



**REPLY
INTERIM
MANAGEMENT REPORT
AT 30 SEPTEMBER 2017**

REPLY

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REPORT AT 30
SEPTEMBER 2017**

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CORPORATE AND CONTROLLING BODIES

BOARD OF DIRECTORS

Chairman and Chief Executive Officer

Mario Rizzante

Chief Executive Officer

Tatiana Rizzante

Executive Directors

Daniele Angelucci

Claudio Bombonato

Oscar Pepino

Filippo Rizzante

Fausto Forti (1) (2) (3)

Maria Letizia Jaccheri (1) (2)

Enrico Macii (1) (2)

Board of Statutory Auditors

President

Cristiano Antonelli

Statutory Auditors

Paolo Claretta Assandri

Ada Alessandra Garzino Demo

Independent Auditors

EY 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.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(thousand Euros)

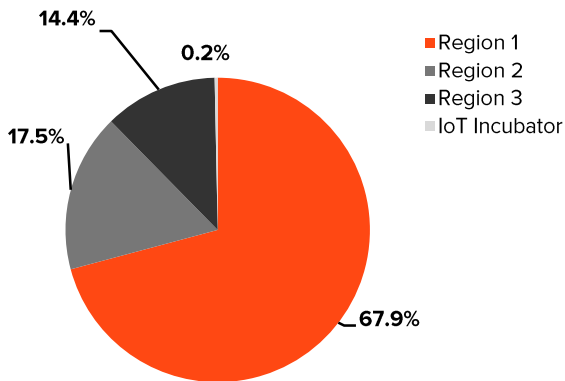
Q3 2017	%	Q3 2016	%	Economic figures	30 September 2017	%	30 September 2016	%
209,727	100.0	184,784	100.0	Revenue	651,350	100.0	571,297	100.0
28,015	13.4	23,870	12.9	Gross operating margin	89,751	13.8	75,203	13.2
24,739	11.8	20,811	11.3	Operating margin	81,711	12.5	68,804	12.0
25,259	12.0	21,654	11.7	Income before taxes	78,719	12.1	68,925	12.1

Q3 2017	Q3 2016		30/09/2017	30/09/2016
3,416	2,981	Investments	8,964	9,498

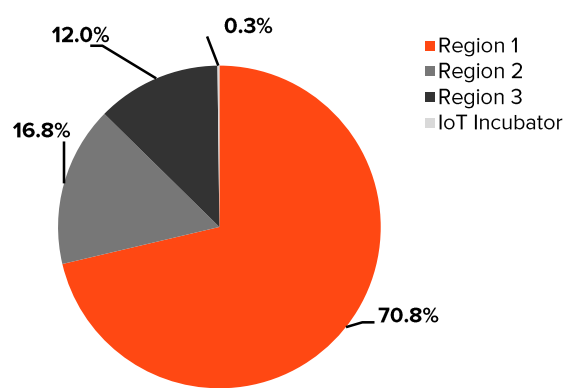
	30/09/2017	30/06/2017	31/12/2016
Net financial position	65,956	35,291	28,758

	30/09/2017	30/09/2016
Employees	6,438	5,928

REVENUES BY GEOGRAPHICAL AREA (*)
30 September 2017

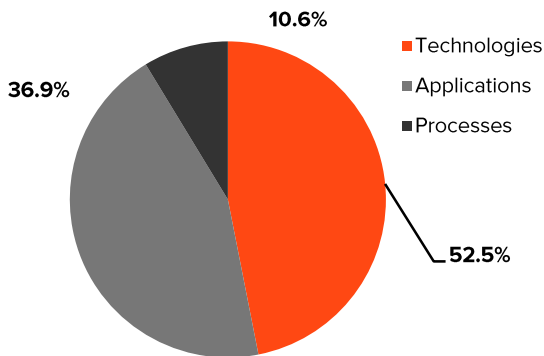


REVENUES BY GEOGRAPHICAL AREA (*)
30 September 2016

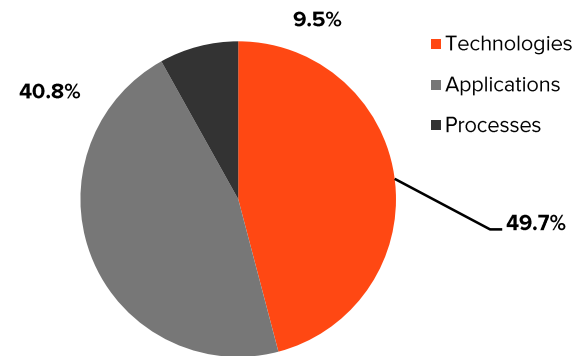


(*)
 Region 1: ITA, USA, BRA, POL, ROU
 Region 2: DEU, CHE, CHN, HRV
 Region 3: GBR, LUX, BEL, NLD, FRA, BLR

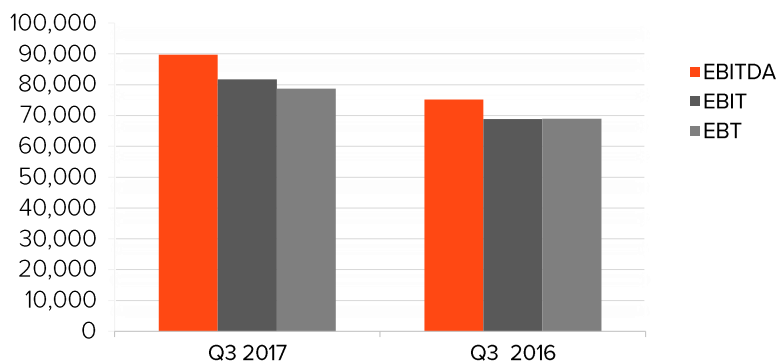
REVENUES BY BUSINESS LINES
30 September 2017



REVENUES BY BUSINESS LINES
30 September 2016



TREND IN MARGINS



REPLY LIVING NETWORK

REPLY LIVING NETWORK

Reply is a company that specialises in consulting, system integration and digital services with a focus on the invention, design and implementation of solutions based on the new communication channels and digital media.

