interfaces with the market.

Reply accompanies European banks and insurance companies in their digital transformation. The company helps them not only in the definition of multi-channel strategies and the implementation of open banking and open insurance models, but also in allowing new architectures and technologies to coexist with legacy systems and architectures. To do this, Reply brings its extensive know-how in key areas such as big data, robotics and artificial intelligence, with the aim of improving customer interaction and developing new decision-making models to analyse risks and optimise internal operational processes through the adoption of Robotic Process Automation (RPA) techniques.

Moreover, Reply also operates in the mobile payment sector, in the m-commerce services realm and in related platforms, offering solutions, services and consultancy for the banking and insurance market, as well as for new, emerging players working on payments solutions.

Reply also boasts a strong presence in the wealth management industry, having developed specific solutions for new consultancy models, including robo-advisory platforms. Moreover, Reply is

significantly active on the risk control front, operating in Europe with a consultancy division dedicated to Governance, Risk and Control (GRC). Reply also develops solutions that help financial institutions implement regulations issued by the European Banking Union and, finally, is strongly committed to innovation driven by projects linked, for example, to biometric recognition, digital identity, quantum computing and blockchain technology.

MANUFACTURING

In 2019 Reply invested significantly to enhance its portfolio of Industry 4.0 and Logistics 4.0 solutions, fully re-engineering its proprietary solutions for supply chain execution and for the manufacturing execution system. Thanks to the integration of the IoT, cloud computing and big data paradigms, the ability to interact with the latest generation of sensors installed on production lines and products was further boosted, with the aim of creating the backbone of the next generation of applications in the logistics and manufacturing sector.

Reply also works with leading groups in the manufacturing sector in the transformation and evolution of systems in the production and distribution fields, with a specific products and services offer that integrates technological consultancy and the industrial context domain. In particular, Reply's areas of intervention concern the support of supplier and purchase management processes, the design and implementation of control and planning systems based on the new generation of cloud-based ERP solutions, the planning and

control of production units and the design and definition of logistics supply networks.

One of the manufacturing sectors that underwent a major transformation in 2019 is the automotive sector, particularly in terms of connected vehicles and mobility platforms. In these areas, Reply has closely followed the ACES (Autonomous, Connected, Electrical and Shared) paradigm, developing specialised skills and projects related to autonomous driving assistance, where the level of automation is taking its first steps towards level 5, in other words, driving without any human intervention. The connectivity front is another realm in which Reply collaborates with the leading OEMs to create commercial versions of V2I (Vehicle-to-Infrastructure) connectivity platforms. In this area, Reply's developments concern both on-board software applications (infotainment and telematic boxes), as well as mobile and back-end solutions for the processing of the data received and the provision of B2C and B2B services.

Electric and hybrid vehicles represent another innovative leap, a transport category for which optimising the charging process, both in terms of logistics and timeframes, is key. With this in mind, Reply has leveraged its consolidated experience in the mobile field and in the development of cloud-based platforms to design, in collaboration with client companies, platforms at the service of connected vehicles. Capable of integrating data from on-board systems with distributed network data, these platforms make it possible to calculate

optimal routes between the different charging stations available. Moreover, in the Shared Mobility realm, Reply collaborated with the leading European operator in the creation of a communication control unit between vehicles and infrastructures, handling both the hardware and software development.

Finally, in 2019, Reply confirmed its leadership in the IT solutions sector for logistics, in support of the automotive industry, with projects for leading OEMs covering the entire supply chain: from production, to factory logistics, transport and after-sales distribution.

RETAIL

The evolution of customers' purchasing behaviour, the entry of new players into the market, e-commerce and impetus of the digitalisation of products and services have already radically and permanently changed the retail sector. In this renewed dimension, the customer experience is also transforming, becoming a differentiating element for retailers. Today, customers are increasingly demanding closer relationships with brands and expecting to be able to interact wherever they are, breaking down the boundary between physical stores and e-commerce. A fully personalised shopping experience is a prerequisite for a positive perception of the interaction with companies and brands. Consequently, data-driven strategies that include the real-time analysis of customer behaviour, as well as a perfect connection between the digital and physical world, are absolutely crucial.

Reply also supports traditional operators in adding digital capabilities to their business, integrating the

most up-to-date technologies into their activities and daily interactions with the consumer. In 2019, Reply collaborated with numerous European retailers to introduce voice assistants and solutions based on augmented and virtual reality, in order to radically transform the shopping experience by practically eliminating the barrier between the digital and in-store dimensions.

ENERGY & UTILITY

Increasingly advanced digital technologies are having a significant impact on the entire supply chain associated with the energy sector and with the services provided by utilities. Today, digitalisation involves all supply phases, from production to sales and all the way to consumption control. 2019 confirmed a growing trend in the diffusion, on an industrial scale and in every area, of the value chain associated with innovative technologies capable of supporting sustainability policies – a key theme for 2020.

Today, Cloud computing is the most commonly used tool for primary provisioning, while the approach based on IoT models is increasingly popular in the generation and energy management sector, being used primarily to support efficiency and smart city initiatives. Moreover, the trend towards the development of “open innovation” approaches is on the rise among large companies in the sector, including through the search for collaborations with innovative startups.

In this context, Reply is one of the reference partners for the sector, combining knowledge of the market and of its unique processes, with a distinctive capability to design, implement and manage innovative digital solutions and technological platforms at the support of “core business”.

The company’s consolidated skills and expertise in the introduction of new digital technologies have been further verticalised. In addition to the definition and development of new models in the energy management sector and downstream services – areas in which Reply collaborates with energy sales companies, as well as with end customers – experiments and collaborations have continued in areas linked to blockchain technology, to advanced analytics and to artificial intelligence and its applications to the sector.

HEALTHCARE & GOVERNMENT

Today, technology and health are increasingly connected and healthcare is quickly evolving towards a new “ecosystem” capable of satisfying all the key steps related to patient care: from prevention to treatment and all the way to follow-up services. This model is known as “connected care” and is characterised by a double advantage, both for patients and for healthcare professionals.

On one hand, it allows citizens/patients to access information regarding their health through unified

and interoperable digital platforms and to share this information in a safe and voluntary matter with doctors, nurses and other actors. On the other hand, it is possible to connect all the different actors that come into contact with the patient, in order to seamlessly integrate the various information systems, exchange data and information and ensure the availability of the patient’s medical history, thus providing them with effective support throughout the diagnosis and treatment processes.

In this context, Reply is positioned as an innovative leader in the healthcare and data realms. The company combines its skills and expertise in innovative technologies such as big data, cloud computing, digital media and the Internet of Things, with its extensive healthcare know-how to offer specifically-created interoperability platforms and suites, starting from those designed for processes related to Reception and Patient Relationship Management (Appheal Reply platform), to its solutions focused on patient treatment and continuity of patient care (Ticuro Reply™ platform).

TECHNOLOGICAL INNOVATION

Technological innovation is the basis of Reply's growth. The company has always pursued the objective of providing its clients with the tools they need to increase flexibility and efficiency. Reply is committed to in a continuous process of research, selection and the marketing of innovative solutions for sustaining the creation of value within organisations.

ARTIFICIAL INTELLIGENCE

Reply has been at the forefront of artificial intelligence for years and today its offer is divided into three main areas: human-machine interaction (with the development of conversation and natural language recognition systems or visual recognition systems), the automation of business processes (through Intelligent Process Automation solutions) and the creation of systems to support business decisions (data prediction and prescription).

However, in order for artificial intelligence systems to become pervasive, the availability of data must also progressively improve. Indeed, AI offers effective results, provided that relevant datasets are available, both historical and updated in real time. With this in mind, Reply supports its customers by helping them to identify sources, as well as to build and organise information and sophisticated and combined models with Reinforcement and Transfer Learning methodologies, to ensure the use of algorithms characterised by very high accuracy and performance.

This is further enhanced by Reply's expertise in providing services to enrich datasets and to improve algorithm performance. To achieve this, Reply relies on *ad hoc* information collection through scraping or through its proprietary crowdsourcing platform, as well as the generation of pseudo-real synthetic data, assisted by generative neural networks and

3D modelling, or leveraging the integration of data streaming services, like those of IoT origin or, in the near future, distributed on 5G networks.

Moreover, to ensure that artificial intelligence can be applied correctly, it must be introduced into real processes, particularly in the industrial sector, in a controlled, measurable and reliable manner. To address these needs, Reply offers its proprietary framework, which is capable of providing process control tools, performance monitoring, behaviour transparency and confidence in results (fairness, explainability, bias detection and mitigation).

In the future, AI will be expected to play an increasingly key role, right from the conception and design phases of each new solution. The many vertical solutions and algorithms developed in recent years for different business cases and industries, allow Reply to offer customers rapid, agile and ad hoc adaptations of AI systems, including thanks to collaborations with leading international players in AI technologies.

BLOCKCHAIN

In the broad landscape of emerging technologies, blockchain represents a technological paradigm that, over the next few years, will be increasingly able to foster new digital ecosystems based on distributed computational infrastructures. The shared and distributed nature of blockchain-based digital registers represents an opportunity

characterised by multi-industry application, with particular repercussions to the financial services sector and to the management of the supply chain. Moreover, the ability to create synergies with exponential technologies such as IoT or artificial intelligence enables the blockchain to become a convergence layer capable of supporting future data markets.

With an offer structured along the lines of consulting services, design and the implementation of solutions based on blockchain and the Distributed Ledger Technology (DLT), in 2019 Reply developed the first system platform aimed at insurance companies and banks. Conceived and developed in collaboration with key partners in the insurance and university spheres, thanks to the use of smart contracts, the platform facilitates the issue and placement of parametric insurance products with reimbursement guaranteed.

Reply is also working on the development of leasing, securitisation and surety platforms. In 2019, together with the CeTIF (Research Centre in Technologies, Innovation and Financial Services) of the Cattolica University in Milan, Reply was a promoter of the first edition of the Blockchain Executive Program, a training course aimed at executive roles in companies operating in different industrial sectors.

CLOUD COMPUTING

Cloud Computing has long since become the paradigm for enabling the digital transformation. Implementing or migrating solutions in the cloud

is now essential for companies, which, more than ever, are looking for support in making the most appropriate choices. With its decades of experience, Reply is able to support and guide its customers towards the best strategy, whether the latter is built on a “hybrid” approach or developed directly on the application platforms “as a service”.

Microservice-based architectures have taken over in the hybrid cloud world and “container” orchestrators have established themselves as the true paradigm able to enable digital transformation, while at the same time limiting the lock-in risks. Within this framework, Reply helps its customers to develop functionality based on a continuous delivery and continuous deployment approach.

Thanks to partnerships with major international vendors including Adobe, Amazon Web Services, Google, Microsoft, Oracle, SAP and Salesforce, Reply designs, develops and implements solutions that allow customers to benefit from the most effective solutions for their needs, both in terms of the model and the technology selected. Reply is also able to offer a cloud infrastructure management service, available 24/7, to support customers, not only in the architectural component, but also at the application level. Finally, in 2019, Reply completed the migration to the cloud of all its proprietary application platforms.

CONNECTED PRODUCTS AND PLATFORMS

Today, all key sectors have already started to experiment or consolidated their first experiences in the IoT field, starting from the automotive industry, where sizable investments in the connected car began in 2019, as well as in the insurance world, where this technology promises important changes in the relationship with customers, in risk management associated with policies and in the development of new targeted products.

The IoT is also crucial for the telecommunications sector, which today seems to be the most ready to handle a large number of connected objects and where the world of connected objects represents a structural opportunity to increase the topline, reduce the churn and develop the role of B2B service providers, which is an important goal in the transformation of business models.

Utilities also find themselves in the same position, with respect to which the IoT has become essential, not only to increase competitiveness, but also to generate, distribute and manage energy and energy efficiency. 2019 saw the launch of the new Reply accelerator for smart home solutions in the insurance, telecommunications and utilities sectors, with important results on a global level. Moreover, Reply's HI Connect™ platform has also consolidated its standing in the market as an effective choice for medium and large companies in the manufacturing sector.

Indeed, manufacturing appears to be the sector that shows the most promise in terms of being significantly revolutionised by the Internet of Things, opening the doors to Industrial IoT (IIOT), in other words connectivity linked to the digital transformation of manufacturing companies in Industry 4.0. In this context, Reply is consolidating its position as a privileged partner, with the Edge Computing offer playing a key role, namely the ability to move the intelligence of some typically cloud systems such as artificial intelligence (AI) and machine learning (ML) close to where the data is produced (i.e. the production line). Moreover, Reply is also investing in 5G, a strategic element for Industry 4.0 in the near future, and on the integration of IoT cloud platforms for industry, home to the Digital Twin applications designed to enable product development and maintenance.

COSTUMER ENGAGEMENT

The data-driven approach, which today sees an increasingly widespread use within companies, is rapidly defining a new paradigm for the design and management of marketing initiatives. Indeed, once the needs of the individual customer have been interpreted, based on the data and the analysis provided by CRM platforms (i.e. Customer Relationship Management), it becomes fundamental to have tools available that are able to support the definition and the execution of highly customised one-to-one marketing campaigns and can be launched in real time, making it possible to intercept increasingly more accurate and punctual requests.

To respond to this change of scenario, Reply has created a competence centre focused on customer robotics, for the development and implementation of processes relating to direct interaction with the customer across all sales channels. Thanks to the integration of machine learning models, artificial intelligence and cognitive systems, Reply helps companies to recognise and anticipate users' needs on the various contact channels.

An approach based on data analysis, in fact, facilitates the conception, design and implementation of highly personalised services, such as recommendation systems for catalogue products and conversational systems capable of understanding and interacting independently using natural language.

Lastly, Reply is constantly investing in developing its expertise in leading CRM and e-commerce platforms and solutions, thanks to a solid ecosystem of partnerships with world leaders in the industry, including Microsoft, Oracle, SAP and Salesforce.

CYBER SECURITY

In recent years, cyber risks have increased dramatically, not only in terms of their frequency, but also when it comes to the severity of the consequences, leading to a large number of data security breaches involving hundreds of millions of customers, as well as significant economic damage to governments and organisations. This growth in significant attacks, together with the increased attention from regulatory bodies on issues concerning the protection of information, personal

data and critical infrastructures, requires an ever-increasing commitment from companies to manage the risks associated with cyber security.

In order to respond to this increasing complexity, Reply has developed a products and services offer designed to protect the integrity of its customers' systems, from the definition of the best computer security strategies, to the identification and implementation of the most suitable technological solutions to mitigate risk. Through its extensive partnership network, Reply is able to offer in-depth knowledge of the most innovative and popular security technologies on the market and to help customers with the scouting, selection and implementation of some of the best protection solutions, particularly as pertaining to risks associated with cloud services, IoT, industry 4.0 and automation.

Reply supports its customers during all the implementation phases of an integrated protection plan: from the identification of threats and vulnerabilities to the planning, design and implementation of appropriate technological, legal, organisational and risk transfer (cyber insurance) countermeasures. Moreover, thanks to its cyber security command centre, Reply assists large organisations with advanced computer security incident management and response, as well as with threat intelligence services.

DATA & ANALYTICS

Today, the ability to manage, process and transform data into a strategic asset is a priority for companies

who wish to understand better the market in which they operate as well as their customers, but also for those looking to optimise internal processes. The key is the integration between the various technologies and a conscious use of data, developing value cases through accurate metrics.

Reply combines technological expertise in data mapping and data integration, with a profound knowledge of augmented data management and augmented analytics, supported by its skills in the design of data solutions, DataOps and MLOps, in addition to defining the organisational and operational Data Enablement Labs models.

Reply supports its customers through all the stages of the data adoption process, accelerating the construction or consolidation of analysis teams and of the supporting platforms. Moreover, Reply oversees aspects relating to the technological transformation (e.g. migrating data platforms from on-premise to the cloud), as well as strategic aspects (e.g. the selection of key datasets or core skillsets), with the aim of reducing the timeframes required for the implementation of success cases with a measurable ROI.

In 2019, Reply strengthened its offer in the machine learning sector, by integrating specific deep learning and reinforcement learning skills and using them in commercial Machine Learning and Artificial Intelligence contexts. Moreover, it further developed its offer in the Data Academy and Data Design Thinking spheres. The main goal is to support

companies in the creation of enterprise analytics platforms, as well as in making the transition from pilot projects to scalable solutions in production, thus enabling the automatic integration of predictive and prescriptive models within business processes and within new digital services.

DESIGN CONSULTING

In a world increasingly characterised by complex ecosystems, “customer-driven transformation” is the real differentiating factor in offering products and services in the B2C as well as the B2B spheres. With a view to the constant personalisation of services, Reply partners with and supports its customers in creating innovative and distinctive experiences, starting from the analysis of people’s needs, strategic business objectives and technology enablers, to achieve a personalised customer journey and to help companies create products and services capable of immediate and tangible results.

A customer-centric approach also requires a transformation in the internal organisation of the company. Reply enters this scenario, by supporting organisations in managing this change and helping them to become more agile and receptive, in other words, capable of capturing the best feedback and inputs from the market, while helping them to become faster in launching new products and services. In 2019, Reply continued to invest in this area through the acquisition of new talent and expertise, further expanding its two offices in Milan and Munich which offer support to various types of customers, from startups to large global industrial groups.

DIGITAL EXPERIENCE

In a world saturated with stimuli and distractions, it is absolutely key for companies to be able to establish a solid relationship with their target audience. Reply helps customers to design and implement a customer journey filled with experiences, also thanks to the use of innovative technologies and an in-depth knowledge of the user. The foundation of the Reply philosophy consists of a personalised approach and a human-centric design. Over the years, the Company has continued to invest in creating scalable platforms and in the collection and analysis of a significant amount of data to understand user behaviour, improve marketing results and create new business opportunities, with a thought process based on an eco-system perspective rather than on a single application. To accomplish this, Reply applied the principles of Design Thinking, Lean UX and Growth Hacking and implemented social strategies and automated CRM activities, thus creating responsive and user-friendly mobile interfaces and intelligent recommendation engines.

Artificial intelligence will enable the enhancement of the digital experience over the next few years, while voice interfaces will radically change the way customers interact with a brand or make purchases. Moreover, AI can help companies accurately predict which content is most relevant to a specific customer audience, as well as understanding what their next actions may be.

Mixed reality applications are set to become the new paradigm of digital marketing. Indeed, as a hybrid between AR and VR, Mixed Reality (MR) is expected

to become the next major paradigm shift in customer experience. By combining different types of technologies, including sensors, advanced optics as well as power and the latest generation processing networks, Mixed Reality is expected to enable the user to superimpose augmented holographic digital content in space in real time, creating incredibly real scenarios. All this, in turn, will allow companies and brands to connect, interact and sell their products and services in ways that have never been possible before. Reply is working to help companies keep up with the digital experience, accompanying them towards an extreme and successful personalisation of their communication, services and products.

