REPLY
ANNUAL FINANCIAL REPORT 2016

CONTENTS

6 Board of Directors and Controlling Bodies
10 The Group's financial highlights
12 Letter to Shareholders

14 **REPLY LIVING NETWORK**

46 **REPORT ON OPERATIONS**
48 Main risks and uncertainties to which Reply S.p.A and the Group are exposed
52 Review of the Group's economic and financial position
59 Significant operations in 2016
60 Reply on the stock market
65 The Parent Company Reply S.p.A.
69 Corporate Governance
70 Other information
73 Events subsequent to 31 December 2016
73 Outlook on operations
74 Motion for the approval of the financial statement and allocation of the result for the financial year

76 **CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**
78 Consolidated income statement
79 Consolidated statement of comprehensive income
80 Consolidated Statement of financial position
81 Consolidated Statement of changes in equity
82 Consolidated Statement of cash flows
83 Notes to the financial statements
156 Annexed tables
163 Attestation of the Consolidated Financial Statements
163 in accordance with Article 154-bis of Legislative Decree 58/98
164 Report of the Statutory Auditors to the Shareholders' meeting
166 Independent Auditors' Report

168 **FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**
170 Income statement
171 Statement of comprehensive income
172 Statement of financial position
173 Statement of changes in equity
174 Statement of cash flows
175 Notes to the financial statements
236 Annexed Tables
242 Attestation of the Financial Statements
243 Report on the Statutory Auditors to the Shareholders' meeting
253 Independent Auditors' Report

256 **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE 2016**

316 **ANNUAL REPORT ON REMUNERATION**

BOARD OF DIRECTORS AND CONTROLLING BODIES

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

Auditing firm

EY S.p.A.

(1) Amministratori non investiti di deleghe operative.
(2) Amministratori indipendenti ai sensi del Codice di Autodisciplina elaborato dal Comitato per la 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)	2016	%	2015	%	2014	%
Revenue	780,739	100.0	705,601	100.0	632,184	100.0
Gross operating income	106,417	13.6	98,736	14.0	85,119	13.5
Operating income	99,594	12.8	90,558	12.8	80,663	12.8
Income before taxes	97,405	12.5	88,930	12.6	79,267	12.5
Group net income	67,544	8.7	56,748	8.0	47,909	7.6

FINANCIAL FIGURES (THSD EUROS)	2016	2015	2014
Group shareholders' equity	337,017	295,425	251,908
Non controlling interest	520	653	936
Total assets	770,575	700,745	616,712
Net working capital	160,404	162,566	134,341
Net invested capital	308,779	267,893	236,531
Cash flow	79,497	44,334	49,578
Net financial position	28,758	28,186	16,313

DATA PER SHARE	2016	2015	2014
Number of shares	9,352,857	9,352,857	9,352,857
Operating income per share	10.65	9.68	8.62
Net result per shares	7.22	6.07	5.12
Cash flow per share	8.50	4.74	5.30
Shareholders' equity per share	36.01	31.59	26.93

OTHER INFORMATION	2016	2015	2014
Number of employees	6,015	5,245	4,689

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

2016 was a year characterised by major changes. Over the last few months, the foundations have been laid for a new world, a different world from what we have experienced in recent years, one which will be rapidly defined and set up.

Unexpected events have, in fact, if not changed, at least brought into question an equilibrium that until now seemed certain and immutable. The result of the “Brexit” vote in the UK, the large migration flows towards Europe, the banking sector crisis and the recent US elections are certainly the most resounding indicators, although not the only ones, pointing to a profound transformation taking place in society.

A transformation that can no longer be stopped and will lead to an inevitable crisis in any sectors that are unable to evolve and adapt to new scenarios, by finding new and different competitive levers and often opening themselves up to new business or service models.

At the same time, the technology influence domain saw further expansion, becoming part of our everyday life and modifying traditions and relationships, both professional and individual. By now, the separation between the physical and the digital realms, between real and virtual has definitively and permanently disappeared. There is no longer any industrial, transformation or services sector that has not rethought its processes, redesigning them starting from the technology and the digital components.

The paradigm shift did not only affect the end customers. Consulting companies were also forced to radically renew and extend their portfolio of products and services offered, both in terms of skill-sets, as well as partnership ecosystems, realigning them to new and more complex needs.

For Reply, this new world represents a great challenge, but at the same time, a great opportunity. Reply has always been at the frontier of technology and themes which many companies are just beginning to explore today (such as Artificial Intelligence, Machine Learning, Mixed Reality, Industry 4.0 and Internet of Things), for us represent structured product and service offers on which we have been working, together with our customers, for quite some time.

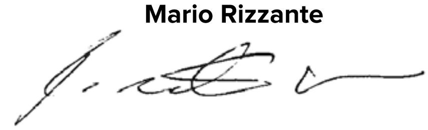
At the same time, the investments made to expand the set of skills allows Reply to be one of the few players today who are able to propose a heterogeneous skill-set, extending the boundaries of traditional consulting, integrating, also, profiles until recently unknown to the market. Examples are Data Scientist and Strategic Designer: two new advisory roles essential to support companies wishing to introduce more and more extended models of data-driven business.

However, now more than ever, it is imperative that we continue to move forward. Our competitive advantage, reflected in the positive results recorded in 2016, combined with our Group's financial strength, allows us to continue investing in order to ensure that Reply's product and services offering is better aligned to the demands of a new world in which the innovation component, linked to technology, changes from being an enabling factor to a strategic lever of corporate success.