Composed of a network of companies, Reply partners with key industrial groups in defining and developing business models made possible by the new technological and communication paradigms such as big data, cloud computing, digital communication, the Internet of Things and mobile and social networking. In so doing, it aims to optimise and integrate processes, applications and devices.

THE ORGANISATIONAL MODEL

Reply operates through a network of companies specializing in processes, applications and technologies, which are centers of excellence in their respective fields of expertise.

Processes – for Reply, the understanding and use of technology involves the introduction of a new enabling factor for business processes, based on an in-depth knowledge of both the market and the specific industrial contexts of implementation.

Applications – Reply designs and implements application solutions aimed at satisfying companies' core business requirements.

Technology – Reply optimizes the use of innovative technologies, implementing solutions capable of ensuring maximum efficiency and operational flexibility for customers.

REPLY'S SERVICES INCLUDE:

Consulting – in terms of strategy, communication, design, process and technology;

System Integration – making the best use of the potential of technology, combining business consulting with innovative technological solutions of 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.

TELCO & MEDIA

Reply works with major telecoms and media operators to define and implement digital transformation strategies applied to the main core processes.

Reply has defined an integrated offer of strategic and technological consultancy to support the design, definition and management of the new-generation networks, based on SDN (Software Defining Network) paradigms, capable of integrating and managing virtual networks (network virtualisation) through network engineering services and network operations. The solutions developed by Reply were also applied to the network mediation layers used in the automotive world to enable 3G-4G communication between the services and control centre (NOC-SOC) and cars equipped with a “black box”.

Reply also works with leading European operators in the renewal of Operations Support/Business Support Systems (OSS/BSS) towards increasingly more customer-focused service models and an omnichannel configuration of the offer.

With regard to the area of network security, Reply has provided an innovative solution, based on the Ethereum Blockchain paradigms, to enable the identification, prevention and removal of attacks by hackers on SDN networks, which are typically more flexible and adaptable to the requirements of the service, but, at the same time, more vulnerable to external attacks.

Finally, Reply is involved in the design and implementation of services and applications for latest generation mobile devices (on-demand or linear audio/video content, integration with connected products, customer support services and omnichannel customer engagement solutions).

FINANCIAL SERVICES

Reply is increasingly active in supporting the digital transformation of Europe’s financial institutions. In this field, Reply is working with some of the major players in the sector on many key issues, such as the definition of complete multi-channel digital experience and customer engagement strategies: from digital branding to the implementation of app strategy, from the development of a new generation of portals and multi-channel touchpoints to the complete redefinition of the underlying technological architecture, and the analysis of new customer journeys.

With regard to the wealth management area, Reply has a strong presence on the market and has developed a wide range of specific skills and solutions aimed at, for example, the emerging models of consultancy and remote advice platforms and solutions. In the area of Governance Risk Control (GRC), Reply operates with a dedicated consulting division, integrated into a European network and highly specialised in the subjects of risk-evaluation, risk control and new regulatory models and solutions.

In the increasingly strategic area of big data, Reply is heavily investing and operating with some of the most important financial institutions (banks and insurance companies) in two directions: the concrete integration of the new big data technologies and architectures with existing systems and architectures, and the development of skills as well as analytics and machine learning models, aimed at extracting tangible business value from available databases.

Another area in which Reply is strongly present and highly specialised is the mobile payments realm and related m-commerce services. Reply offers consulting services, as well as a wide range of models and architectural solutions based on different standards, technologies and usage profiles, aimed at the banking/insurance market and at emerging players in the payments industry.

Lastly, in the most advanced frontiers of innovation, Reply is present with numerous projects, such as in the area of the latest biometric recognition technologies and digital identity, in the IoT applied to specific insurance sectors (car, home and health), in cryptocurrencies and in solutions relating to blockchain technology, in the experimentation and assessment of “fintech” models of peer to peer lending, crowdfunding and in the definition of specific e-marketplaces for financial institutions.

MANUFACTURING & RETAIL

Reply supports companies in the phases of transformation and management of information systems: from strategic design to the understanding and redefinition of main processes, and the implementation of solutions that integrate core applications in the manufacturing and distribution sectors. The areas of focus and development of skills concern: the support of supplier relationship management (SRM) processes; the design and implementation of control systems; the planning of production units through manufacturing execution systems (MES); the distribution and movement of products on complex logistics networks through supply chain execution (SCE) processes.

Industry 4.0 and Logistics 4.0 are elements of particular focus for the strategic development of companies in the sector. In particular, the new competitive challenge for processing companies is the introduction of increasing levels of flexibility within the shop floor. Reply has significantly enhanced its product offer in this area. Proprietary SCE and MES solutions have been re-engineered. On the basis of the IOT, cloud computing and big data paradigms, a solution was developed focused on the ability to interact with the latest generation of sensors on production lines and products, with the aim of creating the backbone for the next generation of applications in the logistics and manufacturing sector.