DATA DRIVEN MARKETING

When analysis and logic come together with imagination and intuition, something unexpected happens in terms of technological innovation. It is precisely on this principle that Reply has based its Data-Driven Marketing offer, which is capable of combining data science with business skills and creativity. Reply's technology and approach help companies reduce the pressure of emotion in marketing decisions, leaving room for decisions based on data analysis: an approach that makes it possible to minimise the unnecessary aspects related to advertising, for a more efficient and effective process.

Reply offers a wide range of flexible and easy-to-use Data dashboards (such as the proprietary China Beats, Pulse and Sonar platforms), which are capable of transforming the data collected

into stories. The Company has also introduced the Data Creativity Score, the first data-driven system designed to quantify the level of creativity in a marketing campaign. Moreover, by applying brand personalisation models based on the principles of behavioural psychology and comparing them with the analysis of the echo generated by social media networks and buzz, Reply allows marketing experts to monitor Digital Brand Equity in real time.

These services are joined by the proprietary Advanced Analytics system, based on the latest scraping algorithms that exploit artificial intelligence and natural language processing. Thanks to this system, Reply is one of the few providers in the world capable of offering real-time tracking of a marketing campaign's ROI, thus enabling companies to reach their targets while optimising costs. Finally, with a focus on the Retail sector, Reply has created a solution capable of offering new and extraordinary opportunities for producers of consumer goods and for the retail world, by increasing the number of shop visits, optimising sales timeframes and differentiating the offer based on the specific target.

E-COMMERCE

Today, it has become increasingly important to pursue a digital strategy and to try to implement it as quickly as possible. We are witnessing a constant wealth of innovation, which in turn is bringing to life a vicious circle, where the goal is to create more value for the customer and greater efficiency for the company. In an increasingly digitalised world, where information is available everywhere and transactions

are carried out with a simple touch of a finger or based on voice or facial recognition, it is essential for companies to learn to differentiate themselves. This is precisely why e-commerce must reach a new level: it can no longer be a simple catalogue or a web showcase where products are reviewed or where there is a margin of personalisation. E-commerce must learn to involve and adapt digital marketing technologies, innovative techniques such as RPA or VR/AR, artificial intelligence and other channels such as digital ads, e-mail, search engines, the mobile world, social media marketing and even physical stores, along with information derived from data and digital content. A winning mix that leads to customer engagement, higher revenue and profitability. In other words, a transversal optimisation that impacts the entire user experience, with the aim of increasing sales across all channels. The process involves all the stages, from attracting new customers to learning about their tastes, and from completing a single purchase to the customer's choice to go back for additional purchases, all with the aim of acquiring more customers, more brands and higher sales. Reply accompanies its customers in defining this path, while enhancing business efficiency and leveraging technological innovation to help companies create more value for the end user.

ENTERPRISE ARCHITECTURE & AGILE

To be competitive on the current market, companies must be able to innovate quickly and on a widespread basis. Over the next few years, the agile approach is expected to become crucial and will be applied to all new projects. The "cloud

first” philosophy and data-based models will see a growing need to put security and data protection at the very base of the life cycle and software development cycle.

In order to excel in the digital economy, characterised by the convergence between the physical and the digital worlds, organisations must remove the boundaries between IT and business. This will enable companies to be agile in exploiting the new developments that are available, while being careful to avoid damage to legacy systems and projects.

Reply is able to support its customers in the Enterprise Architecture sphere, thanks to an extensive and proven catalogue of architectural frameworks, methods and models (for example, the Scaled Agile Framework and SecDevops), consolidated in various projects carried out on behalf of leading industrial and financial groups in the media and services sector.

GAME STUDIOS

The world of video games is not immune to the relentless changes and disruptions brought about by the digital age. In recent years, very different business and consumption models have become established: on one hand, the multiplayer concept and the birth of the freemium model, while on the other hand, the growth of digital marketplaces and new hardware platforms. Other revolutions are already expected in the near future, starting from the cloud gaming model, which promises to assert

itself in a very short period of time, also driven by the 5G networks that will be able to guarantee very low latency. This trend promises to lead to the introduction of new business models, as well as new ways of using such models.

In this constantly changing scenario, one of the very few constants is the players’ interest in the quality of the products: from the game and the story, to the graphics and the characters. These are all elements to which Reply has always attached great importance, as evidenced by the fact that the products developed over the years still appeal on the market and continue to register the interest of users across all leading platforms, from mobile to PC and to the various consoles.

In the consumer sector, Reply’s main VR product (Theseus) was included within an international gaming convention in 2019. Moreover, Reply is at work on a new title, to be launched in the next few years, which is expected to consolidate the company’s position as one of the leading firms in the sector. In the B2B sphere, Reply has developed various games for companies looking to establish a more modern approach to dialogue with their customer base. The gaming industry has proven to be a strategic sector for Reply, which over the years has developed an offer capable of meeting the needs of brands, by helping them to exploit the potential of gaming to improve corporate communication and the relationship with customers.

INDUSTRY 4.0

Data processing power, latest-generation mechanical automation, as well as machine learning systems and artificial intelligence, are the drivers behind the fourth industrial revolution. The new Industry 4.0 models are quickly redefining production sites around the world, transforming traditional factories into closely interconnected systems capable of communicating in real time with the supply chain, logistics, sales, the actual products and the entire support and maintenance chain.

Plants are thus becoming open ecosystems that need to be able to adapt autonomously to new tasks, but also to carry out self-maintenance projects and organise input and output flows through constant communication with supply chains, while attaining levels of efficiency and control that make it possible to minimise costs and maximise results.

In this scenario, the product becomes a living component of the ecosystem: from design, to prototyping and up to production and to its after-sales dimension. The concept of the Digital Twin thus comes to life. This allows companies to maintain a digital copy of the product during its entire life cycle, starting from the traditional representation in CAD systems, to all of the subsequent phases.

Together with the Polytechnic University of Turin, Reply is working on Additive Manufacturing, a set of tools that make it possible to add the specific characteristics of additive manufacturing to MES/MOMS systems. Reply has also directly created a

suite of integrated solutions, capable of making customers' production systems flexible, connected and efficient.

Reply's mission is to accompany companies throughout the transformation process: from the planning and development of solutions that open up the production sites and interconnect them to the entire digital world, to the design and implementation of solutions that are able to render products "smart", connected and digital. In addition, thanks to its data science specialists, Reply provides support in the processing of data collected by the interconnected systems, in order to develop algorithms aimed at automating production processes, in an efficient and effective manner.

A distinctive feature of Reply's offer is the availability of tools based on augmented reality and virtual reality, which can be adopted by companies to accompany people in the transition to a 4.0 approach.

Lastly, Reply is also a founding partner of two Industry 4.0 Centres in Turin and Milan, in collaboration with the Polytechnic University of Turin and the Polytechnic University of Milan.

MIXED REALITY

In a digital world that is constantly evolving and where video content is growing exponentially in volume, resolution, immersive capacity and three-dimensionality, talking of virtual reality or augmented reality now seems limiting.

The increasing computing power of devices, the capacity of the networks to offer incredibly low latency levels, the evolution of computer vision machine learning algorithms, the emergence of innovative software solutions such as pixel streaming and the evolution of increasingly smaller and more powerful visors, are all phenomena that are facilitating the shift from a logic of “experimentation” to a logic of “actual adoption” of these technologies across various business scenarios.

Thanks to its expertise in this sector, Reply has introduced immersive technologies in all their forms, incorporating them into concrete projects designed to support the communication and marketing of customer brands and as a tool for improving training processes.

Training, in fact, is an area where immersive technologies offer key advantages, as they provide contextualised instructions in the field, as well as because they create real virtual environments in which customers can experiment and practice in complete safety.

Reply has also created a holographic (HoloBeam) person-to-person (P2P) communication platform designed to enable participants to see the 3D reconstruction of the other participants and to share and interact using three-dimensional elements.

It is expected that new visors and new technologies will arrive on the market in 2020. Reply’s laboratories and teams focused on the analysis and study of these technologies will allow the company to maintain a leadership consultancy role in this sector.

MOBILE & APPS

Reply is committed to supporting companies towards a “mobile digital transformation” with a focus on a multi-channel approach. The broad portfolio of products and services in this realm touches on the themes of User Experience, Data Centric Design and Multimodal Human-Machine Interfaces, thanks to which users can access a series of services that go beyond the terminal, to include voice assistants, chatbots and on-board vehicle *infotainment* systems. All this translates into a “fluid” mobile experience, in which the user chooses the device and how to use it.

The increasingly better performance of devices has made it possible even for the mobile world to adopt artificial intelligence systems that enable advanced services such as object recognition, biometric data processing or a number of augmented reality extensions.

Through the experience gained over the years, Reply offers its customers a mobile factory capable of not only exploiting the potential of native development, but also of quickly moving in to new market segments, leveraging the capabilities of hybrid development. All this, based on a versatile approach that enables the creation of applications natively conceived for smartphones, tablets, wearables, TVs and cars.

QUANTUM COMPUTING

New technologies are emerging on the market, which make it possible to radically rethink complex problems from the computational point of view.

We are referring, of course, to the accelerated computing realm, where the basic objective is to accelerate computational workloads through the use of innovative hardware platforms.

In this context, Quantum Computing takes a leading role, as it enables the encapsulation of information within Quantum Bits (Qubits), thus taking advantage of the massive parallelisation of quantum algorithms. Quantum Computing thus makes it possible to solve problems that would normally be impossible to tackle using traditional technologies.

Reply has created a competence centre dedicated to Quantum Computing, which in 2019 delved deeper into the application of different types of quantum algorithms to areas of interest to customers, some of which have already been integrated into innovative projects. Reply developed a number of optimisation solutions during the year, ranging from a logistics solution, to one concerning frequencies in telecommunications, finance and financial assets, all the way to the design of Quantum Machine Learning solutions applied to classification algorithms.

SOCIAL MEDIA

Since their arrival in the early 2000s, social media has been a key factor in social development and continues to be a tool in constant evolution. Users consume, interact, stay in touch with other users and participate, on social media platforms. Today, an entire generation does not know and is unable to conceive the world without social media. Consequently, brands are investing more and more time and resources in marketing and advertising

activities on these platforms.

Within this framework, social media networks are no longer just a virtual place to post and share fun content, but also a strategic space for companies to enhance the recognition of a brand and increase user involvement. Thanks to the new technologies and features launched on a daily basis, social media has become an effective tool for funnelling marketing activities, capable of involving customers within their environment and enabling an uninterrupted experience.

With the huge number of connected users, all of varied origins and backgrounds, social media networks are able to offer an impressive amount of data. From the information obtained, to the analysis of trends and behavioural patterns, social media networks make it possible to understand users' needs and desires at an extremely detailed level, thus also enabling the optimisation of marketing campaigns. Aware that a deep and thorough understanding of users and their habits is the basis for building a successful brand, Reply designs, manages and upgrades connected digital ecosystems, in which brand and customers meet. By combining extensive knowledge and expertise in the world of data, with a broad know-how of content, channels, media and technology in general, Reply's international team of experts is able to create a fully connected infrastructure, made up of different digital touchpoints, where brands and customers can connect directly.

REPLY SERVICES & PLATFORMS

REPLY SERVICES

Today, networks consist of distributed “information systems” that provide real-time access to an ever-increasing quantity of complex data, information and content. This use of the Internet is creating new, competitive models, based on approaches to service that depend on three fundamental components: the software platforms involved, an understanding of and expertise in the relevant processes and service management. Reply supports its customers in this quest for innovation with services and platforms that are designed to exploit in full the new potential offered by networks and communication technologies.

BUSINESS PROCESS OUTSOURCING

Reply provides specialist services in three fields of expertise:

- **Finance & Administration** - management of transnational accounting processes, writing of consolidated financial statements, management of tax obligations, dematerialisation of accounting documents and electronic storage.
- **Human Resources** - training, ECM, career profiles, company knowledge, dashboards for directional analysis.
- **Pharmaceutical** - management and control of pharmaceutical expenditure.

CFO SERVICES

The role of the CFO is changing dramatically, due to the increasing requirements concerning the use of complex reporting and simulation tools that can provide timely and adequate information on the success of a business and its ability to create value. In its business performance management offering, Reply has identified specific services capable of supporting CFOs as their role changes. These changes are increasingly seeing them confront issues that once fell under the responsibility of the CEO, such as:

- definition of the business control model;
- strategic planning and budgeting;
- creation of the consolidated financial statements;
- IPO support.

APPLICATION MANAGEMENT

Reply has defined an application management model characterised by:

- a modular approach that allows the customer to purchase either individual service components (for example, only application maintenance or only operational support), or structured portfolios of services;
- a flexible supply model aimed at integrating the Reply service in the best possible way with the customer’s business processes while taking account of the specific needs involved.

REPLY PLATFORMS

BRICK REPLY™

Brick Reply™ is Reply's Industry 4.0 manufacturing operations platform, which, thanks to the architecture based on fully open services and a set of vertical applications, makes it possible to coordinate production processes and interface with both machinery and sensors within the factory.

Brick Reply™ aims to digitise business processes in the manufacturing sector, providing mobile functions and services that make it possible to configure and control the end-to-end production process, or parts of it, thus improving its efficiency and optimising quality levels. Thanks to the flexibility of the cloud-native technology and to the *as-a-service* mode of use, Brick Reply™ represents the ideal tool for the integration of enterprise technologies and applications already present in the factory.

As co-ordinator of data obtained from existing applications, the Reply platform makes it possible to extract value from such data, thus enabling the evolution of the factory process towards I4.0 and innovation.

CHINA BEATS

China Beats, co-developed in Berlin and Beijing, is Reply's cloud-based market intelligence and *social listening* solution, designed to provide access to China's vast Data Ecosystem. By connecting to all major Chinese e-commerce, research and social media platforms, as well as to news portals, information portals, patent databases and accessible legislative databases, China Beats intelligently acquires relevant data for four key sectors: automotive, fashion, consumer goods and technology.

With its size and wealth growing with each passing year, China is becoming the world's biggest consumer market, providing non-Chinese businesses with plenty of opportunities to drive growth. Most of the Chinese population are so-called netizens who prefer to use Chinese digital platforms such as Alibaba, Baidu or Sina Weibo in their daily lives (the so-called China's Data Ecosystem).

The Advanced Analytics engine based on artificial intelligence, translates large amounts of data into information that can be easily used by companies to gain a better understanding of the Chinese market and to help them make strategic decisions. Thanks to the Machine Learning and Natural Language Processing algorithms adopted, the Advanced Analytics engine is also able to understand slang and the specific context, arriving at sentences in English that are coherent and that maintain the correct meaning of a comment or of an online search term.

DISCOVERY REPLY™

Discovery Reply™, Reply's Enterprise Digital Asset Management platform, manages the lifecycle of digital assets such as images, video, audio and documents. The different components on which the platform is based make it ideal for managing its Customers' product catalogues and enriching the multimedia elements and business processes related to the production of digital assets, such as advertising or e-commerce. Multimedia content is managed by means of an advanced model, thanks to the application of artificial intelligence technologies and is distributed based on a multi-channel and multi-brand approach. Images and videos can be analysed

and edited directly on the platform and then published on e-commerce websites or distributed on websites, digital shopfronts and social media networks, in compliance with applicable usage rights. The highly modular and scalable cloud architecture involved means that the platform can be integrated with leading business systems and guarantees performance, security and data confidentiality.

HI CONNECT™

HI Connect™ is Reply's solution for the IoT sphere, which facilitates the acceleration of connected product strategies.

HI Connect™ enables objects connected to the network to communicate in a simple and standardised way, thus facilitating the development of vertical applications focused on specific markets or use cases, including infomobility, advanced logistics, environmental security, contactless payment, traceability and remote product diagnostics. 2019 saw the evolution of the platform towards the creation of assets for energy management, needed to support new market demand in relation to energy demand response.

The solution consists of a platform of services delivered on the software-as-a-service approach and a reference design for the connectivity modules. HI Connect™ also includes two vertical solutions supplied as a service: RMS (Recipe Management System), a connected recipe management system used in the home and professional appliances world, and VCP (Value Chain Portal), a system designed to help transform an asset from product to service. HI

Connect™ thereby enables the integration of value-added services and supports innovative interaction systems such as voice assistants.

LEA REPLY™

LEA Reply™ (Logistics Execution Architecture) is Reply's latest software evolution in the logistics sector, a digital platform designed to enable efficient, agile and connected supply chains. It encompasses a suite of microservices covering the business processes associated with warehousing, inventory, distribution, delivery, in-store activities and end-to-end visibility. LEA Reply™ solutions enable companies to obtain an efficient and strongly connected digital supply chain, in which the different systems, partners, people and machines interact in harmony, through the use of the latest-generation technologies, from artificial intelligence and robotics to wearable and IoT. LEA Reply™ has been included in the Gartner Magic Quadrant for warehouse management systems (WMS).

PULSE REPLY

Pulse is Reply's Data-Driven insight solution. Unlike traditional analytics platforms, Pulse Reply combines data science and marketing intelligence activities within an agile dashboard, thus making it possible to respond to business demands based on KPIs that are updated in real time.

Through the adoption of advanced data modelling and visualisation features, Pulse has been specifically designed to allow users not only to understand what happened, but also to make predictions about what will happen.

One of Pulse's special features is the flexibility of the solution to be used in any context, made possible by the ease of integration with any given source, including non-proprietary products and dashboards. Thanks to the integration of machine learning algorithms, Pulse is able to provide automatic notifications to users concerning changes in a KPI indicator, what caused such changes and what the potential impact is.

SONAR REPLY

Sonar is Reply's solution for data-driven trend research, developed in collaboration with the German Institute for Artificial Intelligence (DFKI). Designed to offer a user experience similar to that of common search engines, Sonar is a research tool intended not only for data analysis professionals, but also for academics and journalists.

The central element in Sonar's architecture is an ever-expanding database that includes over 40 million indexed scientific publications, patents, expert blogs, online news articles and other documents. Based on environmental scanning methodologies, this data-as-a-service software solution exploits digital data and text mining capabilities in order to add new documents on a daily basis and optimise the analysis of trends. The signals and trends discovered can thus be analysed and classified and support the identification and anticipation of future trends.

TAMTAMY™

TamTamy™ Reply is the platform for creating digital workplaces, enterprise social networks and digital

communities, which, through social dynamics and tools, puts the employee at the centre, by supplying organisations with valuable solutions for providing information, giving people a voice, enabling collaboration and carrying out training activities, both in organisational and public contexts. TamTamy™ therefore enables customers to adopt a platform designed to enhance and capitalise on the interaction between companies, brands and people. TamTamy™ provides social media, content editing and training features that can be extended and integrated at the enterprise level, along with innovative formats that aim to value people, incentivise collaboration, stimulate innovation and support companies in establishing new participation models for their human resources. A customisable, flexible and responsive front-end facilitates immediate, user-friendly and intuitive access, available anywhere, at any time and using any device. TamTamy™ is available both as a cloud-based and on-premise service.