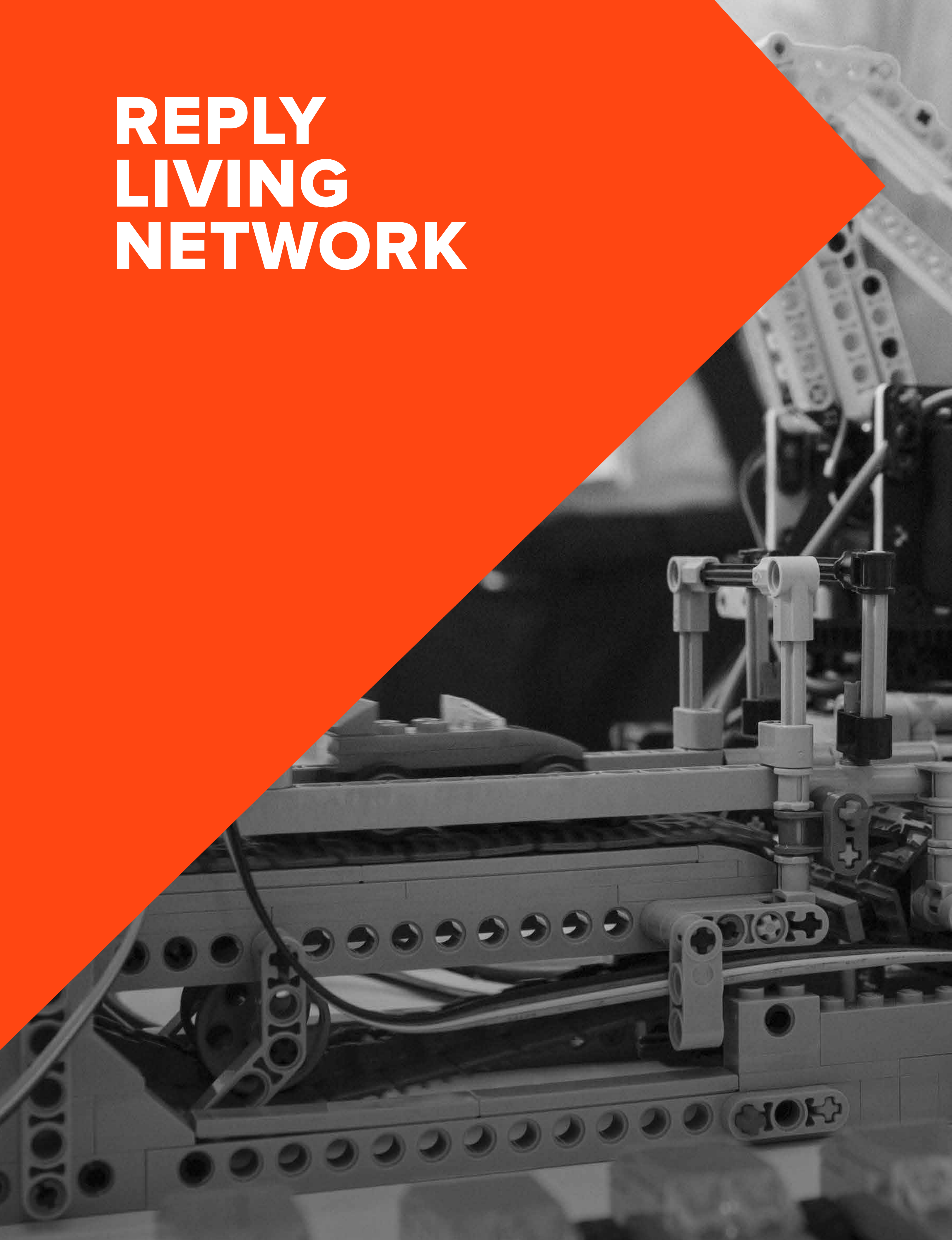
Over the coming months our commitment will be at a maximum, ensuring that Reply can capitalise on this moment of strong discontinuity, translating it into new value for its shareholders, its employees and its customers.