For the retail market, Reply has defined a specific line of products and services that combine consulting services with the design and development of integrated web and mobile solutions, call centre products and in-store services. Customer focus is a fundamental theme where digital devices, as well as the innovation of digital channels and of physical locations come together to create a single engaging and consistent user experience.

ENERGY & UTILITIES

The energy and utilities sector is seeing a progressive spread of innovative technologies on an industrial scale, with the aim of transforming existing processes in all areas of the value chain. Driven by market and regulatory pressures, operators are decisively targeting investments in the digitisation, optimisation, programming and operation of installations for the generation, transport and distribution of electricity. Indeed, the new home network model constitutes a new competitive arena in which utilities will be compared with operators in other market sectors, particularly telecommunications.

Reply is one of the reference partners for companies operating in the sector, combining an extensive knowledge of the market and of its unique processes, with a distinctive ability to design, implement and manage applications and technological solutions in support of the “core business” in the generation, trading and risk management, pricing and forecasting, metering, billing and CRM areas. Moreover, the company’s consolidated expertise relating to the introduction of new technologies (IoT, big data, cloud, mobile, etc.) was vertically applied to operating models for the various areas of the energy and utility value chain, in particular in the definition and development of new smart metering, smart grid and asset and work management models. Reply also assists its customers in the adoption of new energy management paradigms aimed at raising energy efficiency, a field in which the company offers a complete product range aimed at both energy sales companies and end consumers.

HEALTHCARE & GOVERNMENT

The need for “cost savings” as well as the reorganisation of important public administration sectors, including health, have determined an initial legislative adjustment in central government in Italy, with the contextual redefinition of spending centres in various regions, with the redefinition of organisational models aimed at ensuring the centrality of citizens with regard to services supplied, whether relating to the health sector or otherwise. The slogan for this transformation is: Digital PA. In this scenario, Reply benefits from the experience it has gained in the most advanced online services, creating vertical applications and expertise that enable it to implement specific solutions for managing relationships with the public and with businesses.

Moreover, another important field of specialisation for Reply is telemedicine, or digital healthcare, which will increasingly move therapies and patient monitoring out of the hospital environment. The key areas that can potentially impact the organisational model are: the home telemonitoring of patients, electronic prescriptions and e-health solutions for the management of individuals suffering from chronic diseases. In this context, Reply has developed a specific platform designed to facilitate an integrated network of communications between patients and community operators at various levels: hospitals, nursing homes, healthcare centres, community centres and so forth.

TECHNOLOGICAL INNOVATION

Technological innovation has formed the basis for the development of Reply, a company that has always pursued the objective of providing its customers with the tools needed to increase flexibility and efficiency. Reply is involved in a continuous process of research, selection and marketing of innovative solutions for sustaining the creation of value within organisations.

BLOCKCHAIN

Within the context of digital finance services, Reply has set up a Competence Centre focused on the study and development of the blockchain product offer. The Competence Centre, active in different countries (Italy, the UK, Germany, France, Benelux) and across various vertical industries (Banking, Insurance, Telco & Media, Energy, Retail, Healthcare, Real Estate, etc.), works to accelerate customer adoption of the most widespread blockchain technologies, such as Bitcoin, Ethereum, Hyperledger and Multichain. Moreover, the company's proven expertise in system integration is reflected in the blockchain world, in the ability to interface with Blockchain-as-a-Service services offered by major IT vendors, allowing Reply's blockchain solutions to fall in the "enterprise-ready" software product category.

CLOUD COMPUTING

Cloud computing has established itself as one of the most important areas of transformation that companies have had to face. The offer of virtual environments and services by leading vendors worldwide has in fact modified, if not revolutionised, the concept of IT as it was traditionally interpreted, by changing it from a simple commodity to one of the basic elements on which to configure one's digital transformation. In order to fulfil the requirements for strategic and technological transformation and change management necessary for the implementation of the most suitable cloud model for specific situations, Reply has defined a service offering structured along the following lines:

- consulting support (from the business process to operational management) capable of helping customers to understand, select and develop the best technological and application solutions;
- an end-to-end provider service that, supported by the partnership with the major vendors worldwide including Amazon, Google, Microsoft, Oracle, SAP and Salesforce, allows customers to benefit from the most suitable solutions for their needs, both in terms of model and the technology chosen;
- SaaS services and solutions, based on Reply's proprietary application platforms.

CUSTOMER ENGAGEMENT

The quality of services offered to customers, the ability to understand and anticipate their needs, the creation of an immediate, effective and cross channel interaction experience are essential elements for the building and expansion of a one-to-one relationship. Reply has defined a strategic CRM framework based, in particular, on the redefinition of processes and the introduction of new technologies focused on interaction automation and behavioural analysis.

By combining the skills gained in the fields of digital communication, social media, gamification, the Internet of Things, data intelligence and the mobile world, new techniques and methods have been identified aimed at defining a customer engagement strategy that responds quickly and effectively to customer needs. Another area of innovation, both in terms of process as well as of service, is rooted in the increasingly broader introduction of bots and virtual assistants that facilitate the real-time monitoring of customer experience across the entire digital ecosystem, providing a unique and no longer fragmented view per channel, of the brand-customer relationship evolution.

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

DATA & ANALYTICS

By combining technological skills in data analysis, data modelling and data process re-engineering, Reply made it easier for its customers to approach the issue of big data, by favouring the activation of a real and concrete pathway of cultural change and by introducing a new approach to data management.

In particular, Reply assisted companies in the application of Big Data technologies (creating architectures based on the new “data lake” concept) and in the development and application of advanced analytics models, bringing together business experts and data scientists to define core business processes with a data-driven focus.