TICURO REPLY™

Ticuro Reply™ is the Reply platform which, based on the Connected Care model, makes it possible to activate processes designed to support prevention and continuity of care, including remotely. Taking advantage of IoMT (Internet of Medical Objects) technologies, Ticuro Reply™ is a Cloud-based solution that is able to connect to medical devices, as well as to wearable and environmental sensors, in order to enable new organisational models that allow patients, caregivers and healthcare personnel to collaborate during remote prevention, treatment and rehabilitation programmes.

X-RAIS REPLY™

X-RAIS Reply™ is the Reply Artificial Intelligence solution designed to support radiological diagnosis processes by applying convolutional neural networks. X-RAIS supports the reporting process by automatically highlighting the location of suspicious areas and classifying them according to the international BIRADS standard. The solution operates as a virtual assistant to the radiologist, by contributing to the reduction of incorrect diagnoses and improving the operational efficiency of the diagnostic process.

X-RAIS Reply™ consists of a service platform implemented as software-as-a-service and is designed to be verticalised, based on different diagnostic methods (e.g. X-ray, CT scan, MRI) and on specific anatomical areas. The solution is fully integrated into the operative flow of radiology labs and interfaces with PACS (Picture Archiving and Communication System) based on the standard DICOM mode (Digital Imaging and Communications in Medicine).

PARTNERSHIP - RESEARCH AND DEVELOPMENT

Reply considers research and continuous innovation to be fundamental assets in supporting its customers as they adopt new technologies.

In order to offer the most appropriate solutions to different business requirements, Reply has established a set of key partnerships with major global vendors. In particular, Reply has achieved top levels of certification with regard to leading technologies in the enterprise field, including:

ADOBE

Reply, an EMEA AEM Specialised Partner, is a centre of excellence for the design and implementation of digital transformation and multi-channel marketing solutions, based on the different products available as part of the Adobe Experience Cloud platform. By creating ad hoc solutions ranging from digital information management (web portals, e-commerce solutions, mobile apps) to digital asset management (management of the end-to-end life cycle of documents and digital assets) and marketing automation (creation, planning, management and the optimisation of multi-channel marketing campaigns), Reply guarantees the development of customer-oriented applications based on the Adobe technology, designed to help improve the targeting, personalisation and optimisation of content.

AMAZON WEB SERVICES

Reply ranks among leading Amazon Web Services (AWS) partners, supporting its customers in the digital transformation processes.

Leveraging the cloud model best suited to the specific needs of the company and adopting a secure, flexible and effective governance strategy, Reply has completed numerous projects both in the B2B and B2C spheres, by providing end-to-end support: from the implementation and integration of

custom applications and platforms, to the availability of maintenance and management services based on consumption cost models.

In 2019, Reply was confirmed by Amazon Web Services as a Premier Consulting Partner, the highest level of partnership attributable only to a select group of AWS partners worldwide. This recognition goes hand in hand with Reply's other certified AWS skills, such as data & analytics, DevOps, Oracle, migration, IoT, industrial software and the managed service program.

GOOGLE

Reply confirmed its important Google Cloud Managed Service Provider (MSP) certification level. MSP is the certification that Google awards to a limited number of specialised WW partners that support customers throughout their end-to-end cloud journey, from initial engagement to cloud-based migration and execution, through to the planning and optimisation of the system. In addition to its MSP certification, Google renewed Reply's Premier Partner certification for the G Suite and Cloud Platform, recognising the company's excellence as demonstrated in support of its Google Cloud products.

Reply has also achieved the infrastructure and machine learning specialisation within the scope

of the “Google Premier Partners - Specialisation” initiative. The achievement of these new specialisations puts Reply among the leading companies in Europe capable of supporting customers in the adoption of Google technologies and solutions and specifically in the use of infrastructure and machine learning.

MICROSOFT

Reply, a certified Microsoft gold partner in Brazil, Germany, Italy, the United Kingdom and the United States, continues to strengthen its collaboration with local Microsoft branches, by exploiting the excellence of the consultancy services offered and the coverage of the extensive range of Microsoft cloud solutions: from modern work environments to business applications, from applications and infrastructures, to data and artificial intelligence, and to mixed reality.

During 2019, Reply joined the LEGO (Locally Engaged Globally Orchestrated) programme, aimed at helping selected partners with an international presence in order to grow their business on a global basis. The Company was also awarded with the Partner Award for Modern Workplace - Teamwork by Microsoft US and earned the Digital Transformation Champ Award - Engage Your Customers, on an Italian level.

ORACLE

Reply, Oracle Platinum Cloud Select partner and Oracle Cloud Managed Service Provider, was confirmed in 2019 as Oracle Cloud Partner of the year in Italy and Germany.

Thanks to one of the leading European Competence

Centres able to guarantee highly specialised expertise in the integration of Oracle’s complete suite of Cloud products, Reply represents a point of reference in the main Oracle Cloud Computing solution areas: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS).

Reply has confirmed its leadership in the technological Cloud with the “Oracle Excellence Award for Partner of the Year – EMEA in Cloud Transformation”, obtained thanks to the Group’s companies specialised in Oracle Cloud Infrastructure and Operations that have demonstrated an exceptional capacity for innovation in providing key services and transforming the business offered to customers.

Reply also distinguished itself for its ability and speed in exploiting the opportunities offered by the new “autonomous” technologies, by successfully implementing the first Policy Enterprise Datawarehouse re-engineering project. The Company also successfully supported numerous customers on their path to the cloud, thanks to the adoption of Oracle Cloud Security services, obtaining the “EMEA Security Partner of the year” European recognition. Finally, in the application realm, Reply has distinguished itself in various strategic projects based on the Oracle Xstore suite, Oracle ERP Cloud and Human Capital Management and Marketing Automation, aimed at offering customers support in the core corporate business, as well as process innovation essential for companies that make a “customer-centric” approach, a differentiating element in the market.

SALESFORCE

Reply, a Salesforce Platinum Consulting Partner, is one of the leading Salesforce.com competence centres. Reply's Salesforce customers include not only leading players in the automotive, industrial, telecommunications and media industries, but also companies in the financial services, utility, retail and fashion sectors.

Reply's capacity to deliver the highest standard of Salesforce solutions is the result of both its expertise in Cloud computing technologies based on SaaS and PaaS best practices, and the company's specific process and market-related know-how, with a particular focus on digital marketing, digital CRM, e-commerce and integration.

With over 300 Salesforce certifications obtained, Reply boasts a solid multi-cloud technical expertise in various areas including Sales, Service, Marketing with Data Management Platform (DMP), e-commerce for B2B and B2C platforms, Integration with MuleSoft, as well as Salesforce Engagement with Heroku. Reply specialists work not only with the various Salesforce extensions for CPQ, Pardot, Email Automation and Einstein AI, but also with newly acquired products, such as ClickSoftware and Tableau.

An integral part of the Salesforce Master and Specialisation Program, Reply has received the exclusive recognition of Heroku specialist, thanks to the important automotive projects implemented, which have led to the creation of websites, back-ends for mobile apps and modern chatbot solutions.

SAP

Thanks to its extensive international experience in implementing software solutions based on the SAP product suite, Reply is able to support companies in becoming smart businesses, by adopting an agile and integrated approach to design, and developing enterprise information systems for the digital age. Reply's experience covers both traditional business processes and more recent SAP technologies in the field of IoT, machine learning, big data and analytics, including SAP Leonardo, SAP Cloud Platform and SAP C/4 HANA for the development of end-to-end e-commerce and customer engagement solutions. In 2019, Reply obtained the "SAP Quality Award Gold" for the sixth consecutive year, in recognition of the quality and relevance of its activities. Reply holds the status of "SAP Gold Partner" and is certified as a partner on eight SAP solutions thanks to the innovative SAP solutions designed and developed for its customers.

DEVELOPMENT AND EVOLUTION OF PROPRIETARY PLATFORMS

Reply constantly dedicates resources to research and development activities, with a focus on two main areas: the development and evolution of proprietary platforms and the definition of a continuous scouting, selection and learning process of new technologies, aimed at bringing onto the market innovative solutions capable of sustaining the creation of value in companies.

BRICK REPLY™

In 2019, the evolution of Brick Reply™ was characterised by an important refactoring of the core components, thus enabling the platform to evolve into a digital solution capable of supporting more complex and collaborative manufacturing contexts.

The feature enhancements and the revised user experience, updated also to optimise the platform on mobile devices, primarily concerned the Execution, Quality and Monitoring & Reporting applications.

In 2020, the development of the platform will focus on integrating new features using Big Data and Artificial Intelligence. The data collected from machinery and sensors, through the platform's native integration capabilities, together with the introduction of machine learning techniques, will enable the activation of the Maintenance and Quality modules for predictive analysis, allowing Brick Reply™ to implement a first version of Digital Twins for machinery and production lines.

DISCOVERY REPLY™

In 2019, the Discovery Reply™ platform was enriched and extended with the aim of strengthening its positioning on the market.

In the Retail sector, the Digital Signage module is now able to support new generation monitors, thus facilitating the implementation of simplified and cost-effective solutions in large chain stores.

The Store Management component has also been enhanced, through the introduction of new tools for the centralised control of the display layouts, asking store managers for photos and videos of certain areas of the store through a mobile application.

In the Enterprise realm, new integrations have been made with corporate systems such as CRM, PIM, PLM, CMS and ERP. Thanks to the use of cloud technologies, it was possible to increase the volumes of managed assets, for example by encoding several dozen high quality images in parallel, while AI algorithms were used to introduce Image Recognition techniques, making it possible to speed up content tagging operations.

In 2020, the roadmap provides for the enrichment of the platform with various features and architectures, thus making it increasingly more central in any business process involving digital assets. Developments will focus on the

introduction of tools to support Marketing activities, the automation of publication processes towards leading e-commerce platforms, the collection of insights on the use of digital assets on the various customer touchpoints, as well as the optimisation of digital asset publication processes across customer touchpoints.

HI CONNECT REPLY™

In 2019, Development on the HI Connect Reply™ platform focused on the introduction of new application logic based on Artificial Intelligence, dedicated in particular to the autonomous management of predictive and troubleshooting logic. In 2020, investments will continue in order to evolve the platform with Edge Computing, in other words the intelligence part positioned closest to the machine, thus enabling increasingly more sophisticated modes of human/machine interaction and introducing new distributed decision models.

LEA REPLY™

In 2019, the LEA Reply™ suite was enriched with the addition of the LEA Reply™ Yard Management component, which connects transport planning (Dock Scheduling) with the warehouse management system (WMS). The 2020 roadmap provides for a further evolution of the platform, through the development of LEA Reply™ Visibility, a system designed to collect events and data from different companies and sources and to transform them into useful information to enhance the decision-making process. A solution focused on In-Store Picking will also be created,

designed to support the preparation of e-commerce orders directly at the point of sale.

PULSE SECURE

The new Pulse version released in 2019 has been enriched with a Virtual Marketing Assistant. The new feature is able to automatically benchmark the results obtained and, by taking advantage of the potential offered by Artificial Intelligence technologies, identify anomalies and trends, warning users with a coherent description of the facts.

TAMTAMY™

In 2019, Reply continued with the development of the TamTamy™ platform and, in particular, the version of the platform that integrates Google's G Suite productivity services. New formats have also been released, which are designed to be able to help companies in the process of changing the way people work, managing human resources and with an increasingly more involved and personalised training experience.

Further investments are planned in 2020 to reinforce the Learning Experience Platform with new features, as well as to complete the integration of TamTamy™ with Microsoft's Office 365 services.

TICURO REPLY™

In 2019, Ticuro Reply™ obtained the 93/42/EEC certification as "Stand alone medical device software". During the same year, the Tele Cardiology process management module and the Tele Spirometry module were also renewed, by integrating new medical devices.

Current developments aim to conclude and consolidate the migration of the “Treatment of Chronic Patients” module onto a world leading healthcare platform and the development of a synchronous App that enables real-time messaging and chats between the General Practitioners and the Specialist Doctors who are part of Chronicity Management Centres. This development provides for the use of native cloud services and tools, with the aim of designing the new Ticuro Reply modules based on a scalable microservice architecture, thus enabling a dynamic and scalable use of this component.

X-RAIS REPLY™

In 2019 X-Rais Reply™ was specialised in the analysis of mammograms, through the implementation of specific algorithms capable of determining the density level of the breast, highlighting any lesions present and describing their morphological characteristics. The increase in image volumes and the refinement of the algorithms has made it possible to improve Accuracy values by more than 12%. The evolutions of the tool are aimed at increasing the detection capability of X-Rais Reply™ through the integration in the neural network of specific Radiomics techniques (the process of converting digital images into objective quantitative data). Based on this new approach, the identification of lesions present in the image will be carried out by the neural network, while the Radiomics models will deal with the classification of the segmented areas.

THE VALUE OF PEOPLE

Reply is based on the excellence of the people who make up the company, professionals from the top universities and polytechnics in the sector. The men and women within the group bring the Reply brand to life for customers and partners and embody the company's image.

Reply invests continuously in human resources by establishing special relationships and partnerships with a number of universities with the aim of attracting highly skilled individuals to join its team. Recruitment is focused primarily on young graduates. The particular disciplines of interest include: computer science, computer engineering, electronic engineering, telecommunications engineering, management engineering, and economics and business. The relationship between Reply and the universities is also developed by means of regular collaborations in the form of industrial placements, dissertations, as well as participation in lectures and seminars. The values that characterise Reply's employees are enthusiasm, excellence, a methodical approach, team spirit, initiative and an ability to understand the business context and to clearly communicate proposed solutions. The continuous desire to imagine, experiment with and research new solutions allows innovation to come about more rapidly and efficiently. Whoever decides to become a part of the "Reply world" will find the opportunity to best express his/her potential in an organisational model based on: culture, ethics, trust, honesty and transparency. These values are vital for the process of continual improvement and for enabling employees to focus ever more sharply on the quality of their work.

All the group's managers endeavour in their daily work to uphold the principles on which Reply has always depended and that have sustained it during its growth.

REPLY TEAM

- Sharing the customer's objectives;
- Professionalism and speed of implementation;
- Culture and flexibility.

Excellence: the underlying culture, research, attention to quality, reliability, and the creation of value from results.

Teamwork: collaboration, the transfer of ideas and knowledge, the sharing of objectives and results, respect for personal strengths and differences.

Customer: the sharing of objectives, customer satisfaction, conscientiousness, professionalism, a sense of responsibility, integrity.

Innovation: imagination, experimentation, courage, research, the quest for improvement.

Speed: methodology, experience in project management, collaboration, commitment to achieving results and meeting customer objectives.

ANNUAL FINANCIAL REPORT 2019

REPORT ON OPERATIONS

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

The Reply Group adopts specific procedures in managing risk factors that can have an influence on company results. Such procedures are a result of an enterprise management that has always aimed at maximizing value for its stakeholders putting into place all necessary measures to prevent risks related to the Group activities.

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

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

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

RISKS ASSOCIATED WITH COMPETITION

The ICT market is highly competitive. Competitors could expand their market share squeezing out and consequently reduce the Group's market share. Moreover the intensification of the level of competition is also linked with possible entry of new entities endowed with human

resources and financial and technological capacities in the Group's reference sectors, offering largely competitive prices which could condition the Group's activities and the possibility of consolidating or amplifying its own competitive position in the reference sectors, with consequent repercussions on business and on the Group's economic, earnings and financial situation.

RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS

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

RISKS ASSOCIATED WITH SEGMENT REGULATIONS

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

INTERNAL RISKS

RISKS ASSOCIATED WITH KEY MANAGEMENT

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

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

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

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

RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT

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

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

RISKS ASSOCIATED WITH INTERNATIONALIZATION

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

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

RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS

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

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

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

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

FINANCIAL RISKS

CREDIT RISK

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

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

LIQUIDITY RISK

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

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

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

EXCHANGE RATE AND INTEREST RATE RISK

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

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

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

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

REVIEW OF THE GROUP'S ECONOMIC AND FINANCIAL POSITION

FOREWORD

The financial statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated financial statements as at 31 December 2019 to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

TREND OF THE PERIOD

The Reply Group closed 2019 with a consolidated turnover of €1,182.5 million, an increase of 14.2% compared to €1,035.8 million in 2018.

All indicators are positive for the period. Consolidated EBITDA was €191.3 million, which is an increase of 32.1% compared to the €144.8 million recorded at December 2018. Consolidated EBITDA - excluding the effects of the application of IFRS 16 - would have been €167.4 million.

EBIT, from January to December, was €155.3 million, which is an increase of 17.3% compared to €132.4 million at December 2018). EBIT, excluding the effects of the application of IFRS 16, would have been €154,7 million.

The Group net profit was at €113.9 million, an increase of 14,0% compared to the €99.9 million recorded in 2018. The value excluding the effects of the application of IFRS 16 would have been equal to €115,4 million.

As at 31 December 2019, the Group's net financial position has been positive at €105 million (€197.2 million excluding the effects of the application of IFRS 16). The net financial position as at 31 December 2019 was positive at €66.6 million.

In recent months Reply has not only established itself in the technology environment, but also played a leading role in the major transformation processes implemented by all companies. Moreover, 2019 has seen important developments in all our main offering lines: Cloud, IoT and smart objects, data platforms and digital experience. Even in these months, Reply is witnessing

an exponential growth in demand for new applications related to the use of artificial intelligence, an area where Reply has been committed for a long time, acquiring a leadership position.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

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

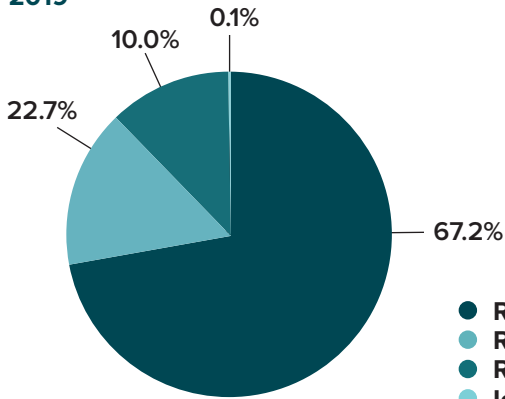
(THOUSAND EUROS)	2019 (*)	%	2018	%
Revenues	1,182,528	100.0	1,035,793	100
Purchases	(21,250)	(1.8)	(20,513)	(2.0)
Personnel	(578,263)	(48.9)	(508,652)	(49.1)
Services and other costs	(390,918)	(33.1)	(364,734)	(35.2)
Other operating (costs)/income	(790)	(0.1)	2,942	0.3
Operating costs	(991,221)	(83.8)	(890,957)	(86.0)
Gross operating income (EBITDA)	191,307	16.2	144,836	14.0
Amortization, depreciation and write-downs	(37,239)	(3.1)	(13,848)	(1.3)
Other non-recurring (costs)/income	1,256	0.1	1,422	0.1
Operating income (EBIT)	155,324	13.1	132,410	12.8
(Loss)/gain on investments	11,364	1.0	6,862	0.7
Financial income/(expenses)	(5,268)	(0.4)	(55)	-
Income before taxes	161,419	13.7	139,217	13.4
Income taxes	(44,829)	(3.8)	(38,230)	(3.7)
Net income	116,590	9.9	100,987	9.7
Non-controlling interests	(2,732)	(0.2)	(1,075)	(0.1)
Group net income	113,858	9.6	99,913	9.6

(*) The year-end closing data of 2019 include the following impacts relating to the application of the new Accounting Standard IFRS 16:

- cancellation of rents and rental fees with a positive impact on EBITDA of 23,956 thousand Euros;
- depreciation and amortization increase for 23,292 thousand euro with a positive impact on EBIT of 664 thousand Euros;
- increase in financial charges for 2,231 thousand Euros with a negative impact on EBT of 1,567 thousand Euros.