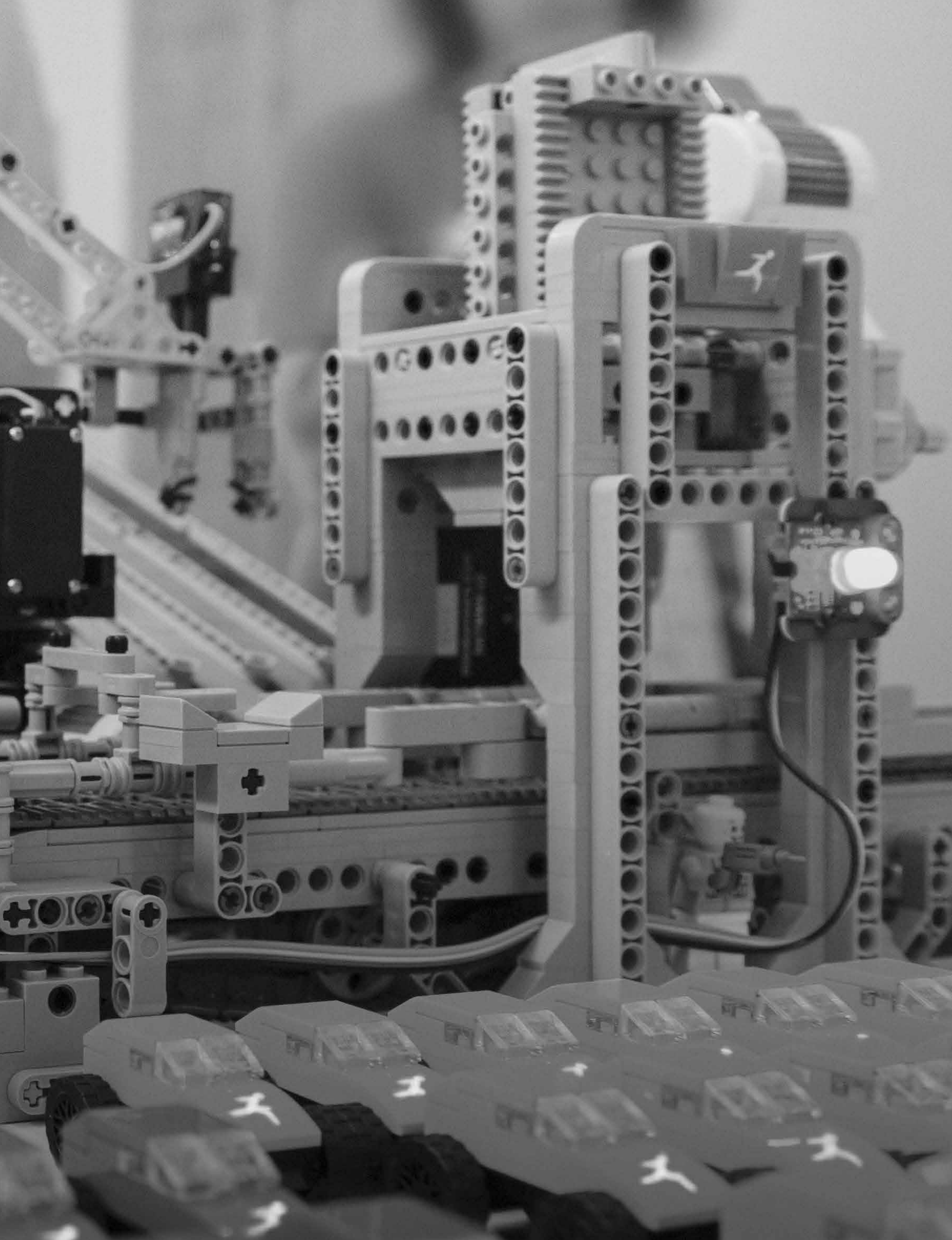
Chairman of the Board

Mario Rizzante



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, Internet of Things and mobile and social networking. In so doing, it aims to optimise and integrate processes, applications and devices.

REPLY IS CHARACTERISED BY:

- a culture focused on technological innovation;
- a flexible structure capable of anticipating market developments and interpreting new technological drivers;
- a delivery method of proven success and scalability;
- a network of companies with specialised areas of competence;
- teams composed of specialists, originating 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 more than 6,000 employees (as of 31 December 2016), Reply operates through a network of companies specialising in processes, applications and technologies, which are centres of excellence in their respective fields of expertise.

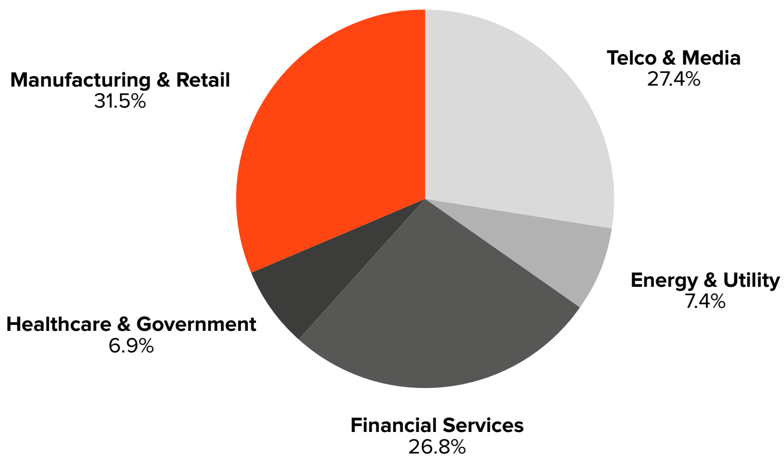
- **Processes** – for Reply, the understanding and use of technology involves the introduction of a new enabling factor for business processes, based on an in-depth knowledge of both the market and the specific industrial contexts of implementation.
- **Applications** – Reply designs and implements application solutions aimed at satisfying companies' core business requirements.
- **Technology** – Reply optimises 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. In 2016, the breakdown of the Group's sales in its various vertical sectors was as follows:



TELCO & MEDIA

In a world that is evolving towards a proliferation of digital contacts, the types of relationship with the final customer are changing drastically. The digitalisation of services and the virtualisation of interactions present new challenges in product offers, business models and operating processes, which often create scenarios of cross-industry competition. In this scenario, Reply works with major telecoms and media operators to define and implement digital transformation strategies applied to the main core processes.

In particular, the increasingly widespread affirmation of Internet of Things requires an ongoing reconfiguration of the networks towards the real-time transfer of enormous volumes of data, generated no longer solely by smartphones and mobile devices, but by a multitude of smart objects with widely different functional characteristics.

This new age of smart connection is characterised by a different approach to the network which, through on-demand network provisioning, must be adapted and reconfigured on the basis of the changing demands of consumers and the service supported.

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 this field, Reply is working with some leading institutions on a broad range of activities connected with the implementation of European Banking Union regulations.

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. In 2016, Reply 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. The stated intent of regulators to promote competition – with the expected abolition of the enhanced protection of the electricity and gas market starting on 1 January 2018 – is pushing energy sales companies to restructure, offering new products and services based on new technologies and often supplied by an ecosystem of partners. 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.

Lastly, in the United Kingdom, Reply is working with various government agencies, including the Ministry of Defence (MoD), for which it has helped define and implement a new approach to the use of IT architecture in support of decision-making processes, capable of integrating flows of miscellaneous information, thus improving data management and, at the same time, ensuring the complete visibility of available resources.

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

Blockchain technology represents a new opportunity to intensively redesign the concepts of trust, property and trade. This is a further leap for web-based systems, which follows the joint assertion of social networks and mobile devices. The disruptive potential of blockchain protocols lies in the opportunities they create for cutting out the middleman in virtually any guarantor-regulated trading process or trusted third-party (TTP). The high potential and the wide range of application have been recognised at a cross-industry level.

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.

At the same time, the ever increasing maturity of the cloud, whatever its declination (Iaas, Paas or Saas) is leading service providers and system integrators to define specific offers on highly strategic issues, such as the co-existence of the cloud with traditional on-premises applications and the issue of data management security.