Reply has also initiated the development of a specific offer in the machine learning field, designed to address the growing demand by companies to automate lower impact digitised processes (i.e. invoice reconciliation) while increasing the ability to build value-added services based on innovative process automation models through deep learning, image recognition and prescriptive analytics.

To better support its customers in the introduction of advanced data-use techniques, Reply has also developed a training programme aimed at establishing a new generation of data scientists capable of taking full advantage of the latest machine learning and data analysis techniques.

DIGITAL EXPERIENCE

Today, technology has definitely moved beyond the confines of the ICT world, characterising, guiding and influencing our everyday life, and consequently opening new dimensions and opportunities for digital communication of the brand.

To better support its customers in this new vision of the brand and of the brand-customer relationship, Reply has developed an extended and specialised set of skills, ranging from digital storytelling to a multi-platform strategic vision, from contextual interaction (proximity marketing) to omnichannel loyalty, from data recognition abilities used to capture large quantities of information to the consequent data analysis expertise required to be able to transform the data into effective market insights.

In addition to the creation and management of every aspect of the interactive digital brand image, Reply's areas of expertise include creativity and technology as applied to important sectors such as mobile telephony, e-commerce, gaming and the Internet of Things. These also constitute areas that commercial brands need to master both now and especially in the future, as can already be seen in the major global communication markets.

Another important field in which Reply supports its corporate customers involves communication via digital social media networks. This is now a mainstream activity that has expanded significantly over the last few years and is now more than ever the acknowledged global arena for brand-user relationships.

DIGITAL PAYMENTS

The vast diffusion of mobile devices among consumers and the creation of new payment instruments that see the mobile component as a supporting factor, make the payment sector one of the areas with the highest growth rate. Reply has defined a dedicated offer – based on consultancy services and technological platforms – to assist banks, financial institutions, telecommunications companies, utilities and retailers in the processes needed to create and supply innovative services of remote and proximity digital payments.

The technological asset is HI Credits™, the Reply platform that enables personalised and contextualised payment services, by using the available smartphone technologies. HI Credits™ is capable of supplying, on the same platform, remote and proximity payment services with mobile POS solutions and enabling transfers between private individuals based on current accounts with the P2P app.

E-COMMERCE

Increasingly more demanding, mobile consumers are now requesting a completely integrated experience from companies, personalised and unified as much as possible through various physical and digital channels. In a similar purchasing scenario, the success of this sector lies in the ability to invest in services aimed at promoting relations and interaction between sellers and customers, constantly innovating and extending sales models with new multi-channel strategies capable of offering consumers different touchpoints, both digital and physical, used to purchase products. One example is the increasingly widespread success of purchasing processes based on click and collect models, very useful in order to avoid additional delivery costs or unexpected events such as delays: purchases are made online and the product is collected free of charge at the shop.

An evolution of this dimension in the traditional purchasing scenario has led Reply to define an omnichannel strategy centred on customer needs capable of enabling companies to provide the final consumer with a completely unified and integrated experience through online, mobile and physical channels.

ENTERPRISE ARCHITECTURE

Today, digital transformation is the predominant theme on the agenda for companies. All organizations have created, or are creating, systems and processes that require a bi-modal approach to information and development and management systems. In order to excel in the digital economy, characterized by the convergence between the physical and the digital, organizations must remove the boundaries between IT and business. This will allow companies to operate rapidly to exploit the new developments available to them, proceeding however with caution to avoid damaging existing systems and processes.

This new approach to IT requires agile delivery models in which small, highly qualified, multi-disciplinary teams implement a process of end-to-end change in very short timeframes, working directly with the managers of the various business areas involved. Reply supports its customers in enterprise architecture through the use of a vast catalogue of architectural frameworks, methods and models consolidated in many projects completed for large industrial, media and service groups.

INDUSTRY 4.0

The fourth industrial revolution is the combined effect of connectivity, data processing power, latest generation mechanical automation, machine learning and artificial intelligence. Industry 4.0 models are quickly redefining production sites around the world, transforming them into systems closely interconnected with the supply chain, logistics, sales, the products themselves and the support and maintenance chain. The plants become open ecosystems that must be able to adapt autonomously to new tasks, to carry out their own maintenance activities and to predict the best input and output flows through constant communication with supply chains, attaining levels of efficiency and control that minimize costs and maximize results.

For this new global world of interconnected production, Reply has developed a suite of integrated solutions, capable of ensuring its customers are flexible, connected and efficient. In particular, Reply's mission is to accompany its customers throughout the entire transformation journey: from the design 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 can make products "smart", connected and digital.

THE INTERNET OF THINGS

The drive for convergence between the telecom, media and consumer electronics sectors is making it necessary to treat items that currently lack any form of connectivity as “networked devices” (such as household appliances and integrated home automation control systems...). One of the major developments currently underway therefore consists of the progressive connection, not only of computers and devices, but of a range of material objects. This will result in an increasingly more pervasive network integrated with the daily activities of people. There are various fields of application: from industrial applications (production processes) to logistics and info-mobility, energy efficiency, remote assistance and environmental protection. Reply has designed and developed HI Reply™, a platform of services, devices and middleware, on which to base specific vertical applications such as advanced logistics, environmental security, contactless payment and product traceability. HI Reply™ was designed and built within the Reply research and development centre based on the Internet of Things.

MOBILE

In the mobile sector, Reply supports companies in defining interaction scenarios with their users based on omnichannel applications and architectures capable of meeting the needs that the new market scenario is imposing: appeal and high usability of services, high performance; the creation of enabling architectures capable of integrating new channels and types of devices with flexibility through which to provide services and content on the basis of the specific guidelines of each platform.