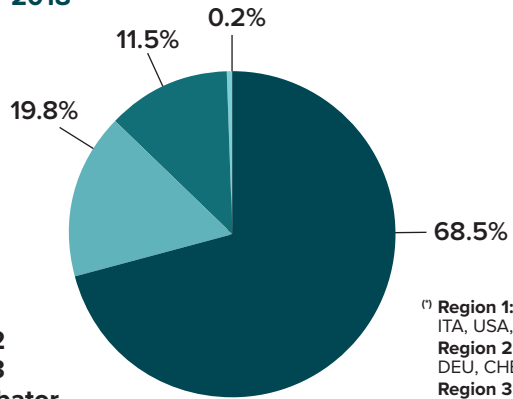
REVENUES BY REGION (*)

2019



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

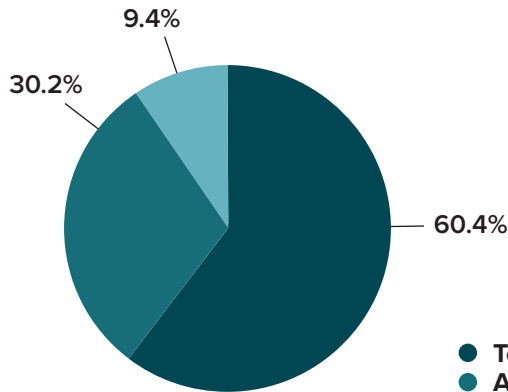
2018



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

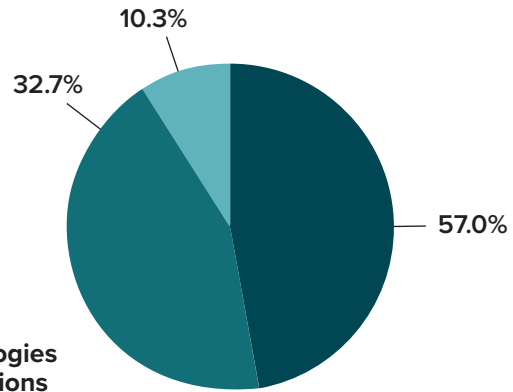
REVENUES BY BUSINESS LINES

2019



- Technologies
- Applications
- Processes

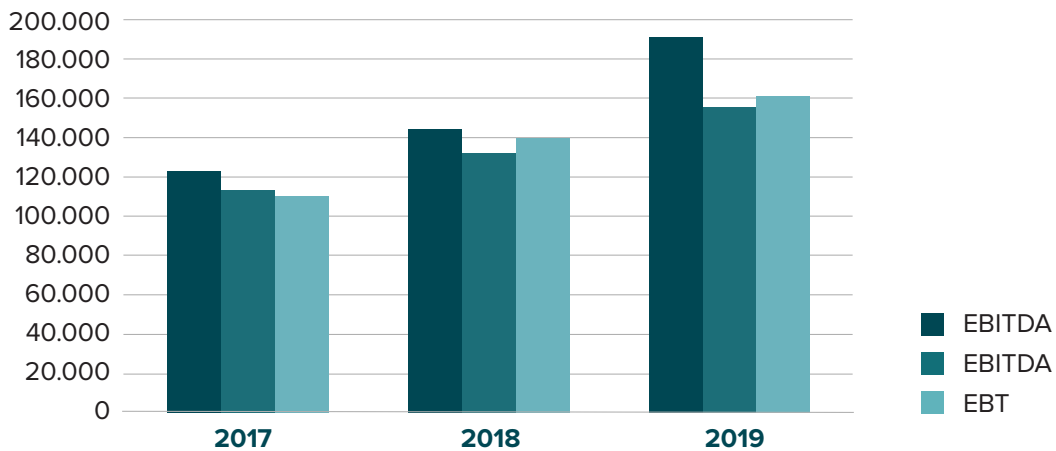
2018



Annual Financial Report 2019

TREND IN KEY ECONOMIC INDICATORS

(THOUSAND EUROS)



ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2019, compared to 31 December 2018:

(THOUSAND EUROS)	31/12/2019	%	31/12/2018	%	CHANGE
Current assets	547,134		565,092		(17,958)
Current liabilities	(459,744)		(419,803)		(39,941)
Working capital, net (A)	87,390		145,288		(57,898)
Non-current assets	518,170		381,955		136,215
Noncurrent liabilities	(123,530)		(107,183)		(16,347)
Fixed capital (B)	394,640		274,772		119,868
Invested capital, net (A+B)	482,030	100.0	420,060	100.0	61,969
NET EQUITY (C)	587,061	121.8	486,612	115.8	100,448
NET FINANCIAL POSITION (A+B-C)	(105,031)	(21.8)	(66,552)	(15.8)	(38,479)

Increase in net invested capital amounting to 61,969 thousand Euros is mainly due to the adoption of the new IFRS 16 accounting standard that generated the accounting of a right-of-use asset amounting to 89,788 thousand Euros as at January 1, and an equivalent financial liability.

Net invested capital on 31 December 2019, amounting to 482,030 thousand Euros, was funded by Shareholders' equity for 587,061 thousand Euros and by available overall funds of 105,031 thousand Euros.

The following table provides a breakdown of net working capital:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Work in progress	75,328	77,061	(1,733)
Trade receivables	432,240	434,389	(2,149)
Other current assets	39,566	53,642	(14,076)
Current operating assets (A)	547,134	565,092	(17,958)
Trade payables	119,951	123,387	(3,436)
Other current liabilities	339,793	296,417	43,376
Current operating liabilities (B)	459,744	419,803	39,941
Working capital, net (A-B)	87,390	145,288	(57,898)
<i>% return on investments</i>	<i>7.4%</i>	<i>14.0%</i>	

NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

(THOUSAND EUROS)	31/12/2019 (*)	31/12/2018	CHANGE
Cash and cash equivalents, net	239,571	122,481	117,090
Current financial assets	1,666	997	669
Due to banks	(16,648)	(31,990)	15,343
Due to other providers of finance	(537)	(689)	152
Financial liabilities IFRS 16	(20,454)	-	(20,454)
Short-term financial position	203,598	90,799	112,799
Due to banks	(25,846)	(23,366)	(2,480)
Due to other providers of finance	(1,011)	(881)	(130)
Financial liabilities IFRS 16	(71,710)	-	(71,710)
M/L term financial position	(98,567)	(24,247)	(74,320)
Total net financial position	105,031	66,552	38,479

(*) The year-end closing data of 2019 include financial liabilities for 92,164 thousand Euros following the application of the new accounting standard IFRS 16. Net of this effect, the group's net financial position at 31 December 2019 would have amounted to 197,195 thousand Euros.

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

(THOUSAND EUROS)	31/12/2019
Cash flows from operating activities (A)	202,793
Cash flows from investment activities (B)	(56,006)
Cash flows from financial activities (C)	(29,698)
Change in cash and cash equivalents (D) = (A+B+C)	117,090
Cash and cash equivalents at beginning of period (*)	122,481
Cash and cash equivalents at year end (*)	239,571
Total change in cash and cash equivalents (D)	117,090

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

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

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

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

SIGNIFICANT OPERATIONS IN 2019

ACQUISITION OF NEVELING.NET GMBH

In January 2019, the subsidiary Reply AG reached an agreement for the acquisition of neveling.net GmbH, a company under German law specializing in content-management systems activities based on sitecore technologies.

ACQUISITION OF BLOWFISH DIGITAL HOLDINGS LTD. AND ITS SUBSIDIARIES THREEPIPE LTD. AND SPOT DIGITAL LTD.

In the month of October 2019 Reply Ltd acquired Blowfish Digital Holdings Ltd and its subsidiaries Threepipe Ltd and Spot Digital Ltd, companies incorporated under the English law, specializing in digital marketing and creative agency.

REPLY ON THE STOCK MARKET

We are living in an era of digital disruption where the innovation, creation, distribution and capture of value are newly defined. As humans we are in the middle of the industrial revolution of the 21st century, which is reshaping industries and value chains, scientific discovery and human engagement at unprecedented speed and scale. The process of far-reaching automation, induced by the interaction of cloud computing platforms, big data, artificial intelligence, robotics, blockchain, internet of things, 5G connectivity, advanced materials and biotechnology, requires fundamental changes in how future business is done. In this situation Digital itself is no longer a differentiator. Still we see many enterprises optimizing existing business models, not transforming themselves. New opportunities will open for emerging markets and unexplored business models, for which the capacity to understand and better exploit the technology as well as to integrate it with human components will be the key to success.

The constant commitment to placing innovation at the very center of our approach, both in terms of skills and expertise, as well as the services offered to our customers, is in the DNA of Reply. Since inception we have worked hard to become an acknowledged leader in international markets, driven both by technical excellence and our ability to adapt to change. Reply is one of the few companies in the market with a unique mix of skills and expertise that extends from strategy to design, from digital technologies to the enabling architecture. We are committed to increase our extensive know-how across the full digital spectrum and to continue actively investing in knowledge, capitalizing on and interpreting this almost daily evolution and expansion of technology. Our ability to be competitive will be closely linked to the capacity to experiment and innovate, enabling us to bring new products and services to the market just as quickly. We are fully committed to creating sustainable value and to continuing the successful, long-term development of our company and are convinced that our shareholders can derive substantial value from the opportunities ahead and the competitive advantage of Reply.

REPLY SHARE PERFORMANCE

The 28% total return investors enjoyed from MSCI World in 2019 goes down in history as the second best annual return in the last 30 years (behind only 2013). More impressively, last year represented the best ever return for stocks when investors also enjoyed positive rewards from bonds, with US Treasuries returning 10% over the same period. Admittedly, a low starting point for stocks at the start of 2019 helped accelerate the calendar year statistics, but the same cannot be said for the 10% return over the last three months, which has lifted global valuations

to a 15-year high. In 2019 the courage to take risks paid off for investors - and this despite the uncertain market environment. The never-ending trade disputes between the United States and China alone, or the whole squabbling over brexite - the imminent withdrawal of Great Britain from the European Union - have repeatedly caused turbulence. On the other hand, the fact that many economic concerns eventually turned out to be unjustified, for example, had a positive effect, and companies were also better off than initially expected.

For Reply 2019 was an excellent stock exchange year. Since the beginning of the year until the end of July the Reply share outperformed all indices and most of the peer group members achieving an increase of 38%. At the beginning of August, the Reply share followed the general correction phase in the stock markets, however at a greater magnitude because of not as good as expected Q2 results.

At the end of October, the upward corridor was entered again, strongly accelerated after the communication of the third quarter results in November 2019. The year 2019 ended for the Reply share at EUR 69.45, an increase of 58%, leading to a new record market capitalization of EUR 2.6 billion. The share price marked a year-high at EUR 74.80. In the first days of 2020 the development continued, bringing the Reply performance to + 75% (23/01/2020) and the market capitalization to EUR 2.9 billion.

As good was the relative performance of the Reply share. Throughout the year Reply outperformed all Italian indices (MIB: +28%, FTSE Italy STAR: +28%) and the relevant sector indices (EuroSTOXX Technology: +40%, S&P 500/IT: +48%).



Taking December 6, 2000, the date of the Reply IPO, as a reference, the Italian main index MIB continued to perform unsatisfactorily. It lost 48% of its starting value and never recovered substantially from the lows reached during the financial crisis. In the same period Reply increased its IPO value by more than 1,800%.

In 2019 Reply further increased the value creation adding 620 percentage points to the outperformance versus the MIB.



SHARE LIQUIDITY

In 2019 the trading volume in the Reply share amounted to EUR 669 million, an increase of 13% compared to the year before. The increased share price offset a number of shares traded which reduced by 10%. In 2019 11.4 million shares were traded versus 11.9 million shares in 2018. Despite of the strong upside development the Reply share is traded at a valuation premium, compared to the participants of the peer group. Enterprise value to sales and enterprise value to EBITDA at the end of 2019 were 7% and 18% higher than the average value of the peer group constituents.

DIVIDEND

Performance-based compensation is an essential pillar of the partnership-oriented business model of Reply. Like employees the Reply shareholders shall – in form of dividends - participate in the sustainable operational performance of the group. Each year this principle is balanced

with the need of internal financing as a means to fund the investments of Reply (in new startup companies and new technologies). In 2019 Reply achieved earnings per share of EUR 3.04, an increase of 13.9% compared to 2018. For the financial year 2019 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 0.52 (dividend 2018: EUR 0.45). Referred to the share price of Reply at the end of 2019 this corresponds to a dividend yield of 0.75%. Assuming the approval of the shareholders' meeting Reply will pay to its shareholders a dividend sum of EUR 19.5 million. In 2018 EUR 16.8 million were distributed.

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

		2019	2018	2017	2016	2015
Share price						
Year-end	Euro	69.45	44.08	46.17	29.50	31.48
High for the year	Euro	74.80	61.30	53.50	34.08	32.30
Low for the year	Euro	42.20	42.00	28.93	25.03	14.61
Trading						
Number of shares traded (year)	# thousand	11,360.1	12,587.7	14,894.2	9,419.3	11,448.2
Number of shares traded (day)	# thousand	44.9	48.2	57.1	36.1	43.9
Trading volume (year)	Euro million	668.9	591.0	590.6	282.6	279.5
Trading volume (day)	Euro million	2.623	2.548	2.289	1.095	1.083
Capital structure						
Number of shares	# thousand	37,411.4	37,411.4	37,411.4	9,352.9	9,352.9
Share capital	Euro million	4.864	4.864	4.864	4.864	4.863
Free Float	%	53.4	53.4	52.8	42.0	42.0
Market capitalization	Euro million	2,598.2	1,650.0	1,727.3	1,103.6	1,177.5
Allocation of net income						
Earnings per share	Euro	3.04	2.67	2.08	1.81	1.52
Dividend ¹⁾	Euro	0.52	0.45	0.35	0.2875	0.25
Dividend payment	Euro million	19.454	16.835	13.092	10.756	9.353
Dividend yield ²⁾	%	0.75	1.0%	0.8%	1.0%	0.8%

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

¹⁾ Amount proposed for shareholder approval for 2019

²⁾ Related to year-end closing price

THE SHAREHOLDERS BASE

49% of the Reply shares are owned by the founders of Reply. Institutional shareholders owned 44% at the end of 2019 while retail shareholders owned 7% of the shares. The institutional shareholders' base of Reply saw some significant changes. American investors, the most important investor country in Reply, increased their ownership in Reply to 24% of institutional holdings versus 18% in 2018. French investors now rank number 2, owning around 21%. Italian investors represented unchanged 15% of the institutional shareholdings at the end of 2019.

ANALYSTS

2019 saw a further increase of the analyst coverage of Reply. 9 European analysts are currently commenting the Reply share. In 2019 coverage was initiated by one Italian analyst. Reflecting the share price development ratings were set to "outperform" or "neutral" rating. All Reply analysts on average currently see a target price of Euro 65.10.

DIALOG WITH THE CAPITAL MARKETS

An active and open communication policy ensuring prompt and continuous information dissemination is a major component of the Reply IR strategy. In 2019 Reply maintained its high level of activities with the capital markets. During 20 conferences and 8 roadshows Reply actively explained its equity story. Special emphasis was laid on the US and Italian markets where Reply increased its investor contacts by 92% and 47% respectively. The number of brokers who were involved in the IR activities of Reply was stable in 2019. Our specialist and 2 other brokers were most active in working with Reply on investor targeting and communicating the value of the Reply story for shareholders.

THE PARENT COMPANY REPLY S.P.A.

INTRODUCTION

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2019 to which reference should be made, prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.

RECLASSIFIED INCOME STATEMENT

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

As at 31 December 2019 the Parent Company had 88 employees (86 employees in 2018). Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group’s overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Pass-through revenues of the Income Statement set forth below.

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

(THOUSAND EUROS)	2019	2018	CHANGE
Revenues from operating activities	83,772	71,625	12,147
Pass-through revenues	464,569	505,272	(40,702)
Purchases, services and other expenses	(513,660)	(551,652)	37,993
Personnel and related expenses	(22,681)	(20,422)	(2,260)
Other unusual operating (expenses)/income	(2,102)	344	(2,446)
Amortization, depreciation and write-downs	(1,379)	(1,188)	(191)
Operating income	8,519	3,979	4,540
Financial income/(expenses)	9,709	10,800	(1,092)
Gain on equity investments	81,145	56,830	24,315
Loss on equity investments	(8,583)	(5,990)	(2,593)
Income before taxes	90,790	65,619	25,171
Income taxes	(1,541)	(2,039)	498
NET INCOME	89,249	63,580	25,669

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 34,343 thousand Euros (29,638 thousand Euros in the financial year 2018);
- shared service activities in favor of its subsidiaries for 36,039 thousand Euros (31,720 thousand Euros in the financial year 2018);
- management services for 9,940 thousand Euros (8,891 thousand Euros in the financial year 2018).

Operating income 2019 marked a positive result of 8,519 thousand Euros after having deducted amortization expenses of 1,379 thousand Euros (of which 172 thousand Euros referred to tangible assets, 879 thousand Euros to intangible assets and 328 thousand Euros related to RoU assets arising from the adoption of IFRS 16).

Financial income amounted to 9,709 thousand Euros and included interest income for 6,102 thousand Euros and interest expenses for 1,173 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net positive exchange rate differences amounting to 4,794 thousand Euros.

Income from equity investments which amounted to 81,145 thousand Euros refers to dividends received from subsidiary companies in 2019.

Losses on equity investments refer to write-downs and losses reported in the year by some subsidiary companies that were considered to be unrecoverable.

Net income for the year ended 2019, amounted to 89,249 thousand Euros after income taxes of 1,541 thousand Euros.

FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2019, compared to that as at 31 December 2018, is provided below:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Tangible assets	209	310	(101)
Intangible assets	4,749	3,059	1,690
RoU assets	722	-	722
Equity investments	142,119	145,002	(2,883)
Other fixed assets	5,893	5,022	871
Non-current liabilities	(10,644)	(8,978)	(1,666)
Fixed capital	143,048	144,415	(1,367)
Net working capital	6,471	14,479	(8,008)
INVESTED CAPITAL	149,519	158,894	(9,375)
Shareholders' equity	412,493	341,264	71,230
Net financial position	(262,975)	(182,370)	(80,605)
TOTAL SOURCES	149,519	158,894	(9,375)

The net invested capital on 31 December 2019, amounting to 149,519 thousand Euros, was funded by Shareholders' equity in the amount of 412,493 thousand Euros from Shareholders' equity and available overall funds of 262,975 thousand Euros.

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

NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2019, compared to 31 December 2018, is detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Cash and cash equivalents, net	161,331	67,012	94,319
Financial loans to subsidiaries	47,494	67,655	(20,161)
Due to banks	(16,327)	(31,535)	15,208
Due to subsidiaries	(79,449)	(56,787)	(22,662)
Financial liabilities IFRS 16	(325)	-	(325)
Net financial position short term	112,724	46,345	66,379
Long term financial assets	174,517	157,096	17,421
Due to banks	(23,871)	(21,071)	(2,800)
Financial liabilities IFRS 16	(395)	-	(395)
Net financial position long term	150,251	136,024	14,226
Total net financial position	262,975	182,370	80,605

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

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

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

(THOUSAND EUROS)	31/12/2019		31/12/2018	
	NET EQUITY	NET INCOME	NET EQUITY	NET INCOME
Reply S.p.A.'s separate financial statements	412,493	89,249	341,264	63,580
Results of the subsidiary companies, net of minority interest	262,662	117,582	226,304	104,708
Cancellation of the carrying value of investments in consolidated companies net of any write-offs	(75,864)	-	(68,040)	-
Cancellation of dividends from subsidiary companies	-	(81,145)	-	(56,911)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(8,892)	(9,096)	(11,600)	(10,392)
Non-controlling interests	(3,339)	(2,732)	(1,315)	(1,071)
Net Group consolidated financial statement	587,061	113,858	486,612	99,913

CORPORATE GOVERNANCE

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

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

The aforementioned Report is available on the Corporate Governance section of the website www.reply.com - Investors – Corporate Governance.

The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. www.borsaitaliana.it.

The Board of Directors, on an annual basis and at the proposal of the Remuneration Committee, establishes a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders’ Meeting called to approve the 2019 financial statements.

DECLARATION OF NON-FINANCIAL DATA

The company, in accordance with the provisions of article 5 (3) (b) of Legislative Decree No 254/2016, has prepared the consolidated declaration of a non-financial nature which constitutes a separate report. The consolidated declaration of non-financial data 2019, drafted in accordance with the “GRI Standards” reporting standard, is available on the Group website www.reply.com.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

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

HUMAN RESOURCES

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

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

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

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

At the end of 2019 the Group had 8,157 employees compared to 7,606 in 2018.

GENERAL DATA PROTECTION REGULATION (GDPR)

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

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

To ensure compliance the Group has adopted a GDPR program which provides several activities including:

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

TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

During the period, there were no transactions with related parties, including intergroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered, these transactions took place in accordance with the internal procedures containing the rules aimed at ensuring transparency and fairness, under Consob Regulation 17221/2010.

The company in the notes to the financial statements and consolidated financial statements provides the information required pursuant to Art. 154-ter of the TUF [Consolidated Financial Act] as indicated by Consob Reg. no. 17221 of 12 March 2010 and subsequent Consob Resolution no. 17389 of June 23, 2010, indicating that there were no significant transactions concluded during the period as defined by Art. 4, paragraph 1, let a) of the aforementioned regulation that have significantly affected the Group's financial or economic position. The information pursuant to Consob communication of 28 July 2006 are presented in the annexed tables herein.

TREASURY SHARES

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

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

FINANCIAL INSTRUMENTS

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

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

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

EVENTS SUBSEQUENT TO 31 DECEMBER 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 is 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”.

OUTLOOK ON OPERATIONS

We are currently experiencing a new way of living, deeply conditioned by the global spread of the Covid-19 virus, with massive disruption of the business activities and with sudden changes to our routines and habits.

The ultimate impacts of this pandemic are uncertain and the economic consequences will depend on the duration, on individual customers and on measures put in place by governments.

Reply's structure, thanks to its network features, which give it granularity, flexibility and territorial distribution, together with the use of the most innovative communication technologies, should allow for an effective and fast reaction to minimize the impacts on the Group's business.

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

The financial statements at year end 2019 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 89,248,998 Euros and net shareholders' equity on 31 December 2019 amounted to 412,493,259 Euros thus formed:

(IN EUROS)	31/12/2019
Share Capital	4,863,486
Share premium reserve	23,302,692
Legal reserve	972,697
Reserve for treasury shares on hand	24,502
Other reserves	294,080,884
Total share capital and reserves	323,244,261
Net income	89,248,998
Total	412,493,259

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2019 showing a net result of 89,248,998 Euros, proposes that the shareholders resolve:

- to approve the financial statement (Separate Statements) of Reply S.p.A. which records net profit for the financial year of 89,248,998 Euros;
- to approve the motion to allocate the net result of 89,248,998 as follows:
 - › a unit dividend to shareholders amounting to 0,52 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 6 May 2020, coupon cutoff date 4 May 2020 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 5 May 2020;
 - › having the Legal reserve reached the limit of one fifth of the share capital pursuant to article 2430 of the Italian Civil Code, the residual amount to be allocated to the Retained earnings reserve;
- to approve, pursuant to Article 22 of the Articles of association, the proposal of the Remuneration Committee to distribute to Directors entrusted with operational powers,

a shareholding of the profits of the Parent Company, to be established in the amount of 3,837,500.00 Euros, of which 3,150,000 Euro related to the short term variable remuneration component corresponding to around 1.6% of the consolidated gross operative margin 2019, (before allocation of the shareholding in profits for Directors invested with operational powers) and 687,500.00 thousand Euros, related to the long term variable remuneration component for the period 2017-2019.

Turin, 13 March 2020

/s/ Mario Rizzante

For the Board of Directors

The Chairman

Mario Rizzante

**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 Financial Statements as at 31 December 2019

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)

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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, whose already matured amount must be planned to estimate the amount to settle at the time of annulment of working relations and subsequently updated, using the “Projected unit credit method”. Such actuarial methodology is based on an assumption of demographic and financial nature in order to carry out a reasonable estimate of the amount of benefits that each employee had already matured based on his employment performances.

Through actuarial valuation, current service costs are recognized as “personnel expenses” in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the interest cost is recognized as “Financial gains or losses” and represents the figurative expenditure the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities (“TFR”).

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders’ equity without being ever included in the consolidated income statement.

PENSION PLANS

According to local conditions and practices, some employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.

In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.

The Group’s obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the “ongoing single premiums” method. The portion of net cumulative actuarial gains and losses which exceeds the greater

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

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

SHARE-BASED PAYMENT PLANS

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

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

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

Revenue 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
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		Impact
			pre IFRS 16	post IFRS 16	
			RoU asset	-	
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 at 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 at 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 shareholders 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:

(THOUSAND EUROS)	31/12/2019			31/12/2018		
	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:

(THOUSAND EUROS)	31/12/2019				31/12/2018			
	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 quantitative 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%
Leadwise 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%

Portaltch 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-duodecies of 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.

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

Turin, 13 March 2020
/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

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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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.

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 impairment test as at 31 December 2019 for all the CGUs identified. Based on the impairment 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.

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.

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.

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 impairment test like discount rate and growth rate.

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 impairment 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

**FINANCIAL
STATEMENTS AS
AT 31 DECEMBER
2019**

INCOME STATEMENT (*)

(EUROS)	NOTE	2019	2018
Revenue	5	534,005,629	565,910,271
Other income	6	14,335,309	10,986,426
Purchases	7	(26,553,872)	(24,870,993)
Personnel	8	(22,681,309)	(20,421,751)
Services and other costs	9	(487,105,947)	(526,781,333)
Amortization, depreciation and write-downs	10	(1,378,856)	(1,188,197)
Other operating and non-recurring income/ (expenses)	11	(2,102,000)	344,134
Operating income		8,518,955	3,978,556
Gain/(loss) on equity investments	12	72,561,906	50,839,538
Financial income/(expenses)	13	9,708,821	10,800,438
Income before taxes		90,789,682	65,618,532
Income taxes	14	(1,540,684)	(2,038,858)
Net income		89,248,998	63,579,674
Net and diluted income per share	15	2.40	1.70

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Income Statement are reported in the annexed Tables and further described in Note 36.

STATEMENT OF COMPREHENSIVE INCOME

(EUROS)	NOTE	2019	2018
Profit of the period (A)		89,248,998	63,579,674
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) from employee benefit plans	28	(29,248)	4,282
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		(29,248)	4,282
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges	28	(1,156,830)	(1,338,190)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		(1,156,830)	(1,338,190)
Total other comprehensive income, net of tax (B) = (B1) + (B2):		(1,186,078)	(1,333,908)
Total comprehensive income (A)+(B)		88,062,920	62,245,766

STATEMENT OF FINANCIAL POSITION (*)

(EUROS)	NOTE	31/12/2019	31/12/2018
Tangible assets	17	208,885	310,380
Goodwill	18	86,765	86,765
Intangible assets	19	4,661,803	2,971,751
RoU assets	20	722,294	-
Equity investments	21	142,118,921	145,001,792
Other financial assets	22	174,871,137	157,349,863
Deferred tax assets	23	5,538,988	4,767,855
Non-current assets		328,208,793	310,488,406
Trade receivables	24	353,511,710	341,729,413
Other receivables and current assets	25	27,350,198	30,811,220
Financial assets	26	47,493,994	67,655,451
Cash and cash equivalents	27	161,330,565	71,016,284
Current assets		589,686,466	511,212,368
TOTAL ASSETS		917,895,259	821,700,774
Share Capital		4,863,486	4,863,486
Other reserves		318,380,775	272,820,509
Net income		89,248,998	63,579,674
NET EQUITY	28	412,493,259	341,263,668
Payables to minority shareholders and Earn-out	29	1,019,980	2,019,980
Financial liabilities	30	23,871,428	21,071,429
IFRS 16 financial liabilities	30	394,992	-
Employee benefits	31	703,702	571,111
Deferred tax liabilities	32	2,978,117	1,924,495
Provisions	33	5,942,347	4,462,412
Non-current liabilities		34,910,565	30,049,427
Financial liabilities	30	95,775,792	92,326,466
IFRS 16 financial liabilities	30	324,907	-
Trade payables	34	313,652,192	329,992,215
Other current liabilities	35	50,738,544	20,282,998
Provisions	33	10,000,000	7,786,000
Current liabilities		470,491,435	450,387,679
TOTAL LIABILITIES		505,402,000	480,437,106
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		917,895,259	821,700,774

(*) 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 36.

STATEMENT OF CHANGES IN EQUITY

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

(EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	RESERVE FOR ACTUARIAL GAINS/ (LOSSES)	TOTAL
Balance at 1 January 2019	4,863,486	(24,502)	79,183,600	258,615,553	(1,372,438)	(2,030)	341,263,668
Dividends distributed	-	-	-	(16,833,330)	-	-	(16,833,330)
Increase for acquisition of treasury shares	-	-	50,000,000	(50,000,000)	-	-	-
Total profit	-	-	-	89,248,998	(1,156,830)	(29,248)	88,062,920
Balance at 31 December 2019	4,863,486	(24,502)	129,183,600	281,031,221	(2,529,268)	(31,278)	412,493,259

Financial Statements as at 31 December 2019

STATEMENT OF CASH FLOWS

(EUROS)	2019	2018
Result	89,248,998	63,579,674
Income taxes	1,540,684	2,038,858
Amortization and depreciation	1,378,856	1,188,197
Other non-monetary expenses/(income)	2,554,555	(1,523,881)
Change in trade receivables	(11,782,297)	31,204,392
Change in trade payables	(16,340,023)	(20,006,235)
Change in other assets and liabilities	39,596,901	(8,795,918)
Income tax paid	(2,038,858)	(390,815)
Interest paid	(1,104,836)	(651,268)
Interest cashed	31,692	-
Net cash flows from operating activities (A)	104,085,671	66,643,004
Payments for tangible and intangible assets	(2,639,844)	(1,895,905)
Payments for financial assets	(17,521,273)	(76,942,784)
Change in right of use assets	(452,654)	-
Payments for the acquisition of subsidiaries net of cash acquired	(1,250,700)	(557,800)
Net cash flows from investment activities (B)	(21,864,472)	(79,396,489)
Dividends paid	(16,833,330)	(13,092,590)
Increase of financial liabilities	2,800,000	42,500,000
Payment of financial liabilities	(16,785,715)	(20,552,914)
Change in financial liabilities from RoU IFRS 16	122,690	-
Other changes	(29,248)	-
Net cash flows from financing activities (C)	(30,725,603)	8,854,496
Net cash flows (D) = (A+B+C)	51,495,597	(3,898,989)
Cash and cash equivalents at the beginning of period	77,880,368	81,779,357
Cash and cash equivalents at period end	129,375,965	77,880,368
Total change in cash and cash equivalents (D)	51,495,597	(3,898,989)

DETAIL OF CASH AND CASH EQUIVALENTS

(EUROS)	2019	2018
Cash and cash equivalents at beginning of period:	77,880,368	81,779,357
Cash and cash equivalents	71,016,284	63,610,241
Transaction accounts – surplus	67,655,451	82,843,389
Transaction accounts - overdraft	(56,786,827)	(43,139,346)
Bank overdrafts	(4,004,540)	(21,534,927)
Cash and cash equivalents at the end of the year:	129,375,965	77,880,368
Cash and cash equivalents	161,330,565	71,016,284
Transaction accounts - surplus	47,493,994	67,655,451
Transaction accounts - overdraft	(79,448,593)	(56,786,827)
Bank overdrafts	-	(4,004,540)

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NOTE 1 – GENERAL INFORMATION

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

The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.

Reply also manages business relations for some of its main clients.

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The 2019 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

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

It is hereby specified that the accounting standards applied conform to those adopted for the preparation of the initial Statement of Assets and Liabilities as at 1 January 2005 according to the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

GENERAL PRINCIPLES

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

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

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

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

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

FINANCIAL STATEMENTS

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

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

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

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

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

TANGIBLE ASSETS

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses. Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.

In compliance with IAS 36 – Impairment of assets, the carrying value is immediately remeasured to the recoverable value, if lower.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Equipment	30%
Plant and machinery	20%
Hardware	40%
Furniture and fittings	12%

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.

Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.

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

GOODWILL

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Company’s interest at the time of acquisition of the fair value of the assets, liabilities and identifiable contingent liabilities attributable to the subsidiary.

Goodwill is not amortized, but is tested for impairment annually or more frequently if specific

events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment losses are recognized immediately as expenses that cannot be recovered in the future.

Goodwill deriving from acquisitions made prior to the transition date to IFRS are maintained at amounts recognized under Italian GAAP at the time of application of such standards and are subject to impairment tests at such date.

OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

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

IMPAIRMENT

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

An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, (the so-called Cash generating unit). With reference to goodwill, Management assesses return on investment with reference to the smallest cash generating unit including goodwill.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately. When the recognition value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.

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

EQUITY INVESTMENTS

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

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

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

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

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

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

CURRENT AND NON CURRENT FINANCIAL ASSETS

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

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

- › If the Company has maintained control, it continues to recognize the financial asset to the extent of its residual involvement with such financial asset.

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

Trade 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.

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

CASH AND CASH EQUIVALENTS

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

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

- Bank borrowings

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

- Equity instruments

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

- Non-current financial liabilities

Liabilities are stated according to the amortization cost.

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

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

In accordance with IFRS 9, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.

All derivative financial instruments are measured in accordance with IFRS 9 at fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions

are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.

For effective hedging against a change in fair value, the hedged item is adjusted by the changes in fair value attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.

Changes in the fair value of derivative financial instruments that no longer qualify as hedge accounting are recognized in the Income Statement of the period in which they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized in equity is transferred to the net profit or loss for the period.

Embedded derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not closely related to those of the financial instrument that houses them and the latter are not measured at fair value with recognition of the relative gains and losses in the Income Statement.

EMPLOYEE BENEFITS

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in

the Financial Statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.

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

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

SHARE-BASED PAYMENT PLANS

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

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

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

PROVISIONS AND RESERVES FOR RISKS

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

Provisions are recognized when the Company has a present commitment arising from a past event and it is probable that it will be required to fulfil the commitment. Provisions are accrued

at the best estimate of the expenditure required to settle the liability at the balance sheet date, and are discounted when the effect is significant.

REVENUE RECOGNITION

Revenue 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 Company 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”.

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

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

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

FINANCIAL INCOME AND EXPENSES

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

TAXATION

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

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

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

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

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

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

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

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

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

EARNINGS PER SHARE

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

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

USE OF ESTIMATIONS

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

Changes in estimations and reclassifications

There were no changes of estimates or reclassifications during the 2019 reporting period.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY FROM 1 JANUARY 2019

Reply S.p.A. applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. Reply S.p.A. has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

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 (EUROS)	2018	31/12/2019		
		pre IFRS 16	post IFRS 16	Impact
Services and other costs	526,781,333	487,449,016	487,105,947	(343,070)
EBITDA	4,822,619	11,656,742	11,999,811	343,069
Amortization and depreciation	1,188,197	1,051,287	1,378,856	327,570
EBIT	3,978,556	8,503,454	8,518,955	15,501
Financial expenses	10,800,438	9,695,715	9,708,821	(13,107)
Income before taxes	65,618,532	90,787,287	90,789,682	2,394

FINANCIAL FIGURES (EUROS)	31/12/2018	01/01/2019	31/12/2019		
			pre IFRS 16	post IFRS 16	Impact
RoU assets	-	597,209	-	722,294	722,294
Net financial position	182,369,641	597,209	264,414,114	719,899	263,694,215

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

(EUROS)	
Commitments at 31 December 2018	625,819
Discounting effect	(28,610)
Commitments at 1 January 2019	597,209

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

NOTE 3 – RISK MANAGEMENT

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

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

CREDIT RISK

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

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

LIQUIDITY RISK

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

The cash flows, funding requirements and liquidity of companies are monitored and managed on a centralized basis through the Group Treasury. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of the Group's current and future capital resources (maintaining an adequate level of cash and cash equivalents and the availability of reserves of liquidity that are readily convertible to cash and committed credit). The difficulties both in the markets and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

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

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

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

NOTE 4 – OTHER INFORMATION

EXCEPTION ALLOWED UNDER PARAGRAPH 5 OF ARTICLE 2423 OF THE ITALIAN CIVIL CODE

No exceptions allowed under Article 2423, paragraph 5, of the Italian Civil Code were used in drawing up the annexed Financial Statements.