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. Indeed, an ever-increasing number of companies have been supported on a pathway that has led them to create a new and modern customer experience that combines architectural design and the implementation of customer engagement solutions, with the review of company processes to support strategic objectives focused on growth and innovation.

Specifically, by combining the skills gained in the fields of digital communication, social media, gamification, 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.

Finally, 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

The big data technologies have moved on from being a strictly technological field, to becoming one of the key levers in the digital transformation of companies. Indeed, significant projects were launched with a focus on data in order to define programmes aimed at improving business performance (e.g. the subject of risk management in financial institutions), innovating service models (e.g. passenger car policies in the insurance sector) or at understanding and serving its customers better (e.g. loyalty programmes in the retail sector).

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. It is a phenomenon without any geographical or product-specific boundaries that places the brands' universe in front of users eager to freely explore it, between new technologies and continuously evolving platforms, with a clear predominance of the mobile-first dimension compared to any other connection method.

The traditional distinction between the physical and the digital worlds, between real and virtual, is disappearing. The new condition demanded by the market is a seamless flow from one dimension to another. These new paradigms require brands to exhibit a constant omnichannel presence that is distinctive and engaging, both within a B2C as well as a B2B context. 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.

To extend this scenario further, there is a need to ensure coherent communication between the various media involved, through the unified provision of consulting, conceptual and production services that also include a multimedia asset management strategy. 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 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. Reply has therefore added to its portfolio an offer aimed at supporting companies in the strategic activities needed to correctly position a brand, including within social media channels: from monitoring and assessment activities to the design and architecture of relational KPIs, from promotional activities such as couponing and social gaming, to content marketing, CRM and social caring.

Social networks are increasingly more connected to the digital marketing activities that Reply integrates in a universal relationship model, based on analytical skills and paid, owned and earned media activation to enable and optimise a company positioning integrated with its own ecosystem over the relevant relationship channels. These channels include social media networks, search engines, comparison websites, shopping malls and social shopping networks, affiliation networks, email, applications and lead generation channels.

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. During the course of 2016 modules were developed for the management of proximity payment transactions based on the HCE and ApplePay standards, together with tokenisation solutions that guarantee the security of transactions in accordance with the highest market standards. 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.

The increasingly widespread use of social media to compare prices and products has further enriched and modified purchasing processes, which are increasingly based on an exchange of information and multi-channel interactions in which the transaction is begun and completed without a solution of continuity between chat, social media, online store and physical 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. The solutions identified by Reply include, both for B2B and B2C companies, end-to-end management of the entire chain of the company sales cycle: from product and catalogue management to promotions and price optimisation, warehouse and logistics management, call centre operations, and customer engagement both in bricks-and-mortar stores, using proximity commerce techniques, and in online channels, exploiting the potential of social media.

ENTERPRISE ARCHITECTURE

Today, digital transformation is the predominant theme on the agenda for companies. All organisations 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, characterised by the convergence between the physical and the digital, organisations 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.

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 Internet of Things.

In 2016, in addition to having significantly extended the fields of application of its platform, with specific developments for the main industries, Reply continued to invest in a series of start-ups closely connected to the IoT world both in Europe and in the USA. The main areas of interest are those connected to wearables, health and care, defence, building automation, industrial security and entertainment.

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. In particular, 2016 was characterised by the introduction on the market of various new headsets including the OCULUS (Facebook); Steam VR (VALVE); Hololens (Microsoft) and PlayStation VR (SONY). VR/AR represent 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.

Over recent years, IT-related risks have increased dramatically in terms of both impact and their frequency, leading to serious security violations and causing hundreds of millions of customer data records to be compromised worldwide. The parameters that should be considered and monitored are often interconnected and therefore difficult to catalogue in an orderly manner or tackle individually. In order to deal with this increasingly complex situation, Reply has defined an integrated, coherent and comprehensive range of services to support its customers in defining the best possible strategies for security governance and security technology. In particular, Reply is active in all the implementation phases of an integrated information security plan: from strategic planning and the definition of enterprise architecture for security to the implementation of specific IT countermeasures. Lastly, thanks to its cyber security command centre, Reply assists large organisations with advanced computer security incident response services.

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.

In 2016 Reply has continued to invest in talent acquisition and in the creation of innovation hubs. The two Design Thinking Labs already present in Germany, were complemented with the launch of a permanent space in Italy, designed to stimulate creative thinking and devise sustainable solutions, where customers have the opportunity to experiment.

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.

Consequently, the Internet has been transformed from a purely informative tool, into a vast area of dialogue and conversation. New opportunities can therefore be seized by brands that are capable of analysing and exploiting the interactions that they generate on social media with people: customers, prospective customers, employees, partners or suppliers. These analyses are based on listening to and observing relevant phenomena regarding the integration of the owned, paid and earned social media and on the definition of the most effective digital marketing activities to meet the needs of brand business, from positioning and lead generation, to loyalty.

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.

Social media represents a valuable system of data that makes it possible to better understand users and generate actionable insight. For example, data on user expectations support marketing initiatives by helping to anticipate emerging trends; analytics data support the communications team in defining communication clusters; advertisement interaction data make it possible to optimise campaigns to decrease the dispersion of communication and to improve the conversion performance.

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 (more than 50% of mobile consumers use their device to play and a quarter of them play with their device daily).

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 (Advergames). Forge 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.

REPLY SERVICES & PLATFORMS


82%
Enter Data
History
Statistics
More

REPLY SERVICES

Nowadays, 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 clients in this quest for innovation with services and platforms that are designed to fully exploit the new potentials offered by networks and by 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 expenses.

CFO SERVICES

The role of the CFO is changing dramatically due to the increasing need to use complex reporting and simulation tools that can provide timely and adequate information on the success of a business and its ability to create value. Within its business performance management product offer, Reply has identified specific services capable of supporting the CFO in their development, which is increasingly seeing them confront issues that were once attributed to the CEO:

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

APPLICATION MANAGEMENT

Reply has defined an application management model characterised by:

- a modular approach that allows the client to purchase either individual service components (for example, only application maintenance or only operational support) or structured groups 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 into account the specific needs involved.