In particular, with regard to the exponentially growing phenomenon of mobile video – where the quality and stability of the service are essential to ensure its success – Reply is involved in major European projects for the provision of OTT-TV services, with design, development, validation and monitoring teams.

In addition, Reply has established the company’s own application factory dedicated to mobile applications for both the business and consumer spheres. There is a user experience laboratory in the factory, alongside teams of developers specialised in various platforms, which bases its activity on a data-driven approach using tools and methods that focus on users and their needs and behaviours.

AUGMENTED REALITY, VIRTUAL REALITY

Augmented reality (real world vision enhanced by digital information) and virtual reality (the interaction and exploration of virtual environments) are now the subject of investments by all major technology leaders. The introduction on the market of various new headsets including the OCULUS (Facebook); Steam VR (VALVE); Hololens (Microsoft) and PlayStation VR (SONY), VR/AR represents the next big step in the convergence between the physical and the digital worlds, with countless B2B and B2C repercussions.

The use of these technologies in the professional and industrial sectors is already becoming more widespread today: from the presentation of very large projects that are difficult to transport, to the creation of training sessions on plants that are far away or have not even been built yet, to medical cybertherapy.

By combining experience in the 3D sector deriving from the gaming world with mobile skills and new technologies in the world of wearable devices, Reply has therefore developed an offer specifically orientated towards the development of solutions devised to increase user involvement. This product offer includes the development of augmented reality applications (aimed at visualising a virtual product in a real environment) and immersive reality applications specifically designed to give users a captivating experience, transporting them into a navigable virtual environment.

RISK, PRIVACY & SECURITY

Reply is now one of the leading players in this sector, with a comprehensive portfolio of services for risk management, privacy and information security management. In particular, Reply has developed an integrated approach for measuring and managing risk that is capable of assessing, concurrently, both the risk involved and the potential loss of value and income associated with that risk. Using this method, Reply enables its customers to implement a set of tools and activities aimed at cutting the operating costs associated with risk management, thereby ensuring that capital and resources can be allocated in the best possible ways.

SERVICE DESIGN

Today, innovation is the only way to survive in an increasingly global and digital market. Innovating in a “sustainable” manner, therefore creating a positive impact for people, for the community and for the company itself, represents an ideal way to excel. Nowadays, it is people who drive the digital transformation and companies must find ways to listen to their requests. If, on the one hand, modern technology and the digitisation of products and services have given rise to new business opportunities, on the other, the analysis of users’ real needs has become one of the key factors for the success of a company.

Within the area of innovation and digital transformation, Reply has invested in strategic design, seen as an enabling factor in the provision of end-to-end solutions for its customers, with the aim of supporting them throughout the entire process, from the generation of ideas to the implementation and release of the final solution.

SOCIAL MEDIA

In recent years, social media has profoundly changed the way in which individuals of all age groups communicate and interact both in their private and professional lives.

Reply offers an innovative approach for maximizing the value of brands’ digital identity on social media channels, with a view to integration with other relational touch points, from search engines – nowadays closely interconnected with social media – to television, for second screen interaction analysis.

VIDEO & GAMING

The explosive phenomenon of mobile and apps that we have seen in recent years brings with it new social behaviour patterns and new habits. One particularly obvious phenomenon involves the use of video games. Smartphones and tablets have seen the disproportionate growth of the gaming community, previously confined to owners of consoles or to the PC gaming community, transforming gaming into a mass phenomenon.

Video gaming, as well as being a mass phenomenon, has now also become a language of communication. Providing customers with an entertaining experience that leaves a positive opinion of the brand in their memory is a priority and is essential nowadays for any communication or engagement campaign, regardless of whether it is intended for the smartphone screen or packaged for a physical sales point. Reply has developed a product offer capable of meeting all of a brand's needs, from the use of virtual reality and augmented reality to the production of educational games (Edutainment) or to promote a product or a message (Advergaming). Reply is constantly investing in this area, so that by using the technologies involved it can offer increasingly innovative and engaging game experiences.

Designing and developing games is a highly professional and specialist activity. Reply's credibility in this sector is guaranteed by the quality of the B2C products it has developed over recent years and by the success they have enjoyed in the global market. The games developed by Reply involve all of the group's technological and distribution platforms, while the portfolio includes titles of varying complexity aimed at a variety of target audiences. The experience acquired and the quality of the games produced position Reply as a major player in the international gaming industry. This is reflected both in the production of its own products and in the supply of vertical services to other industries in the sector.

**SUMMARY REPORT OF THE
THIRD QUARTER 2017 AND
EXPECTED BUSINESS
DEVELOPMENTS**

SUMMARY REPORT OF THE THIRD QUARTER 2017 AND EXPECTED BUSINESS DEVELOPMENTS

In the first nine months of the year, the Group has recorded a consolidated turnover of €651.3 million, with an increase of 14.0% compared to €571.3 million at September 2016.

Consolidated EBITDA to September was €89.8 million (€75.2 million at September 2016) with an EBIT of €81.7 million (€68.8 million at September 2016).

Pre-tax profit amounted to €78.7 million, which represents an increase of 14.2% compared to the same period of 2016.

For the third quarter of 2017 (July-September), the Group registered a consolidated turnover of €209.7 million (€184.8 million in 2016), an EBITDA of €28.0 million (€23.9 million in 2016), an EBIT of €24.7 million (€20.8 million in 2016) and a pre-tax profit of €25.3 million (+16.6% compared to 2016).