FISCAL CONSOLIDATION

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

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

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

NOTE 5 – REVENUE

Revenues amounted to 534,005,629 Euros and are detailed as follows:

(EUROS)	2019	2018	CHANGE
Revenues from services	464,569,348	505,271,709	(40,702,361)
Royalties on "Reply" trademark	34,343,249	29,637,712	4,705,537
Intercompany services	24,401,517	21,620,527	2,780,990
Other intercompany revenues	10,691,515	9,380,322	1,311,193
Total	534,005,629	565,910,271	(31,904,641)

Reply manages business relationships on behalf of some of its major clients. Such activities were recorded in the item Revenues from services to third parties which decreased by 40,702,361 Euros.

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

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

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

NOTE 6 – OTHER INCOME

Other revenues that as at 31 December 2019 amounted to 14,335,309 Euros (10,986,426 Euros at 31 December 2018) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, telephone and training courses.

NOTE 7 – PURCHASES

Detail is as follows:

(EUROS)	2019	2018	CHANGE
Software licenses for resale	13,092,017	19,916,046	(6,824,029)
Hardware for resale	13,017,288	4,515,122	8,502,165
Other	444,567	439,825	4,743
Total	26,553,872	24,870,993	1,682,879

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

The item Other mainly includes the purchase of supplies, e-commerce material, stationary and printed materials (160,525 Euros) and fuel (248,228 Euros).

NOTE 8 – PERSONNEL EXPENSES

Personnel expenses amounted to 22,681,309 Euros, with an increase of 2,259,557 Euros and are detailed in the following table:

(EUROS)	2019	2018	CHANGE
Payroll employees	17,260,218	15,636,465	1,623,753
Directors	5,421,091	4,785,287	635,804
Total	22,681,309	20,421,751	2,259,557

Detail of personnel by category is provided below:

(NUMBER)	2019	2018	CHANGE
Directors	68	65	3
Managers	8	7	1
Staff	12	14	(2)
Total	88	86	2

The average number of employees in 2019 was 87 (in 2018 87).

NOTE 9 – SERVICES AND OTHER COSTS

Service and other costs comprised the following:

(EUROS)	2019	2018	CHANGE
Commercial and technical consulting	2,557,271	1,900,992	656,279
Travelling and training expenses	2,521,638	2,147,938	373,700
Professional services from group companies	443,506,335	489,758,978	(46,252,643)
marketing expenses	5,001,256	4,352,769	648,487
Administrative and legal services	1,729,293	1,505,550	223,743
Statutory auditors and Independent auditors fees	192,280	182,077	10,203
Leases and rentals	1,027,674	1,454,798	(427,123)
Office expenses	2,764,971	2,592,515	172,456
Other services from group companies	13,213,409	8,785,806	4,427,604
Expenses incurred on behalf of group companies	11,286,890	10,006,849	1,280,041
Other	3,304,931	4,093,061	(788,131)
Total	487,105,947	526,781,333	(39,675,385)

Professional Services from Group companies, which changed during the year by 46,252,643 Euros, relate to revenues from services to third parties.

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

Office expenses include services rendered by related parties in connection with service contracts for the use of premises, legal domicile and secretarial services, as well as utility costs. The decrease of the items Office expenses and Leases and rentals compared to 2018 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 was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2019 to an overall cost of 172,139 Euros. Details of depreciation are provided at the notes to tangible assets.

Amortization of intangible assets amounted in 2019 to an overall cost of 879,148 Euros. Details of depreciation are provided at the notes to intangible assets.

Amortization related to RoU assets arising from the application of IFRS 16 amounted to 327,569 thousand Euros.

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

Other operating and non-recurring expenses, related to events and transactions that do not occur in the regular course of business, amounted to 2,102,000 Euros and refer to provisions for risks and charges in relation to contractual, commercial and legal disputes.

NOTE 12 – GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is as follows:

(EUROS)	2019	2018	CHANGE
Dividends	81,145,000	56,829,538	24,315,462
Loss on equity investments	(8,583,094)	(5,990,000)	(2,593,094)
Total	72,561,906	50,839,538	21,722,368

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

Detail is as follows:

(EUROS)	2019
Air Reply S.r.l.	(65,000)
Aktive Reply S.r.l.	1,035,000
Atlas Reply S.r.l.	245,000
Blue Reply S.r.l.	8,475,000
Bridge Reply S.r.l.	162,000
Business Reply S.r.l.	2,635,000
Cluster Reply Roma S.r.l.	1,265,000
Cluster Reply S.r.l.	9,665,000
Data Reply S.r.l.	1,790,000
Discovery Reply S.r.l.	1,935,000
E*finance Consulting S.r.l.	1,910,000
Ekip Reply S.r.l.	60,000
Eos Reply S.r.l.	725,000
Go Reply S.r.l.	300,000
Hermes Reply S.r.l.	1,035,000
Iriscube Reply S.r.l.	7,040,000
Like Reply S.r.l.	70,000
Logistics Reply S.r.l.	195,000
Open Reply S.r.l.	3,110,000
Pay Reply S.r.l.	2,390,000
Portaltech Reply S.r.l.	865,000
Power Reply S.r.l.	1,170,000
Reply Consulting S.r.l.	1,470,000
Reply Digital Experience S.r.l.	460,000
Reply Services	255,000
Retail Reply S.r.l.	125,000
Ringmaster S.r.l.	679,000
Security Reply S.r.l.	4,190,000
Syskopan Reply S.r.l.	1,420,000
Sytel Reply Roma S.r.l.	1,995,000
Sytel Reply S.r.l.	14,459,000
Tamtamy Reply S.r.l.	295,000
Target Reply S.r.l.	2,110,000
Technology Reply Roma S.r.l.	900,000
Technology Reply S.r.l.	6,490,000
Whitehall Reply S.r.l.	285,000
Total	81,145,000

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

For further details, see Note 21 herein.

NOTE 13 – FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(EUROS)	2019	2018	CHANGE
Interest income from subsidiaries	6,070,410	9,740,870	(3,670,460)
Interest income on bank accounts	31,692	18,825	12,868
Interest expenses	(1,172,566)	(651,269)	(521,298)
Other	4,779,285	1,692,012	3,087,273
Total	9,708,821	10,800,438	(1,091,617)

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

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

The item Other mainly includes a gain on exchange rate differences amounting to 4,844,160 Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 – INCOME TAXES

The details are provided below:

(EUROS)	2019	2018	CHANGE
IRES	1,631,159	1,385,050	246,108
IRAP	163,000	-	163,000
Corporate tax - previous years	(535,964)	77,397	(613,361)
Current taxes	1,258,195	1,462,447	(204,253)
Deferred tax liabilities	1,053,622	710,065	343,557
Deferred tax assets	(771,132)	(133,654)	(637,479)
Deferred taxes	282,489	576,411	(293,922)
Total income taxes	1,540,684	2,038,858	(498,175)

IRES THEORETICAL RATE

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

(EUROS)	AMOUNT	TAXATION
Result before taxes	90,789,682	
Theoretical tax rate	24.0%	21,789,524
Temporary differences, net	(84,926,261)	
Taxable income	5,863,421	1,407,221
Total IRES		1,412,000
Quota imposta sostitutiva affrancamento avviamento - partecipazione di controllo	230,643	
Benefit arising from the National Fiscal Consolidation	11,484	
Total current IRES		1,631,159

Temporary differences, net refer to:

- deductible differences amounting to 100,426 thousand Euros arising mainly from the non-taxable share of the dividends received in the financial year (77,088 thousand Euros) and from the subsidized taxation (Patent box) on the Reply trademark related to the fiscal year 2019 (11,500 thousand Euros);

- non-deductible differences amounting to 15,500 thousand Euros owing mainly to write-down/losses of equity investments (8,598 thousand Euros), Directors' fees to be paid (3,838 thousand Euros) and provisions for non-deductible risk funds (2,250 thousand Euros).

CALCULATION OF TAXABLE IRAP

(EUROS)	AMOUNT	TAXATION
Difference between value and cost of production	8,518,955	
IRAP net	(4,519,101)	
Taxable IRAP	3,999,854	
Total IRAP		163,000

Temporary differences, net refer to:

- non-deductible differences amounting to 8,682 thousand Euros mainly due to emoluments to Directors (5,322 thousand Euros);
- deductible differences amounting to 13,302 thousand Euros mainly due to the subsidized taxation (Patent Box) on the Reply trademark related to the fiscal year 2019.

NOTE 15 – EARNINGS PER SHARE

Basic earnings and diluted earnings per share as at 31 December 2019 was calculated with reference to the net profit which amounted to 89,248,998 Euros (63,579,674 Euros at 31 December 2018) divided by the weighted average number of shares outstanding as at 31 December 2019, net of treasury shares, which amounted to 37,407,400 (37,407,400 at 31 December 2018).

(EUROS)	2019	2018
Net profit of the year	89,248,998	63,579,674
Weighted number of shares	37,407,400	37,407,400
Basic earnings per share	2.40	1.70

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

NOTE 16 – 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 Company in 2019 has received the following public contributions from Italian entities:

SERVICES

ENTITY (EUROS)	31/12/2019
University of Siena	220,000
Italian Institute of Technology Foundation	20,750
Inarcassa Cassa Nazionale Previdenza Assistenza Ingg. Arch. Liberi Professionisti	13,800
Finaosta S.p.A.	10,784
Defence Ministry	3,198
Total	268,532

NOTE 17 – TANGIBLE ASSETS

Tangible assets as at 31 December 2019 amounted to 208,885 Euros are detailed as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Plant and machinery	39,640	113,414	(73,774)
Hardware	64,209	72,958	(8,750)
Other	105,036	124,007	(18,971)
Total	208,885	310,380	(101,495)

The item Other mainly includes mobile phones and vehicles.

Change in Tangible assets during 2019 is summarized below:

(EUROS)	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical cost	1,717,684	1,734,449	1,426,983	5,186,247
Accumulated depreciation	(1,604,270)	(1,661,491)	(1,302,975)	(4,875,867)
31/12/2018	113,414	72,958	124,007	310,380
Historical cost				
Increases	2,744	50,791	99,293	152,828
Disposals	(959,790)	(78,178)	(530,266)	(1,568,234)
Accumulated depreciation				
Depreciation	(48,173)	(55,397)	(68,568)	(172,139)
Utilized	931,445	74,035	480,570	1,486,050
Historical cost	760,639	1,707,062	1,303,140	3,770,841
Accumulated depreciation	(720,998)	(1,642,853)	(1,198,104)	(3,561,956)
31/12/2019	39,640	64,209	105,036	208,885

During the year under review the Company made investments amounting to 152,828 Euros, which mainly refer to hardware and mobile phones.

The disposals are mainly related to the transfer of plants, furniture and fittings to another group company that manages the offices across Italy.

NOTE 18 - GOODWILL

Goodwill as at 31 December 2019 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000).

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

NOTE 19 – OTHER INTANGIBLE ASSETS

Intangible assets as at 31 December 2019 amounted to 4,661,803 Euros (2,971,751 Euros at 31 December 2018) and are detailed as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Software	4,125,739	2,435,687	1,690,052
Trademark	536,064	536,064	-
Total	4,661,803	2,971,751	1,690,052

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

(EUROS)	SOFTWARE	TRADEMARK	TOTAL
Historical cost	8,865,849	536,064	9,401,913
Accumulated amortization	(6,430,162)	-	(6,430,162)
31/12/2018	2,435,687	536,064	2,971,751
Historical cost			
Increases	2,738,000	-	2,738,000
Disposals	(168,800)	-	(168,800)
Accumulated amortization			
Amortization	(879,148)	-	(879,148)
Historical cost	11,435,049	536,064	11,971,113
Accumulated amortization	(7,309,310)	-	(7,309,310)
31/12/2019	4,125,739	536,064	4,661,803

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

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

NOTE 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 for the vehicles category:

(THOUSAND EUROS)	01/01/2019	NET CHANGES	AMORTIZATION	31/12/2019
Vehicles	597,209	452,654	(327,569)	722,294

The net change mainly refers to the signing of new lease agreements.

NOTE 21 – EQUITY INVESTMENTS

The item Equity investments at 31 December 2019 amounted to 142,118,921 Euros, with an increase of 2,882,871 Euros compared to 31 December 2018.

(EUROS)	BALANCE AT 31/12/2018	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER MOVEMENTS	BALANCE AT 31/12/2019	INTEREST
Air Reply S.r.l.	558,500					558,500	85.00%
Aktive Reply S.r.l.	512,696					512,696	100.00%
Arlanis Reply S.r.l.	588,000		355,000	(355,000)		588,000	100.00%
Atlas Reply S.r.l.	12,575					12,575	100.00%
Avantage Ltd	7,322,484			(3,823,382)		3,499,102	100.00%
Blue Reply S.r.l.	527,892					527,892	100.00%
Breed Reply Ltd.	12,477				(12,477)	-	-
Breed Reply Investment Ltd.	103					103	80.00%
Bridge Reply S.r.l.	6,000					6,000	60.00%
Business Reply S.r.l.	268,602					268,602	100.00%
Cluster Reply S.r.l.	2,540,848					2,540,848	100.00%
\Cluster Reply Roma S.r.l.	296,184					296,184	100.00%
Consorzio Reply Public Sector	32,500					32,500	33.33%
Consorzio Reply Energy	1,000	(1,000)				-	-
Core Reply S.r.l.	9,000					9,000	90.00%

(EUROS)	BALANCE AT 31/12/2018	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER MOVEMENTS	BALANCE AT 31/12/2019	INTEREST
Data Reply S.r.l.	317,662					317,662	100.00%
Discovery Reply S.r.l.	1,311,669					1,311,669	100.00%
e*finance Consulting Reply S.r.l.	3,076,385					3,076,385	100.00%
Ekip Reply S.r.l.	30,000					30,000	100.00%
Envision Reply S.r.l.	463,800		820,000			1,283,800	88.00%
Eos Reply S.r.l.	495,369					495,369	100.00%
Forge Reply S.r.l.	12,000		1,390,000	(1,401,000)		1,000	100.00%
Go Reply S.r.l.	1,920,000					1,920,000	100.00%
Hermes Reply Polska zoo	10,217					10,217	100.00%
Hermes Reply S.r.l.	199,500					199,500	100.00%
Hermes Reply Consulting Nanjing Co.	-	250,000				250,000	100.00%
IrisCube Reply S.r.l.	6,724,952					6,724,952	100.00%
Lem Reply S.r.l.	360,012					360,012	100.00%
Like Reply S.r.l.	87,317					87,317	100.00%
Logistics Reply S.r.l.	1,049,167					1,049,167	100.00%
Open Reply S.r.l.	1,417,750					1,417,750	100.00%
Pay Reply S.r.l.	10,000					10,000	100.00%
Portaltech Reply S.r.l.	106,000					106,000	100.00%
Power Reply S.r.l.	2,500,850					2,500,850	100.00%
Protocube Reply S.r.l.	12,000	1,500	168,000	(180,500)		1,000	70.00%
Reply Consulting S.r.l.	3,518,434					3,518,434	100.00%
Reply AG	57,835,781					57,835,781	100.00%
Reply Digital Experience S.r.l. (formerly Bitmama S.r.l.)	4,227,019					4,227,019	100.00%
Reply do Brasil Sistemas de Informatica Ltda	206,816					206,816	100.00%
Reply Inc.	2,814,625					2,814,625	100.00%
Reply Ltd.	11,657,767					11,657,767	100.00%
Reply Services S.r.l.	95,212			(94,212)		1,000	100.00%
Retail Reply S.r.l. (formerly Square Reply S.r.l.)	100,000					100,000	100.00%
Ringmaster S.r.l.	5,000					5,000	50.00%
Santer Reply S.p.A.	11,386,966					11,386,966	100.00%
Sense Reply S.r.l.	15,700					15,700	90.00%
Spark Reply S.r.l.	1,042,500		515,000	(515,000)		1,042,500	100.00%
Security Reply S.r.l.	392,866					392,866	100.00%

(EUROS)	BALANCE AT 31/12/2018	ACQUISITIONS AND SUBSCRIPTIONS		DISPOSAL	WRITE DOWNS	OTHER MOVEMENTS	BALANCE AT 31/12/2019	INTEREST
Sprint Reply S.r.l.	155,000						155,000	100.00%
Storm Reply S.r.l.	986,000						986,000	100.00%
Syskoplan Reply S.r.l.	949,571						949,571	100.00%
Sytel Reply S.r.l.	4,991,829	200				521,203	5,513,232	100.00%
Sytel Reply Roma S.r.l.	894,931						894,931	100.00%
Tamtamy Reply S.r.l.	263,471						263,471	100.00%
Target Reply S.r.l.	600,338						600,338	100.00%
Technology Reply Roma	10,000						10,000	100.00%
Technology Reply S.r.l.	216,658						216,658	100.00%
Technology Reply S.r.l. (Romania)	9,919						9,919	100.00%
Twice Reply S.r.l.	521,203					(521,203)	-	-
Whitehall Reply S.r.l.	160,212						160,212	100.00%
Xister Reply S.r.l. (*)	9,150,465						9,150,465	89.20%
Total	145,001,792	250,700	3,248,000	(6,369,094)		(12,477)	142,118,922	

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

ACQUISITIONS AND SUBSCRIPTIONS

Hermes Reply Consulting (Nanjing) Co. Ltd.

In the month of May 2019 Hermes Reply Consulting (Nanjing) Co. Ltd. was constituted, a company in which Reply S.p.A. holds 100% of the share capital.

FINANCIAL LOAN REMISSION

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

WRITE-DOWNS

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

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

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

NOTE 22 – NON CURRENT FINANCIAL ASSETS

Detail is as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Guarantee deposits	241,061	241,063	(3)
Loans to subsidiaries	174,517,076	157,095,800	17,421,276
Investments in other parties	113,000	13,000	100,000
Total	174,871,136	157,349,863	17,521,273

Guarantee deposits are mainly related to deposits on lease contracts.

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

COMPANY	AMOUNT
Breed Reply Investments Ltd	50,770,077
Cluster do Brasil (ex Mind Services Informática LTDA)	1,215,000
Core Reply S.r.l.	300,000
Hermes Reply Polska Sp Zoo	319,500
Implico LLC	267,047
Reply AG	29,959,000
Reply do Brazil Sist. De Inf Ltda	2,181,740
Reply Inc.	36,903,086
Reply Ltd	37,331,370
Reply Services S.r.l.	14,770,256
Sense Reply S.r.l.	300,000
Technology Reply S.r.l. Romania	200,000
Total	174,517,076

NOTE 23 – DEFERRED TAX ASSETS

This item amounted to 5,538,988 Euros at 31 December 2019 (4,767,855 Euros at 31 December 2018), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductible items.