REPLY PLATFORMS

BRICK REPLY™

Brick Reply™ is Reply's Industry 4.0-ready Manufacturing Operations platform, focused on the IoT (Internet of Things) and based on a fully open services architecture, which can interface with machinery and coordinate production processes within a factory. Brick Reply™ has as its objective the digitisation of business processes in manufacturing, from planning to the execution and monitoring of activities. Thanks to its flexibility and ease of implementation, the Industry 4.0 focus and multiple modes of use and application (As-A-Service, IaaS, On-Premise), the platform represents a comprehensive and extremely flexible solution for integration and use in different industrial sectors.

CLICK REPLY™

Click Reply™ is the Reply supply chain execution suite, intended for the management and optimisation of processes in the production or logistics and distribution sectors. Click Reply™ is one of the leaders in the automotive, fashion retail, grocery and contract logistics (3PL) sectors and utilised by over 400 companies and more than 20,000 users worldwide. The platform's architecture is entirely service-oriented; it is based on open standards and integrates the most modern technologies used in the supply chain such as voice, mobile, RFID and augmented reality. The suite has received important recognition.

DISCOVERY REPLY™

Discovery Reply™, Reply's digital asset management and content delivery platform, manages the full life cycle of digital assets (video, audio, images and documents), placing the multimedia content at the very centre of processes and applications in order to facilitate a management approach based on integrated multi-channel strategies. Thanks to the organisation of workflows, the high level of interoperability with other company systems and to the presence of advanced multi-channel asset distribution services, Discovery Reply™ supports integrated production models and the utilisation and storage of content, through a platform used for the purchase, processing, cataloguing, access, research and distribution of digital assets on various delivery channels, both traditional (analogue and digital TV) and IP-based (webTV, over-the-top TV, mobile TV, connected TV and digital signage).

HI REPLY™

HI Reply™, the Reply solution for Internet of Things is a platform of services, devices and middleware on which specific vertical applications are based, such as infomobility, advanced logistics, environmental security, contactless payment and product traceability. HI Reply™ enables simple and standard communication between web-connected objects. The platform consists of a combination of hardware, firmware and software components distributed on the actual objects, which vary from simple sensors and actuators to more sophisticated systems, such as smartphones and mini-computers. Platform objects become “smart”, acquiring the ability to interact with one another by means of standard internet technologies and gaining a set of basic functions necessary for them to function “seamlessly” (auto-configuration, location, discovery and ontology of the services displayed).

SIDEUP REPLY™

SideUp Reply™ is the Reply platform providing services for warehouse management and supply chain integration and collaboration. The solution is entirely cloud-based and integrates with both ERP systems and supply chain planning and e-commerce systems. SideUp Reply™ is intended for companies which need to improve the efficiency and visibility of their supply chain as quickly as possible. SideUp Reply can be used directly via the Internet with a pay-per-use model. The suite has received important awards, such as a place in the Gartner Group's WMS (Warehouse Management Systems) Magic Quadrant.

STARBYTES™

Starbytes™ - the crowdsourcing platform developed by Reply on cloud architecture, targets companies intending to implement an open enterprise model, where it is possible to develop projects, services or products through access to the capabilities and skills of a digital community with a direct channel and without intermediaries between supply and demand. Starbytes™ introduces, within the traditional mechanisms of engagement, new dynamics that stimulate interactivity, also thanks to the use of gamification mechanics, as well as facilitating a comprehensive management of the standards that regulate collaboration agreements with freelancers. Starbytes™ is a new model in the workplace in which supply and demand meet in a flexible way through contests and tenders and in which the best merit-based professionalism emerges, thanks to a sophisticated and transparent feedback system. At the end of 2016, Starbytes™ had over 65,000 members, including ICT (Information and Communications Technology) and creative professionals.

TAMTAMY™

TamTamy™ is Reply's Enterprise Social Network solution, designed to respond to the need for communication, collaboration and training through social media, suitable for corporate and public contexts. TamTamy™ provides customers with an effective tool designed to facilitate interaction between companies, brands and people. The product offers a variety of social media-focused functionality, which can be extended and integrated at an enterprise level, while also addressing the needs of the consumer level, making it possible to create communities and communication portals and promote Intranet participation. A customisable front-end that is flexible and responsive enables immediate and intuitive access, also in a mobile context. TamTamy™ is available as an on-premises version, as well as a cloud computing service.

TICURO REPLY™

Ticuro Reply™ is Reply's healthcare solution focused on telemedicine, telemonitoring and the analysis of behavioural habits. Based on Internet of Things, Ticuro Reply™ is able to connect to more than 50 types of devices, including medical devices and wearable and environmental sensors, in order to help people, patients, caregivers and health professionals during the treatment process. Certified as a CE medical device, Ticuro Reply™ supports individuals, according to their health conditions, in prevention, treatment and postoperative care. The data collected and managed by Ticuro Reply™ facilitate processes and solutions focused on continuous remote assistance, enabling doctors to establish an interactive relationship with patients and provide them with a personalised treatment plan.