As at 30 September 2017, the Group's net financial position was positive for €66.0 million with an increase compared to €35.3 million registered in June 2017.

In the first nine months of the year, Reply has achieved extremely positive results, both in terms of turnover and market presence, 2017 was the year of the definitive success of the digital revolution and Reply, capitalizing the investments made in previous years, has worked in the right direction, quickly positioning itself as one of the main players in this transformation, with a complete offering aligned with the new needs of the companies, which are increasingly engaged in digitising all services and physical goods.

The world is radically transforming under the disruptive spur of internet of things, virtual reality, artificial intelligence and the cloud. Digital innovation will more and more often arise from a blend of business and technology that cannot be framed into traditional models. Our goal, in an increasingly global and multinational marketplace, is for Reply be a benchmark in technology and consulting for companies that are considering innovation and new business models as strategic means to compete on the market.

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Reply's performance is summarized in the following reclassified consolidated statements of income.

CONSOLIDATED INCOME STATEMENT AT 30 SEPTEMBER 2017

(thousand Euros)	Note	30 September 2017	%	30 September 2016	%
Revenue	4	651,350	100	571,297	100
Purchases	5	(11,326)	(1.7)	(12,292)	(2.2)
Personnel	6	(319,747)	(49.1)	(280,495)	(49.1)
Services and other costs	7	(229,748)	(35.3)	(204,555)	(35.8)
Other operating (costs)/income	8	(778)	(0.1)	1,247	0.2
Operating costs		(561,599)	(86.2)	(496,095)	(86.8)
EBITDA		89,751	13.8	75,203	13.2
Amortization and depreciation	9	(9,207)	(1.4)	(7,701)	(1.3)
Other unusual (costs)/income	8	1,167	0.2	1,302	0.2
Operating income (EBIT)		81,711	12.5	68,804	12.0
(Loss)/gain on investments	10	(1,060)	(0.2)	-	-
Financial income/(losses)	11	(1,932)	(0.3)	122	-
Income before taxes		78,719	12.1	68,925	12.1

CONSOLIDATED INCOME STATEMENT OF THE THIRD QUARTER

(thousand Euros)	Note	Q3 2017	%	Q3 2016	%
Revenue	4	209,727	100	184,784	100
Purchases	5	(2,297)	(1.1)	(3,864)	(2.1)
Personnel expenses	6	(103,449)	(49.3)	(90,658)	(49.1)
Services and other expenses	7	(75,962)	(36.2)	(66,640)	(36.1)
Other operating (costs)/income	8	(5)	-	248	0.1
Operating costs		(181,713)	(86.6)	(160,914)	(87.1)
Gross operating margin (EBITDA)		28,015	13.4	23,870	12.9
Amortization and depreciation	9	(3,276)	(1.6)	(2,838)	(1.5)
Other unusual (costs)/income	8	-	-	(221)	(0.1)
Operating income (EBIT)		24,739	11.8	20,811	11.3
(Loss)/gain on investments	10	899	0.4	-	-
Financial income/(expenses)	11	(379)	(0.2)	843	0.5
Income before taxes		25,259	12.0	21,654	11.7

NET FINANCIAL POSITION

The Group's net financial position as at 30 September 2017, analyzed by due date and with comparative figures as at 30 June 2017 and at 31 December 2016, is shown in the following statement:

(thousand Euros)	Note	30/09/2017	30/06/2017	31/12/2016
Cash and cash equivalents, net		101,162	73,628	76,511
Current financial assets		1,923	2,782	2,925
Due to banks		(5,784)	(9,470)	(18,893)
Due to other providers of finance		(333)	(710)	(738)
Net financial position, short term	12	96,969	66,230	59,805
Non-current financial assets		-	-	4
Due to banks		(29,693)	(29,802)	(29,985)
Due to other providers of finance		(1,320)	(1,137)	(1,066)
Net financial position M/L term		(31,013)	(30,940)	(31,047)
Total net financial position	12	65,956	35,291	28,758

NOTE 1 – ACCOUNTING PRINCIPLES

Notwithstanding that Legislative Decree no. 25 of 15 February 2016 has removed the obligation to prepare Interim Management Statements, these as at 30 September 2017 in relation to the third quarter of financial year 2017, have been prepared, in capacity of STAR segment issuer, as required by Borsa Italiana S.p.A. under communication no. 7587 of 21 April 2016; the contents herein are pursuant to Art. 154-ter, paragraph 5 of Legislative Decree 24 February 1998, no. 58.

The interim report herein has been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") 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").

The accounting policies applied in these financial statements are consistent with those adopted in preparing the annual report.

The preparation of the interim report requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities the financial statements reported herein. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Moreover, these valuation procedures, in particular those of a more complex nature regarding matters such as any impairment of non-current assets, are only carried out in full during the preparation of the annual financial statements, when all the information required is available, other than in the event that there are indications of impairment, when an immediate assessment is necessary

The values indicated in the accounting statements are expressed in thousands of Euros.

The Interim Management report as at 30 September 2017 was not subject to audit by Reply's Independent auditors, as allowed by existing laws.

NOTE 2 – GROUP ACTIVITIES

Reply [MTA, STAR: REY] is specialized in the implementation of solutions based on new communication and digital media.

Reply, consisting of a network of specialized companies, assists important European industries belonging to Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration sectors, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply offers consulting, system integration, application management and business process outsourcing.

NOTE 3 - CONSOLIDATION

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

Change in consolidation compared to 30 September 2016 is related to:

- comSysto GmbH, a company incorporated under German law, acquired by Reply AG that holds 100% of the share capital. The company is specialized in Agile solutions in Open Source technologies.