TEMPORARY DEDUCTIBLE DIFFERENCES	TAXABLE AMOUNT	TAX
Total deferred tax assets at 31/12/2018	18,855,314	4,767,855
Accrued	6,182,250	1,571,490
Utilization	(3,334,823)	(800,358)
Total deferred tax assets at 31/12/2019	21,702,741	5,538,988
Of which:		
- directors fees and employee bonuses accrued but not yet paid	9,387,500	2,469,450
- unrealized foreign exchange losses	8,943,130	2,146,351
- taxable amounts greater than book value	3,372,111	923,187
Total	21,702,741	5,538,988

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 – TRADE RECEIVABLES

Trade receivables at 31 December 2019 amounted to 353,511,709 Euros and are all collectible within 12 months.

Detail is as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Third party trade receivables	223,901,257	229,623,113	(5,721,856)
Credit notes to be issued	(3,124,644)	(4,145,023)	1,020,379
Allowance for doubtful accounts	(564,348)	(340,157)	(224,191)
Third party trade receivables	220,212,264	225,137,933	(4,925,669)
Receivables from subsidiaries	133,286,154	116,566,702	16,719,452
Receivables from Parent Company	13,291	24,778	(11,487)
Trade receivables from subsidiaries and Parent Company	133,299,445	116,591,480	16,707,966
Total trade receivables	353,511,709	341,729,412	11,782,297

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third party trade receivables which decreased by 4,925,669 Euros.

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

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

In 2019 the provision for doubtful accounts was increased by 252,637 Euros following a specific risk analysis of all the trade receivables; moreover, during the year the provision for doubtful accounts was utilized for 28,446 Euros.

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

NOTE 25 – OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Tax receivables	1,169,677	7,448,675	(6,278,998)
Other receivables from subsidiaries	17,950,920	15,124,356	2,826,564
Other receivables	849,591	523,562	326,028
Accrued income and prepaid expenses	7,379,893	7,714,628	(334,735)
Total	27,350,080	30,811,220	(3,461,140)

The item Tax receivables mainly includes VAT receivables net amounting to 8,354 Euros (6,936,777 Euros at 31 December 2018) and IRAP tax prepayments amounting to 1,021,809 Euros (441.694 Euros at 31 December 2018).

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

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

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

NOTE 26 – CURRENT FINANCIAL ASSETS

This item amounted to 47,493,994 Euros (67,655,451 Euros at 31 December 2018) and refers to the total of interest yielding cash pooling accounts of subsidiaries included in the centralized pooling system of the

Parent Company Reply S.p.A.; the interest yield on these accounts is in line with current market conditions.

NOTE 27 – CASH AND CASH EQUIVALENTS

This item amounted to 161,330,565 Euros, with an increase of 90,314,281 Euros compared to 31 December 2018 and is referred to cash at banks and on hand at year-end.

NOTE 28 – SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2019 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,863,486 Euros and is made up of no. 37,411,428 ordinary shares having a nominal value of euro 0.13 each.

The 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 24,502 Euros, refers to the shares of Reply S.p.A. that at 31 December 2019 were equal to no. 4.028.

Capital reserves

At 31 December 2019 amounted to 129,183,600 Euros, and included the following:

- Share premium reserve amounting to 23,302,692 Euros.
- Treasury share reserve amounting to 24,502 Euros, relating to the shares of Reply S.p.A. which at 31 December 2019 were equal to no. 4.028.
- Reserve for the purchase of treasury shares amounting to 99,975,498 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.
- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
 - › Share swap surplus reserve amounting to 3,445,485 Euros;
 - › Surplus annulment reserve amounting to 2,902,479 Euros.

Earnings Reserve

Earning reserves amounted to 281,031,221 Euros and were comprised as follows:

- The Legal reserve amounting to 972,697 Euros (972,697 Euros at 31 December 2018);
- Extraordinary reserve amounting to 187,986,824 Euros (191,240,481 Euros at 31 December 2018);
- Retained earnings amounting to 2,822,701 Euros (2,822,701 Euros at 31 December 2018);
- Net result totaling 89,248,998 Euros (63,579,674 Euros at 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:		
Actuarial gains/(losses) from employee benefit plans	(29,248)	4,282
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	(29,248)	4,282
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(1,156,830)	(1,338,190)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	(1,1456,830)	(1,338,190)
Total Other comprehensive income, net of tax (B) = (B1) + (B2)	(1,186,078)	(1,333,908)

NOTE 29 – DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out at 31 December 2019 amounted to 1,019,980 Euros (2,019,980 Euros on 31 December 2018) and are detailed as follows:

(EUROS)	31/12/2018	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	31/12/2019
Due to minority shareholders and Earn-out	2,019,980	-	-	(1,000,000)	1,019,980

The item Payments in 2019 amounted to 1,000,000 Euros refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

NOTE 30 – FINANCIAL LIABILITIES

Detail is as follows:

(EUROS)	31/12/2019			31/12/2018		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Bank overdrafts	-	-	-	4,004,540	-	4,004,540
Bank loans	13,428,571	23,871,428	37,299,999	30,214,285	21,071,429	51,285,714
Transaction accounts	79,448,593	-	79,448,593	56,786,827	-	56,786,827
Derivative financial instruments	2,898,628	-	2,898,628	1,320,814	-	1,320,814
IFRS 16 financial liabilities	324,907	394,992	719,899	-	-	-
Total financial liabilities	96,100,699	24,266,420	120,367,120	92,326,466	21,071,429	113,397,895

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

(EUROS)	31/12/2019				31/12/2018			
	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	-	-	-	-	4,004,540	-	-	4,004,540
Bank loans	13,428,571	8,571,428	-	21,999,999	30,214,285	8,571,429	-	38,785,714
Mortgage loans	-	5,782,040	9,517,960	15,300,000	-	3,125,000	9,375,000	12,500,000
Transaction accounts	79,448,593	-	-	79,448,593	56,786,827	-	-	56,786,827
Derivative financial instruments	2,898,628	-	-	2,898,628	1,320,814	-	-	1,320,814
IFRS 16 financial liabilities	324,907	394,992	-	719,899	-	-	-	-
Total	96,100,699	14,748,460	9,517,960	120,367,120	92,326,466	11,696,429	9,375,000	113,397,895

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

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

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

- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
 - › Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line was used for 1,000,000 Euros at 31 December 2019.
 - › Tranche B, amounting to 20,000,000 Euros, to be used by 30 December 2016. The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 2,857,000 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 25,000,000 Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500,000 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 1,000,000 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 49,000,000 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 17,143,000 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 50,000,000 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 50,000,000 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, Reply fulfilled the Covenants under the various contracts.

It should be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000,000 Euros and for a maximum duration of 156 months (13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. Such credit line was used for 15,293,000 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 at 31 December 2019 was as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Cash and cash equivalents	161,330,565	71,016,284	90,314,281
Transaction accounts, asset	47,493,994	67,655,451	(20,161,457)
Total current financial assets	208,824,559	138,671,735	70,152,824
Loans to subsidiaries	174,517,076	157,095,800	17,421,276
Total non-current financial assets	174,517,076	157,095,800	17,421,276
Total financial assets	383,341,635	295,767,535	87,574,100
Due to banks	(16,327,199)	(35,539,639)	19,212,440
Transaction accounts	(79,448,593)	(56,786,827)	(22,661,767)
Current financial liabilities	(95,775,792)	(92,326,466)	(3,449,326)
Due to banks	(23,871,428)	(21,071,429)	(2,799,999)
Non-current financial liabilities	(23,871,428)	(21,071,429)	(2,799,999)
Total financial liabilities	(119,647,220)	(113,397,895)	(6,249,326)
Total net financial position	263,694,415	182,369,641	81,324,774
<i>of which related parties</i>	<i>142,562,477</i>	<i>167,964,424</i>	<i>(25,401,947)</i>

For further details with regards to the above table see Notes 22, 26 and 27 as well as Note 30.

Change in Financial liabilities during 2019 is summarized below:

(EUROS)	
TOTAL FINANCIAL LIABILITIES 2018	113,397,895
Bank overdrafts	(4,004,540)
Transaction accounts, liability	(56,786,827)
Fair value IRS	(1,320,814)
Non-current financial liabilities 2018	51,285,714
Cash flows	(13,985,715)
NON-CURRENT FINANCIAL LIABILITIES 2019	37,299,999
Bank overdrafts	-
Transaction accounts, liability	79,448,593
Fair value IRS	2,898,628
IFRS 16 financial liabilities	719,899
TOTAL FINANCIAL LIABILITIES 2019	12,367,119

NOTE 31 – EMPLOYEE BENEFITS

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

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

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

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

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

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

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Constant average annual rate equal to 1.20%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2019 was 0.77%
Annual increase in salaries	Annual increase in salaries equal to 2.40%
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

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

31/12/2018	571,111
Actuarial gains/(losses)	29,248
Interest cost	9,702
Indemnities paid	(8,209)
Transfers	101,849
31/12/2019	703,702

NOTE 32 – DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2019 amounted to 2,978,117 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

TEMPORARY TAXABLE DIFFERENCES	TAXABLE	TAX
Balance at 31/12/2018	7,917,515	1,924,495
Accruals	4,390,094	1,053,622
Total at 31/12/2019	12,307,609	2,978,117
- deduction allowance for doubtful accounts	718,805	172,513
- different goodwill/trademark measurements	622,828	173,769
- gains on unrecognized differences and other minor differences	10,965,976	2,631,835
Total at 31/12/2019	12,307,609	2,978,117

NOTE 33 – TRADE PAYABLES

Trade payables at 31 December 2019 amounted to 313,652,192 Euros with a decrease of 16,340,023 Euros.

Detail is as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Due to suppliers	14,735,363	13,815,457	919,906
Due to subsidiaries	217,018,624	243,342,900	(26,324,276)
Due to Parent company	-	128,100	(128,100)
Advance payments from customers - asset	81,898,205	72,705,758	9,192,446
Total	313,652,192	329,992,215	(16,340,023)

Due to suppliers mainly refers to services from domestic suppliers.

Due to subsidiaries recorded a change of 26,324,276 Euros, and refers to professional services in connection to third party agreements with Reply S.p.A..

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

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

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

NOTE 34 – OTHER CURRENT LIABILITIES

Detail is as follows:

(EUROS)	31/12/2019	31/12/2018	CHANGE
Income tax payable	3,644,004	847,337	2,796,666
Withholding tax and other	28,729,584	675,634	28,053,950
Total payable to tax authorities	32,373,587	1,522,971	30,850,616
INPS (National Italian insurance payable)	1,087,061	965,616	121,445
Other	311,813	309,040	2,773
Total social security payable	1,398,874	1,274,656	124,218
Employee accruals	2,521,234	2,071,858	449,375
Payable to subsidiary companies	5,834,710	7,093,771	(1,259,060)
Miscellaneous payables	4,206,640	3,384,611	822,029
Accrued expenses and deferred income	4,403,499	4,935,132	(531,633)
Total other payables	16,966,083	17,485,371	(519,289)
Total other current liabilities	50,738,544	20,282,998	30,455,546

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

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

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

Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2019 and for the tax credits that subsidiaries transferred to Reply S.p.A. as part of the tax consolidation.

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

NOTE 35 – PROVISIONS

The item Provisions amounting to 15,942,347 Euros is summarized as follows:

(EUROS)	31/12/2018	ACCRUALS	REVERSAL	UTILIZED	31/12/2019
Provision for risks	4,462,412	2,250,000	(148,000)	(622,065)	5,942,347
Provision for losses on equity investments	7,786,000	3,414,000	(1,200,000)	-	10,000,000
Total	12,248,412	5,664,000	(1,348,000)	(622,065)	15,942,347

The item Provision for risks reflects the best estimate of contingent liabilities deriving from ongoing legal litigations; at 31 December 2019 an accrual of 2,250,000 Euros and a utilization of 622,065 Euros were made.

The item Utilization is related to the merger by incorporation described in Note 40 where the German court took note of the agreement reached between the parties, recognizing to the minority shareholders the payment of the sums established. The expenses arising from this agreement were accrued in previous years.

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

NOTE 36 – TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2019 Financial Statements related to such transactions are summarized below.

Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.

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

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

(THOUSAND EUROS)	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	NATURE OF TRANSACTION
FINANCIAL TRANSACTIONS	31/12/2019		31/12/2018		
Financial receivables	174,517	-	157,096	-	Financial loans
Guarantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	(31,955)	-	10,869	-	Transaction accounts held by the Parent company
Trade receivables and other	151,236	158	131,701	25	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	219,602	-	250,437	128	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	3,838	-	3,100	Compensation paid to Directors and Key Management
ECONOMIC TRANSACTIONS	2019		2018		
Revenues from Royalties	34,343	-	29,638	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	40,899	157	37,048	22	Administrations services, marketing, quality management and office rental
Revenues from management services	7,846	-	7,382	-	Strategic management services
Costs for professional services	483,337	-	523,320	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,640	420	1,561	420	Services related to office rental and office of the secretary
Personnel	-	6,804	-	6,630	Emoluments to Directors and Key Management
Interest income, net	6,070	-	9,741	-	Interest on financial loans: 3 month Euribor + spread of 3 percentage points

With reference the Cash flows statement, the above mentioned transactions impact the change in working capital by 49.894 thousand Euros.

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

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

NOTA 37 – ADDITIONAL DISCLOSURE TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

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

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

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

CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 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 quantitative analysis.

LIQUIDITY RISK

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

The two main factors that determine the company's liquidity situation are on one side the funds generated by or used in operating and investing activities and on the other the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

Reply S.p.A. makes use of external funds obtained in the form of financing and invest in monetary and financial market instruments. Changes in market interest rates can affect the cost

of the various forms of financing, including the sale of receivables, or the return on investments, and the employment of funds, causing an impact on the level of net financial expenses incurred by the company.

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

SENSITIVITY ANALYSIS

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

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

A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at 31 December 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 221 thousand Euros.

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

FAIR VALUE HIERARCHY LEVELS

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

The levels used in the hierarchy are:

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

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

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

(THOUSANDS EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Financial securities		-	-	-
Total Assets		-	-	-
Derivative financial liabilities (IRS)		-	2,899	
Liabilities to minority shareholders and earn out	28	-	-	1,020
Total Liabilities		-	2,899	1,020

To determine the effect of interest rate derivative 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 Reply 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 Reply 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 - SIGNIFICANT NON-RECURRING TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non-recurring transaction during 2019.

NOTE 39 - TRANSACTIONS RESULTING FROM UNUSUAL AND/OR ABNORMAL OPERATIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, in 2019 Reply S.p.A. has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the Financial Statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

NOTE 40 – GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euros). 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 35).

CONTINGENT LIABILITIES

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

NOTE 41 – EMOLUMENTS TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT

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

NOTE 42 – 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 is 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 43 - APPROVAL OF THE FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The financial statements for the year-ended 31 December 2019 were approved by the Board of Directors on March 13, 2020 which approved their publication.

ANNEXED TABLES

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

(EUROS)	2019	OF WHICH RELATED PARTIES	%	2018	OF WHICH RELATED PARTIES	%
Revenues	534,005,629	73,467,534	13.8%	565,910,271	65,397,321	11.6%
Other income	14,335,309	11,703,940	81.6%	10,986,426	10,170,354	92.6%
Purchases	(26,553,872)	(25,984,303)	97.9%	(24,870,993)	(24,214,860)	97.4%
Personnel	(22,681,309)	(6,804,000)	30.0%	(20,421,751)	(6,630,000)	32.5%
Services and other costs	(487,105,947)	(458,993,099)	94.2%	(526,781,333)	(500,665,744)	95.0%
Amortization and depreciation	(1,378,856)			(1,188,197)		
Other operating and non-recurring income/(expenses)	(2,102,000)			344,134		
Operating income (EBIT)	8,518,955			3,978,556		
Gain/(loss) on equity investments	72,561,906			50,839,538		
Financial income/(loss)	9,708,821	6,070,410	62.5%	10,800,438	9,740,870	90.2%
Income before taxes	90,789,682			65,618,532		
Income taxes	(1,540,684)			(2,038,858)		
Net income	89,248,998			63,579,674		
Net and diluted income per share	2.40			1.70		

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

(EUROS)	31/12/2019	OF WHICH RELATED PARTIES	%	31/12/2018	OF WHICH RELATED PARTIES	%
Tangible assets	208,885			310,380		
Goodwill	86,765			86,765		
Other intangible assets	4,661,803			2,971,751		
RoU assets	722,294			-		
Equity investments	142,118,921			145,001,792		
Other financial assets	174,871,136	174,517,076	99.8%	157,349,863	157,095,800	99.8%
Deferred tax assets	5,538,988			4,767,855		
Non-current assets	328,208,793			310,488,406		
Trade receivables	353,511,709	133,298,516	37.7%	341,729,412	116,591,480	34.1%
Other receivables and current assets	27,350,198	22,349,619	81.7%	30,811,220	19,478,022	63.2%
Financial assets	47,493,994	47,493,994	100.0%	67,655,451	67,655,451	100.0%
Cash and cash equivalents	161,330,565			71,016,284		
Current assets	589,686,466			511,212,368		
TOTAL ASSETS	917,895,259			821,700,774		
Share capital	4,863,486			4,863,486		
Other reserves	318,380,775			272,820,509		
Net income	89,248,998			63,579,674		
SHAREHOLDERS' EQUITY	412,493,259			341,263,668		
Due to minority shareholders and Earn-out	1,019,980			2,019,980		
Financial liabilities	23,871,428			21,071,429		
IFRS 16 financial liabilities	394,992			-		
Employee benefits	703,702			571,111		
Deferred tax liabilities	2,978,117			1,924,495		
Provisions	5,942,347			4,462,412		
Non-current liabilities	34,910,565			30,049,427		
Financial liabilities	95,775,792	79,448,593	83.0%	92,326,466	56,786,827	61.5%
IFRS 16 financial liabilities	324,907			-		
Trade payables	313,652,192	217,018,624	69.2%	329,992,215	243,471,000	73.8%
Other current liabilities	50,738,544	6,118,185	12.1%	20,282,998	7,031,731	34.7%
Provisions	10,000,000			7,786,000		
Current liabilities	470,491,435			450,387,679		
TOTAL LIABILITIES	505,402,000			480,437,106		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	917,895,259			821,700,774		