PARTNERSHIP RESEARCH AND DEVELOPMENT

Reply considers research and continuous innovation to be fundamental assets for the support of its clients as they adopt new technologies.
In order to offer the most appropriate solutions for different business requirements, Reply has established important partnerships with major global vendors. In particular, Reply has obtained top level certifications relating to leading enterprise technologies, including:

MICROSOFT

Reply pursues a constant policy of innovation with regard to Microsoft technologies, as demonstrated by the many certifications obtained as a Microsoft Partner, including Cloud Platform, Cloud Productivity, Cloud Customer Relationship Management, Data Platform and Data Analytics. Reply is a Microsoft Corporation Enterprise HiPo partner and a member of the Partner Advisory Council for Azure and Data Platform. During 2016, Reply launched a joint initiative with the Microsoft Corporation designed to help accelerate the development of IoT projects in Italy, Germany and the United Kingdom. Awards recently received by the company include: 2016 Enterprise HiPo Partners: Emerging Azure Partner of the Year and 2014-2016 Digital Transformation Partner of the Year

ORACLE

Reply, an Oracle Platinum Partner, has always followed the evolution of the Oracle product offer and has one of the main competence centres in Europe, capable of combining the complete coverage of the entire technology stack and the domain of application suites and principal vertical solutions for industry.
Thanks to the technical skills of its teams and the success of projects undertaken for major European clients, Reply has 40 different Oracle specialisations to its credit. In particular, in 2016 Reply reaffirmed its membership within the elite group of best Oracle Partners, winning, for the third consecutive year, the Oracle excellence award: "Cloud Partner of the year". Moreover, Reply is among the first partners to have successfully brought application solutions to the market within the Customer Experience, Modern Marketing, Enterprise Resource Planning, and Planning and Budgeting realms, fully based on the cloud technology. In 2016, Reply also strengthened its presence in the technological cloud with one of the first laboratories dedicated to the Oracle Cloud Infrastructure Technology Platform, created to enable the company to guide its customers in the best possible way through the process of adopting Cloud Computing solutions.
In the Big Data sector, also in 2016, Reply developed for the banking market a platform that integrates the strategic CRM with social networking logics, couponing and loyalty, based on Oracle Fast Data technology. Lastly, in the e-commerce sector, Reply developed various projects based on the Oracle Commerce suite, aimed at defining a customer-centric strategy, personalised and unified through various channels.

SAP

Thanks to its wide international experience in the implementation of software solutions based on the SAP product suite, Reply is able to support companies in the optimisation of their activities and processes, taking an agile and integrated approach to the design and development of company information systems for the digital age. In particular, with regard to business components and the changes required by the digital transformation process undertaken by companies, Reply's expertise covers both traditional enterprise processes and the latest SAP technologies including SAP HANA, Cloud Platform, SAP NetWeaver and YaaS. The technology and design domain is significant, extending from SAP cloud architecture to the SAP Fiori and SAP S/4 HANA suites. In 2016 Reply won the "SAP Quality Award Gold" thus obtaining quality and performance recognition from SAP, thanks to the SAP HANA Enterprise Cloud solutions it implemented. Finally, Reply holds "SAP Hybris Platinum Partner" status and in 2016 the company was also named "Global Service Delivery Partner of the Year".

AMAZON WEB SERVICES

Reply is now one of the main partners of Amazon Web Services (AWS), the division that supplies Public Cloud infrastructures. In particular, Reply has completed numerous projects on infrastructures and services made available by AWS and supplied to companies, in both the B2B and B2C sectors, providing complete end-to-end support, from the implementation and integration of custom applications and platforms to maintenance and management services based on consumption cost models. Reply is now able to steer the digital transformation of an enterprise, by using the most appropriate cloud model for the requirements of each individual company, and by adopting a strategy of governance that is secure, flexible and efficient.
At the end of 2016, for the fourth consecutive year, Amazon Web Services confirmed Reply as Premier Consulting Partner, the highest level of certification attributable only to a select group of AWS partners worldwide.

APPLE

In 2016 Reply signed an agreement with Apple, becoming one of the first partners in Europe –and the first in Italy – to join the company's Mobility Partner Program in Cupertino, a global initiative aimed at leaders in the development of mobile solutions for the business and enterprise worlds.
In particular, Reply was selected by Apple with the specific objective of extending the offer of business mobile solutions available on the IoS platform.
Thanks to this partnership, Reply has gained access to specialised training programmes for its development teams, with the possibility of testing applications on devices not yet available on the market, counting on Apple's direct support, both for the design of the most innovative solutions and, to guarantee customer satisfaction, on a verification and certification service for the solutions developed.

GOOGLE

Reply is one of the most important global partners of Google Cloud, the Google technology company dedicated to solutions for enterprise companies, thanks to the experience gained in the application, architecture and infrastructure areas. Specifically, in partnership with Google, Reply has worked alongside leading companies in markets including Telco & Media, Financial Services and Retail & Manufacturing, in the use of Digital Transformation processes based on Cloud models, offering consulting services and integration solutions in the Smart Working space based on the Software as a Service (SaaS), Platform as a Service (PaaS) and infrastructure environment virtualisation (IaaS) modes.

SALESFORCE

Reply is now one of the most prestigious names in Europe specialised in Salesforce.com with over 90 projects and applications published on Appexchange and it includes some of the most important industrial and media groups among its customers. In particular, with regard to the Salesforce.com technologies, Reply combines its expertise in the cloud paradigm, based on SaaS and PaaS with specific process and market know-how, with a particular focus on the areas of digital marketing, digital CRM and integration.

DEVELOPMENT AND EVOLUTION OF PROPRIETARY PLATFORMS

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

BRICK REPLY™

2016 saw the extension of the platform's Manufacturing Operations feature, with a focus on the monitoring and standardisation of signals and information received from production facilities. The platform natively supports the OPC-UA and IoT protocols. On this basis, 2017 will see the integration of Predictive Maintenance capabilities, a function that facilitates advanced maintenance management and greater opportunities for ERP level integration within an Industry 4.0 context.

CLICK REPLY™

The 2016 Click Reply™ road map saw a consolidation of the modules targeted at optimising logistics and operational processes, in particular the warehouse and yard management modules, together with an important evolution of the warehouse billing module which, in addition to providing for logistics costs management, is now also able to support the calculation of transportation costs.
2016 also saw the launch of the migration programme of Click Reply™ modules to the new supply chain applications platform, specifically aimed at Industry 4.0 models. At the same time, the development of Click Reply™ continued, aimed at the introduction of the latest technologies in the mobile, 3D visualisation and augmented reality sectors and also the use of drones to carry out indoor activities.