Furthermore, the list of the Reply Group's companies and equity investments, presented as an annex herein, also includes in consolidation the following newly incorporated companies with respect to 30 September 2016:

- Spark Reply GmbH, incorporated under German law in which Reply AG holds 100% of the share capital.
- Technology Reply Roma S.r.l., in which Reply S.p.A. holds 100% of the share capital.

Change in consolidation does not significantly affect the Group's revenues and profits before tax of the third quarter 2017.

NOTE 4 - REVENUES

Revenues from sales and services, including change in work in progress, amounted to 651,350 thousand Euros (571,297 thousand Euros in the previous period of 2016) with an increase of 14.0%.

This item includes revenues generated from consulting activities, turn-key projects and assistance and maintenance services and other minor amounts.

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 (*)	Q3 2017	Q3 2016
Region 1	67.9%	70.9%
Region 2	17.5%	16.8%
Region 3	14.4%	12.0%
IoT Incubator	0.2%	0.3%
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

The following table shows the percentage breakdown of revenues by business line:

	Q3 2017	Q3 2016
Technologies	52.5%	49.7%
Applications	36.9%	40.8%
Processes	10.6%	9.5%
Total	100.0%	100.0%

NOTE 5 - PURCHASES

Detail is as follows:

Q3 2017	Q3 2016	(thousand Euros)	30/09/2017	30/09/2016	Change
636	1,678	Software licenses for resale	6,886	6,715	171
227	749	Hardware for resale	672	1,399	(727)
1,434	1,437	Other	3,768	4,178	(410)
2,297	3,864	Total	11,326	12,292	(966)

The items Software licenses for resale and Hardware licenses for resale include change in inventory of software and hardware products for resale.

The item Other mainly includes costs incurred for fuel expenses and the purchase of office material.

NOTE 6 - PERSONNEL

Increase in personnel expenses amounting to 39,252 thousand Euros, owes to the overall increase of the Group's business and to the increase of the number of employees.

Detail of personnel by category is provided below:

(number)	Q3 2017	Q3 2016	Change
Directors	338	333	5
Managers	990	848	142
Staff	5,110	4,747	363
Total	6,438	5,928	510

Change in consolidation brought an increase of 117 employees.

NOTE 7 – SERVICES AND OTHER COSTS

Services and other costs amounting to 229,748 thousand Euros (204,555 thousand Euros in the previous period of 2016) comprised the following:

Q3 2017	Q3 2016	(thousand Euros)	30/09/2017	30/09/2016	Change
48,155	41,159	Consulting and commercial	145,879	127,584	18,295
7,279	7,242	Travelling and professional training expenses	22,403	21,739	664
8,561	7,919	Other services	30,636	28,836	1,800
7,091	5,601	Office charges	17,453	13,774	3,679
2,279	2,104	Rental and leasing	6,366	6,093	273
2,597	2,616	Other	7,012	6,530	482
75,962	66,640	Total	229,748	204,555	25,193

Change in Services and other costs, amounting to 25,193 thousand Euros is attributable to an overall increase in the Group's business.

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

Office expenses include rent and all related charges.

NOTE 8 - OTHER OPERATING AND UNUSUAL INCOME/(EXPENSES)

Other operating and unusual income/(expenses) amounted to negative 389 thousand Euros (positive for 2,549 thousand Euros in the previous period of 2016) and refer to:

- Other operating costs amounting to 778 thousand Euros related to the accrual of risk and expense provisions;
- Other unusual income amounting to 1,167 thousand Euros related to the fair value adjustment of liabilities to minority shareholders (Business combination).

NOTE 9 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets, amounting to 4,776 thousand Euros 30 September 2017 has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Amortization of intangible assets at 30 September 2017 amounted to 4,431 thousand Euros and is mainly related to:

- development charges capitalized according to IAS 38;
- software licenses used internally by the Group.

NOTE 10 – (LOSS)/GAIN ON INVESTMENTS

The item amounted to a net loss of 1,060 thousand Euros and was related to:

- the accrual of the allowance for investments amounting to 3,343 thousand Euros;
- the change in fair value of some equity investments resulting in a net gain of 2,283 thousand Euros.

NOTE 11 – FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

Q3 2017	Q3 2016	(thousand Euros)	30/09/2017	30/09/2016	Change
64	111	Financial income	342	246	96
(194)	(198)	Financial losses	(567)	(754)	187
(249)	929	Other	(1,707)	630	(2,337)
(379)	843	Total	(1,932)	122	(2,054)

The item Financial gains mainly includes interest on bank accounts.

Interest expenses mainly include the interest costs related to bank advances and to the use of the credit lines for M&A operations.

The item Other mainly includes:

- exchange rate differences resulting in a net loss of 1,226 thousand Euros;
- the write off of a financial asset amounting to 1,226 thousand Euros;
- the net changes in the fair value of Convertible Loans including capitalized interest amounting to 1,443 thousand Euros;
- the changes in fair value of financial liabilities pursuant to IAS 39 amounting to negative 705 thousand Euros.

NOTE 12 – NET FINANCIAL POSITION

The net financial position as at 30 September 2017 was positive for 65,956 thousand Euros with an improvement of 37,198 thousand Euros compared to 31 December 2016 owing to the cash flows generated by operating activities.

Due to banks, amounting to 35,477 thousand Euros is referred mainly to credit lines for M&A operations.

NOTE 13 – EVENTS SUBSEQUENT TO 30 SEPTEMBER 2017

No significant events have occurred subsequent to 30 September 2017.