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

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2019
Air Reply S.r.l.	Turin	€	10,000	126,980	41,535	85.00%	558,500
Arlanis Reply S.r.l.	Turin	€	10,000	11,724	(364,551)	100.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	1,849,032	1,750,200	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	522,887	457,18	100.00%	12,575
Avantage Ltd	London	GBP	5,086	2,796,096	(346,735)	100.00%	3,499,102
Blue Reply S.r.l.	Turin	€	10,000	10,146,955	10,085,938	100.00%	527,892
Breed Reply Investment Ltd.	London	GBP	100	499,133	(1,031,929)	80.00%	103
Bridge Reply S.r.l.	Turin	€	10,000	410,220	373,264	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	3,263,726	3,117,565	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	9,774,032	9,539,114	100.00%	2,540,848
Cluster Reply Roma S.r.l.	Turin	€	10,000	1,304,269	1,267,115	100.00%	296,184
Consorzio Reply Public Sector	Turin	€	97,500	29,320	-	33.33%	32,500
Core Reply S.r.l.	Turin	€	10,000	184,551	174,551	90.00%	9,000
Data Reply S.r.l.	Turin	€	10,000	2,649,057	2,610,832	100.00%	317,662
Discovery Reply S.r.l.	Turin	€	10,000	2,197,764	2,091,454	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	4,299,575	4,155,669	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	192,774	148,153	100.00%	30,000
Envision Reply S.r.l.	Turin	€	10,000	12,675	(818,660)	88.00%	1,283,800
Eos Reply S.r.l.	Turin	€	200,000	1,127,985	880,730	100.00%	495,369
Forge Reply S.r.l.	Turin	€	10,000	10,949	(1,390,382)	100.00%	1,000
Go Reply S.r.l.	Turin	€	50,000	1,719,984	225,712	100.00%	1,920,000
Hermes Reply Polska zoo	Katowice	ZLT	40,000	9,539,818	2,645,110	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,069,803	1,007,167	100.00%	199,500
Hermes Reply Consulting Nanjing Co.	China	CNY	1,953,875	3,716,448	1,762,573	100.00%	250,000
IrisCube Reply S.r.l.	Turin	€	651,735	8,658,242	7,776,922	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	36,879	(14,789)	100.00%	360,012
Like Reply S.r.l.	Turin	€	10,000	88,444	70,373	100.00%	87,317
Logistics Reply S.r.l.	Turin	€	78,000	684,268	509,112	100.00%	1,049,167
Open Reply S.r.l.	Turin	€	10,000	3,432,733	3,399,944	100.00%	1,417,750
Pay Reply S.r.l.	Turin	€	10,000	1,939,494	1,907,005	100.00%	10,000
Portaltech Reply S.r.l.	Turin	€	10,000	504,238	485,125	100.00%	106,000
Power Reply S.r.l.	Turin	€	10,000	2,807,255	2,692,996	100.00%	2,500,850
Protocube Reply S.r.l.	Turin	€	10,200	12,928	(167,502)	70.00%	1,000
Reply Consulting S.r.l.	Turin	€	10,000	478,788	432,044	100.00%	3,518,434
Reply AG	Guetersloh	€	100,200	55,467,783	(11,834,270)	100.00%	57,835,781
Reply Services S.r.l.	Turin	€	10,000	826,757	768,394	100.00%	1,000

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2019
Reply Inc.	Michigan	\$	3,406,420	(3,471,298)	(2,820,517)	100.00%	2,814,625
Reply Ltd.	London	GBP	54,175	7,621,596	77,045	100.00%	11,657,767
Reply Digital Experience S.r.l.	Turin	€	29,407	1,254,549	1,215,156	100.00%	4,227,019
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte	R\$	650,000	12,007,839	495,120	100.00%	206,816
Ringmaster S.r.l.	Turin	€	10,000	1,408,638	1,316,206	50.00%	5,000
Santer Reply S.p.A.	Milan	€	2,209,500	8,942,864	2,031,476	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	8,098,344	7,938,773	100.00%	392,866
Sense Reply S.r.l.	Turin	€	10,000	679,461	398,025	90.00%	15,700
Retail Reply S.r.l. (formerly Square)	Turin	€	10,000	912,197	883,425	100.00%	100,000
Spark Reply S.r.l.	Turin	€	10,000	14,156	(516,193)	100.00%	1,042,500
Sprint Reply S.r.l.	Turin	€	10,000	273,622	263,446	100.00%	155,000
Storm Reply S.r.l.	Turin	€	10,000	9,065,328	1,866,982	100.00%	986,000
Syskoplan Reply S.r.l.	Turin	€	32,942	1,125,365	1,008,878	100.00%	949,571
Sytel Reply S.r.l.	Turin	€	115,046	10,403,982	9,882,899	100.00%	5,513,232
Sytel Reply Roma S.r.l.	Turin	€	10,000	4,326,218	4,259,956	100.00%	894,931
TamTamy Reply S.r.l.	Turin	€	10,000	741,782	709,724	100.00%	263,471
Target Reply S.r.l.	Turin	€	10,000	2,435,927	2,358,759	100.00%	600,338
Technology Reply Roma	Turin	€	10,000	1,322,490	994,708	100.00%	10,000
Technology Reply S.r.l.	Turin	€	79,743	8,091,063	7,793,538	100.00%	216,658
Technology Reply S.r.l. (Romania)	Rumania	RON	44,000	610,401	1,393,206	100.00%	9,919
Whitehall Reply S.r.l.	Turin	€	21,224	1,914,771	1,785,469	100.00%	160,212
Xister Reply S.r.l.	Rome	€	10,000	3,301,216	(30,770)	89.20%	9,150,465

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

NATURE/DESCRIPTION	AMOUNT	POSSIBILITY OF UTILIZATION	AVAILABLE	SUMMARY OF THE AMOUNTS USED IN THE PRIOR THREE FISCAL YEARS	
				FOR COVERAGE OF LOSSES	OTHER
Capital	4,863,486				
Capital reserve					
Reserve for treasury shares	24,502				
Share premium	23,302,692	A,B,C	23,302,692		
Reserve for treasury shares	29,990,873	A,B,C	29,990,873		
Income reserves					
Legal reserve	972,697	B			
Extraordinary reserve	187,986,824	A,B,C	187,986,824		
Surplus merger reserve	6,347,964	A,B,C	6,347,964		
Retained earnings	674,740	A,B,C	674,740		
Reserve for purchases of treasury shares	69,984,625	A,B,C	69,984,625		
Total			318,287,718		
Not available amount					
Residual available amount			318,287,718		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,147,961				
Reserve for cash flow hedge	(2,529,268)				
Reserve for treasury shares	(24,502)				
IAS reserve	(31,278)				
Accounting expenses according to IAS 32	(770,448)				
	(904,142)				

Legend

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

DISCLOSURES PURSUANT TO ARTICLE 149-DUODECIES BY CONSOB

The following table, prepared in accordance with Art. 149-duodecies of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2019 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

(EUROS)	SERVICE PROVIDER	2019 FEES
Audit	PwC S.p.A.	40,600
Audit related services	PwC S.p.A. ⁽¹⁾	3,200
	PwC S.p.A. ⁽²⁾	32,000
Total		75,800

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

⁽²⁾ DNF attestation

ATTESTATION OF THE FINANCIAL STATEMENTS

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

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

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

of the administration and accounting procedures applied in the preparation of the financial statements for the year ended 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 Financial Statements

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

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

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

Turin, 13 March 2020
/s/ Giuseppe Veneziano
Director in charge of signing
the financial statements
Giuseppe Veneziano

REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to article 153 of the legislative decree 58/1998 on the financial statement as at 31 December 2019

Dear Shareholders,

pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activities performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.

During the year ended 31 December 2019 the Board of statutory Auditors carried out the supervisory activities provided for by the law (in particular by art. 149 of Legislative Decree No. 58/1998 and art. 19 of legislative Decree 39/2010), by the Rules of Conduct issued by the National Council of Chartered Accountants and accounting Experts, from Consob recommendations in the field of corporate controls and activities of the Board of Statutory auditors and the indications contained in the Code of Conduct and the following is noted:

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

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2019 or subsequent to the end of the financial year, among which we note:

- in the month of January 2019, Reply Ag, a subsidiary of Reply S.p.A., acquired 100% of Neveling GmbH a company constituted under German law;
- in the month of October 2019, Reply Ltd, a subsidiary of Reply S.p.A., acquired Blowfish Digital Holdings Ltd and its subsidiaries, Threepipe Ltd and Spot Digital Ltd, a company constituted under English law;
- Reply S.p.A. undersigned a revolving credit line with Intesa Sanpaolo S.p.A. in the amount of 50,000,000 Euros to be drawn within 31 March 2021.

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

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

With reference to intercompany transactions, we give notice that:

- Reply S.p.A. obtained professional services from Group companies related to revenues connected to contracts undersigned with major clients;
- Reply S.p.A. gave bank guarantees in favor of subsidiaries;
- Reply S.p.A. has granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:
 - › Core Reply S.r.l. and Sense Reply S.r.l. – non-interest bearing loan;
 - › Breed Investments Ltd, Breed Reply Ltd, Reply Ltd., Hermes Reply Polska Sp Zoo, Cluster Reply Informatica Ltda, Portaltech Reply GmbH, Reply do Brazil Sistemas de Informatica Ltda, Reply Inc., Reply Ltd, Technology Reply S.r.l. (Romania) and Reply AG – interest bearing loans;
- Reply S.p.A. provided subsidiaries with management, administrative, commercial and marketing services, the lease of premises, as well as services to manage the corporate internet network, electronic mail and web;
- Reply S.p.A. centrally managed the Group’s treasury by means of correspondence bank accounts held by the individual subsidiaries;
- Reply S.p.A. granted Group companies the use of its proprietor trademark “REPLY”;
- Reply S.p.A. acquired “office services” (general services and the availability of office space).
- Transactions with related parties in 2019, which took place in accordance with market conditions, are related to Emoluments to Directors and Key Management and to “office services”, in particular to the office situated in Corso Francia, 110 Turin, provided by Alike S.r.l..
- For these operations the Procedure for Related party transactions was not applied as these transactions are exempt as defined by art. 4.1 and 4.4. of the Procedure.

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

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2019 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2019 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.

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

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

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

Pursuant to art. 19 of Legislative Decree 39/2010, during 2019 and up to the date of this Report, the Board of Statutory Auditors carried out a continuous monitoring process of the activities carried out by the auditing firm through a series of meetings during which among other things, has examined: the purpose of the audit, materiality and significant risks and the audit plan.

The Board of Statutory Auditors analyzed the methodological framework adopted by the auditor and acquired the necessary information going forward, receiving updates on the progress of the audit engagement and on the main aspects brought to the auditor's attention.

The Board of Statutory Auditors examined the following reports prepared by the independent auditor PricewaterhouseCoopers S.p.A :

- the reports on the audit of the financial statements and the audit of the consolidated financial statements issued on March 30, 2020 pursuant to art. 14 of Legislative Decree 39/2010 and

of art. 10 of the Regulation (EU) n. 537/2014;

- the additional report issued on March 30, 2020, pursuant to Article 11 of the aforementioned Regulation, to the Board of Statutory Auditors in capacity of the Internal Control and Auditing Committee;
- the annual confirmation of independence, issued March 30, 2020, pursuant to art. 6 par. 2) let. a) of the Regulations and pursuant to paragraph 17 of ISA Italia 260.

The aforementioned annual audit reports of the consolidated financial statements show that the individual financial statements and the consolidated financial statements of the Group provide a true and fair view of the balance sheet and financial situation of Reply S.p.A. and of the Reply Group at December 31, 2019, of the economic result and cash flows for the year ended on that date, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

Furthermore, in the opinion of the auditor, the management report and some specific information disclosed in the report on corporate governance and ownership structure indicated in art. 123-bis, paragraph 4, of Legislative Decree 58/1998, is consistent with the financial statements of Reply S.p.A. and with the consolidated financial statements of the Reply Group at December 31, 2019 and are prepared in accordance with the law. With reference to the possible identification of significant errors in the management report (Article 14, paragraph 2, letter e) of Legislative Decree 39/2010), the auditor declared that nothing had emerged.

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

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

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

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

No complaints have been acknowledged pursuant to Article 2408 of the Italian Civil Code in 2019 and at present.

6. FILED COMPLAINTS/LAWSUITS.

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

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

During 2019, in addition to the engagement of auditing the Financial Statements as at 31 December 2019, PricewaterhouseCoopers S.p.A. received the following engagements:

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

The consideration for such engagement was 3 thousand Euros;

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

The consideration for such engagement was 25 thousand Euros.

- Review of the Non-financial data report 20182019 ex Legislative Decree 254/2016 of the Reply Group.

The consideration for such engagement was 32 thousand Euros;

- Report on Research and development expenses incurred in 2018 Logistics Reply S.r.l..

The consideration for such engagement was 16 thousand Euros;

- Report on Research and development expenses incurred in 2018 Hermes Reply S.r.l..

The consideration for such engagement was 4 thousand Euros.

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

Beyond what has already been reported in the report of the Board of Statutory auditors on the financial statements closed on 31 December 2019, during the financial year no further professional assignments were conferred to persons linked to PricewaterhouseCoopers S.p.A. by continuous and /or to persons belonging to the network thereof.

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

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

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

During the financial year, the Board of Directors met 5 times, and the Board of Statutory Auditors 11 times.

The Internal Control and Risk Management Committee 4 times, whereas the Remuneration Committee met 4 times, and the Committee for Related Party Transactions did not meet.

The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

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

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

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

We further advise you that:

- the Chairman of Reply S.p.A.'s Board of Directors, Mr. Mario Rizzante, is the Director of the English subsidiaries Reply Ltd., Breed Reply Ltd, Breed Reply Investments Ltd., Director of the American subsidiary Valorem Reply LLC and is also a member of the Supervisory Board of Reply AG;
- Tatiana Rizzante, Chief Executive Officer is Director of the English subsidiary Reply Ltd and

Director in the American subsidiary Reply Inc. and is also the Managing Director of the German subsidiaries and the subsidiary Reply AG.;

- Filippo Rizzante, Executive Director holds office as Vice President of Ringmaster S.r.l. among other offices as Director in several English companies.

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

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

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

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A., and revised in July 2019.

On 13 March 2020 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

On the same date the Board of Directors also approved the Report on Remuneration in which the indications requested by the Corporate Governance Committee in the month of December 2019 were integrated.

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

The Board's supervisory activity was carried out through:

- Activities aimed at controlling compliance with laws and the by-laws;
- Participation at the meetings of the Company's governing bodies;
- Acquiring information during periodic meetings with the Independent Auditor concerning both the activity it performed as well as any risks related to its independence;
- Acquiring information during meetings with members of the Board of Statutory Auditors of the subsidiaries to exchange information on the Group's activities and coordinate control

and supervisory activities;

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

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

In particular, we advise the Shareholders that:

- we have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently modified on 14 May 2015 and on 2 August 2019, as well as compliance to it;
- we controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- we monitored the financial reporting process and its integrity;
- we have verified the effectiveness of the company's internal control, quality and risk management systems, with regard to financial reporting;
- we monitored the statutory audit of the financial statements and of the consolidated financial statements;
- we monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- we monitored compliance with the provisions of art. 17, paragraph 4, of Legislative Decree 39/2010 and in this regard, we inform you that the new key manager for the review of the financial statements of Reply S.p.A. is Mr. Mattia Molari;
- we verified and monitored the independence of the independent auditing firm PricewaterhouseCoopers S.p.A. pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010 and article 8 of Regulation (EU) 537/2014;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of

independence required for Directors;

- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "Market abuse" and "Protection of savings" in matters of corporate disclosures of information and "Internal Dealings" based on the information provided by the Company;
- we verified the fulfillment of the obligations related to the regulations pursuant to Legislative Decree 254/2016 of the national implementation of the Directive 2014/95 / EU, on the basis of which the Consolidated Disclosure of Non-Financial information was approved by the Board of Directors on March 13, 2020.

In this regard, we acknowledge that PricewaterhouseCoopers S.p.A., specifically appointed, issued on March 30, 2020 its opinion pursuant to art. 3, c. 10 of Legislative Decree 254/2016, regarding the compliance of the information provided in the Consolidated Disclosure of the Non-Financial information with respect to the requirements set forth in Legislative Decree 254/2016.

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

1) ADMINISTRATION

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

2) ORGANISATIONAL STRUCTURE

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

This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure also with reference to the procedures, processes and structures that preside over the production, reporting, measurement and representation of results and

information of a non-financial nature and to arrive at a judgment of overall adequacy with respect to its size.

3) INTERNAL CONTROL SYSTEM

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

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

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

We have received from PricewaterhouseCoopers S.p.A. the report pursuant to art. 11 of Regulation (EU) 537/2014, which stated that, during the audit of the financial statements of Reply S.p.A. and the consolidated financial statements of the Group as at 31 December 2019, there were no significant aspects giving rise to discussions or correspondence with Management, and no significant gaps have been identified in the internal control system in relation to the financial reporting process, nor have significant difficulties been reported to bring to the attention of the Committee for Internal Control and Risk Management.

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

4) ADMINISTRATIVE – ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive; these procedures have also been implemented throughout the Group companies.

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

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

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

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

We note that the Financial Statements as at 31 December 2019 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).

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

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

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

With reference to the point on the agenda concerning the resolution to be taken on the adaptation of art. 12 (Voting Rights) of the Company by-laws, the Board acknowledges that the proposed resolution complies with the provisions of art. 127-quinquies of the TUF, as well as those of Consob Communication no. 0214548 of April 18, 2019.

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 Financial Statements

Opinion

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company as 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 Financial Statements* section of this report. We are independent of 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Evaluation of the recoverability of equity investments in subsidiaries

Note 21 to the financial statements “Equity investments”

The value of equity investments in subsidiaries as of 31 December 2019 amounted to Euro 142 Million. These investments are carried at cost adjusted for impairment losses.

Company’s management tests the equity investments for impairment by comparing the carrying amount with the recoverable amount in accordance with IAS 36 (impairment test), when there is any indication of impairment based on which the value of the investments is expected to be recovered with difficulty.

The assessment required Company’s management to perform with the support of external experts, complex estimations which are mainly based on assumptions affected by economic and market conditions which are hard to foresee, especially in relation to the determination of market multiples, expected cash flows, discount and growth rates to be used for estimating the terminal value.

Considering the significance of this items representing approximately 15% of Company’s total assets and taking into account the complexity of the evaluation process, we identified the evaluation of equity investment’s recoverability as a key audit matter.

We gained an understanding and assessed the procedures adopted by management in order to verify the compliance with the requirements of IAS 36.

We analysed the Company’s management expert report with a focus on market multiples. We also verified the reasonability of Company’s management assumptions used to estimate the expected cash flows and the mathematical accuracy of the calculations performed to determine the equity investments fair value and value in use.

We then verified the coherence of the expected cash flows used in the impairment test with the ones approved by the Board of Directors, with the cash flows expected in the preparation of 2018 financial report and with the 2019 actual cash flows.

During the tests performed by us, including those to assess whether the estimation method and the discount and growth rates used by management complied with the provisions of IAS 36 and the standard evaluation practice, we were supported by PwC network experts.

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.

Other Matters

The financial statements of Reply SpA 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 Financial Statements

The directors are responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- We identified and assessed the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 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 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 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 Reply SpA as of 31 December 2019, including their consistency with the relevant 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 financial statements of Reply SpA 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 financial statements of Reply SpA 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.

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

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