DISCOVERY REPLY™

During 2016 the platform was extended by enhancing the integration with traditional digital channels such as Digital Signage, Web and Connected TV thanks to an increasingly Cloud-based approach. Within the enterprise content management and cataloguing systems area, a new feature was developed to facilitate the automatic documentation of images and videos. As part of the in-store Digital Signage Systems realm, the platform was integrated with several key Monitor and Display solutions available on the market, allowing authorised users and user profiles to insert, modify and approve content and listings to be distributed on a digital display network, both corporate and in-store.

HI REPLY™

In 2016, the platform development focused on vertical applications for the industry sector, particularly with regards to the industry 4.0 paradigm. Within this framework, the Hi Reply™ platform is positioned as a middleware component which, thanks to the use of proprietary modules, facilitates and accelerates the introduction of new models for integrated plant management. One of the main themes is that of interfacing with existing systems. Moreover, 2016 saw the continued development of the investments plan focused on a vertical, contextual marketing solution based on the Hi Reply™ platform.

SIDEUP REPLY™

The migration of existing modules to the new Reply logistics technology platform continued in 2016: SideUp StoreLogistic, SideUp Dropship, SideUp Delivery and the newly added SideUp Hub. During 2017 we will continue migration, bringing LEA SideUp Appointment Scheduler onto the platform. 2016 saw the extension of the SideUp WMS functional coverage, with a vertical application specific to the large-scale retail channel, aimed at supporting eCommerce activities within a "Dark Store" model (dedicated point of sale closed to the public), as well as a "Click and Collect" formula with store picking activities in normal supermakets open to the public.

STARBYTES™

The 2016 Starbytes development plans foresee the launch of international initiatives aimed at highlighting crowd talent and tailoring the offer not only towards SMEs, but also medium and large enterprises through the launch of a "premium" service that aims to help businesses effectively locate digital professionals, an increasingly fragmented industry with poor availability of quality resources.

TAMTAMY™

In 2016 Reply continued to develop the TamTamy™ platform, consolidating its version integrated with G Suite (a set of apps for companies hosted by Google Cloud), thus allowing companies to provide a complete service, capable of providing users with a real digital workplace with all the necessary work tools, such as e-mail, chat, video conferencing and individual and collaborative production tools and calendars. Further investments are planned in 2017, with the aim of introducing recommendation, chatbot and virtual assistant functionalities, advanced features for the management of events and user on-boarding, all based on emerging and highly innovative technologies.

TICURO REPLY™

In 2016, Ticuro Reply™ completed the integration process with the Apple HealthKit. This integration creates a new experience of continuity of care between the doctor, the patient and the family network. Thanks to the televisit and teleconsultation solutions integrated into Ticuro Reply™, patients can communicate remotely with their specialist using mobile devices or fixed workstations, thereby breaking down geographical and time barriers and reducing waiting times and costs. The Ticuro Reply evolutionary Roadmap also includes further development of the HUB SW capabilities, based on the Internet of Medical Things (IoMT) and the Internet of Healthy Things (IoHT) paradigms. All the data collected from a variety of devices that can be connected to Ticuro Reply will facilitate the creation and update of the individual Digital PHR (Personal Health Record). The goal is to provide an appropriate control tool, while at the same increasing the involvement of the individual in the process focused on continuous improvement of the quality of life.

THE VALUE OF PEOPLE

Reply is based on the excellence of the people who make up its team, professionals from the best universities and polytechnics in the sector. The Reply men and women 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 mainly on young graduates. In particular, the areas of interest are: computer science, computer engineering, electronic engineering, telecommunications engineering, managerial engineering and economics and business. The relationship between Reply and universities is also developed by means of frequent collaboration in the form of industrial placements, dissertations and 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 the solutions proposed. The continuous desire to imagine, experiment and study new solutions allows innovation to occur more rapidly and efficiently.

Whoever decides to become a part of the "Reply world" will find the opportunity to best express their potential in an organisational model based on: culture, ethics, trust, honesty and transparency.

These are indispensable values for continuous improvement and for an ever-increasing attention to quality in one's work.

All of the Group's managers are focused in their daily work in upholding 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, study, attention to quality, seriousness, the creation of value from results.
Teamwork: collaboration, the transfer of ideas and knowledge, the sharing of objectives and results, respect for personal characteristics.
Customer: the sharing of objectives, customer satisfaction, conscientiousness, professionalism, a sense of responsibility, integrity.
Innovation: imagination, experimentation, courage, study, the search for improvement.
Speed: methodology, experience in the management of projects, collaboration, commitment in achieving results and customer objectives.

ANNUAL FINANCIAL REPORT 2016

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 context of the markets and financial 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 2016 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 2016 with a consolidated turnover of €780.7 million, an increase of 10.6% compared to €705.6 million in 2015.

The EBITDA was €106.4 million (€98.7 million in 2015), while the EBIT was at €99.6 million (€90.6 million in 2015).

The Group net profit was at €67.5 million, an increase of 19% relative to the €56.7 million recorded in 2015.

As at 31 December 2016, the Group's net financial position was positive, at €28.8 million constant compared to the previous year (28.2 million Euros).

In 2016 the world has seen the definitive emergence of the digital revolution: there is no longer any industrial, processing or service sector that hasn't rethought their processes, redesigning them on the basis of technology and digital components. This paradigm shift has affected not only end customers, but also consultancies that have had to radically renew and extend their portfolio of products and services, readjusting to new, more complex demands.

Reply has always invested to position itself on the technological frontier, and topics that many are only now beginning to face, such as Artificial Intelligence, Big Data, Machine Learning, Mixed Reality, Industry 4.0 and the Internet of Things are for Reply, already structured proposals on which it has been working together with its customers for some time.