NOTE 14 – OTHER INFORMATION

The following is to be noted:

- Transactions among group companies are carried out at market prices and are eliminated during the consolidation process;
- Transactions carried out by the group companies with related parties that in accordance to IAS 24 are Group companies and persons able to exercise control, joint control or have significant influence on the Group and its subsidiaries, are considered ordinary business and are carried out at normal market conditions.
- Pursuant to art. 150, 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.

For the Board of Directors

/s/ Mario Rizzante

Chairman

Mario Rizzante

DECLARATION PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 2 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, “SINGLE TEXT IN MATTER OF REGULATION OF FINANCIAL INTERMEDIATION” AND SUBSEQUENT CHANGES

The director responsible for preparing the Company's financial reports, Dott. Giuseppe Veneziano, declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this interim management report at 30 September 2017 corresponds to the results documented in the books, accounting and other records of the company.

Turin, 14 November 2017

/s/ Giuseppe Veneziano
(Director responsible of drafting
financial statements)

Giuseppe Veneziano

ANNEXED TABLES

ANNEXED TABLES

LIST OF COMPANIES AT 30 SEPTEMBER 2017

Company name	Headquarters	Group interest
Parent company		
Reply S.p.A.	Turin – Corso Francia. 110 - Italy	
Companies consolidated 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 (Belgium) Sprl	Brussels, Belgium	100.00%
Avantage Reply (Luxembourg) Sarl	Itzig, Luxemburg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherland	100.00%
Avvio Reply 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	76.00%
Cluster Reply Roma S.r.l.	Turin, Italy	100.00%
ComSysto GmbH	Munich, Germany	100.00%
Concept Reply GmbH	Munich, Germany	100.00%
Consorzio Reply Energy	Turin, Italy	100.00%
Consorzio Reply Public Sector	Turin, Italy	100.00%
Data Reply S.r.l.	Turin, Italy	100.00%
Data Reply GmbH (*)	Munich, Germany	70.00%
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%
EOS Reply S.r.l.	Turin, Italy	100.00%
First Development Hub. LLC	Minsk, Belarus	100.00%
Forge Reply S.r.l.	Turin, Italy	100.00%
France Reply Ltd	London, United Kingdom	80.00%
Go Reply S.r.l.	Turin, Italy	100.00%
Healthy Reply GmbH	Düsseldorf, Germany	100.00%

Hermes Reply S.r.l.	Turin, Italy	100.00%
Hermes Reply Polska zo.o	Katowice, Poland	100.00%
Industrie Reply GmbH (ex Logistics Reply GmbH)	Munich, Germany	100.00%
InEssence Reply GmbH	Düsseldorf, Germany	100.00%
IrisCube Reply S.p.A.	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%
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	68.00%
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	55.00%
Reply Consulting S.r.l.	Turin, Italy	100.00%
Reply AG	Guetersloh, Germany	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 SA	Mont Saint Guibert, Netherlands	100.00%
Reply Digital Experience S.r.l. (ex Bitmama S.r.l.)	Turin, Italy	100.00%
Reply France Sarl	Paris, France	100.00%
Reply Luxembourg Sarl	Sandweiler, Luxemburg	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%
Ringmaster S.r.l.	Turin, Italy	50.00%
Risk Reply Ltd	London, United Kingdom	80.00%
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	85.00%
Spark Reply GmbH	Germany	100.00%
Square Reply S.r.l.	Turin, Italy	100.00%
Storm Reply S.r.l. (*)	Turin, Italy	95.00%
Storm Reply GmbH	Guetersloh, Germany	100.00%

Syskoplan Reply S.r.l.	Turin, Italy	100.00%
Reply GmbH (ex Syskoplan Reply GmbH)	Zurich Switzerland	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 China (TD Marketing Consultants. Beijing Co. Ltd)	China	100.00%
Tool Reply GmbH	Guetersloh, Germany	100.00%
Triplense Reply GmbH	Frankfurt, Germany	100.00%
Twice Reply S.r.l.	Turin, Italy	98.00%
Twice Reply GmbH	Munich, Germany	100.00%
Trommsdorf+drüner. innovation+marketing consultants GmbH	Berlin, Germany	100.00%
WM360 Ltd	London, United Kingdom	100.00%
WM360 Consultancy Services Ltd	London, United Kingdom	100.00%
WM360 Crashpad Ltd.	London, United Kingdom	100.00%
WM Reply Ltd.	London, United Kingdom	100.00%
WM360 Resourcing Ltd	London, United Kingdom	100.00%
Whitehall Reply S.r.l.	Turin, Italy	100.00%
Xister Reply S.r.l.(*)	Turin, Italy	89.20%
Xuccess Reply GmbH	Munich, Germany	100.00%

Companies held at fair value

Amiko Digital Health Ltd	England	22.7%
Cocoon Alarm Ltd.	England	20.0%
iNova Design Ltd.	England	33.7%
Sensoria Inc.	USA	24.0%
Zeetta Networks Ltd.	England	29.3%
Iotic Labs Ltd.	England	17.1%
Sentryo SAS	France	13.3%
Connecterra BV	Belgium	19.5%
RazorSecure Ltd.	England	21.1%
Senseye Ltd.	England	18.3%
Wearable Technologies Ltd.	England	14.8%
We Predict Ltd.	England	16.6%
Canard Drones	Spain	10.9%
enModus Ltd	England	19.2%
Food Marble	England	12.6%
Appy Pakimg	England	11.0%

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

CORPORATE INFORMATION

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