This competitive advantage, as reflected in the positive results of 2016, combined with Group's financial strength, allows to continue investing to make Reply's offering portfolio of products and services increasingly aligned with the demands of a new world, where the barrier between the physical and digital vanishes and the innovation component linked to technology changes from an enabling factor to a successful strategic lever for the companies.

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)	2016	%	2015	%
Revenues	**780,739**	**100.0**	**705,601**	**100.0**
Purchases	(16,969)	(2.2)	(14,049)	(2.0)
Personnel	(379,713)	(48.6)	(349,721)	(49.6)
Services and other costs	(277,071)	(35.5)	(240,495)	(34.1)
Other operating (costs)/income	(569)	(0.1)	(2,601)	(0.4)
Operating costs	**(674,322)**	**(86.4)**	**(606,865)**	**(86.0)**
Gross operating income (EBITDA)	**106,417**	**13.6**	**98,736**	**14.0**
Amortization, depreciation and write-downs	(11,669)	(1.5)	(9,371)	(1.3)
Other unusual (costs)/income	4,846	0.6	1,192	0.2
Operating income (EBIT)	**99,594**	**12.8**	**90,558**	**12.8**
(Loss)/gain on investments	(668)	(0.1)	440	0.1
Financial income/(expenses)	(1,520)	(0.2)	(2,067)	(0.3)
Income before taxes (EBT)	**97,405**	**12.5**	**88,930**	**12.6**
Income taxes	(29,698)	(3.8)	(31,502)	(4.5)
Net income	**67,707**	**8.7**	**57,428**	**8.1**
Non controlling interests	(163)	-	(680)	(0.1)
Group net income	**67,544**	**8.7**	**56,748**	**8.0**

Group key events of 2016 are summarized below:

July 2016: Reply is strengthening its European presence in the Digital Experience and Industry 4.0 realms, with the acquisition of Protocube, a company specializing in highly innovative content in the 3D technologies field.

July 2016: Reply is strengthening its presence in the Digital Experience space with the acquisition of Xister, digital creative agency and leader in consulting and in the development of digital branding strategies and solutions.

July 2016: Reply inaugurates the launch of Area360, Augmented and Virtual Reality Centre, developed based on the experience gained by Forge Reply, a Reply company specializing in Gaming and Digital User Engagement.

July 2016: Reply has signed an exclusive agreement with The Data Incubator, a programme aimed at the training of "Data Scientists", who in the coming years will become a vital fulcrum for companies, with the task of leveraging the enormous existing data repositories through new Big Data technologies, and the use of advanced Machine Learning models.

June 2016: Reply is strengthening its presence in Germany through the purchase of trommsdorff + drüner, innovation + marketing consultants GmbH (td) is a leading international business consultancy for Data-driven innovation and marketing.

May 2016: Breed Reply, Reply's IoT investor, funding and supporting startups in the Internet of Things space, announces that agreements have been signed with Connecterra (Netherlands), Kokoon (UK) and Sentryo (France).

May 2016: Communication Valley Reply (Business Unit of Security Reply S.r.l.), the Reply Group company specializing in managed security services, has been named by Cisco 'Security Partner of the Year' in Italy.

April 2016: In the Internet Agency Ranking of the BVDW the 'Reply - Digital Experience' companies in Germany reach the 5th place and are now among the Top 10 in the industry.

April 2016: For the second year in a row, Oracle has presented the prestigious "Cloud Partner of the Year" award to the Reply Group companies in Italy and Germany, which have distinguished themselves for the quality of services provided in consulting, design and implementation of solutions based on the Oracle technology.

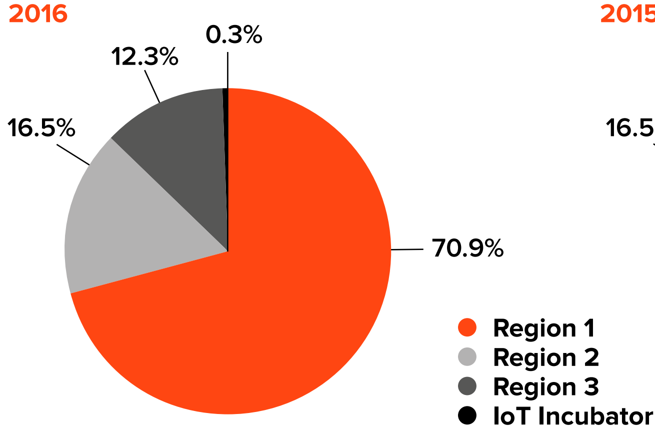
February 2016: Reply is opening its first Design Thinking Lab for the development of innovative solutions in the area of digital transformation and Industry 4.0 in Guetersloh - Germany.

February 2016: Business Reply, the Reply Group company specializing in innovation processes application based on Oracle Applications, wins the Oracle "Cloud Partner of the year" for having successfully implemented the first European project based on Oracle ERP Cloud in the Utilities market.

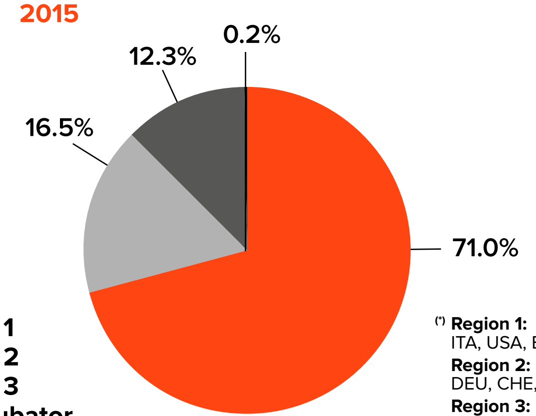
February 2016: Portaltech Reply, the Reply Group company specializing in providing e-commerce implementation and Multichannel consulting services, has been recognized as "Global Service Delivery Partner of the Year" by SAP Hyb

REVENUES BY REGION [*]

2016



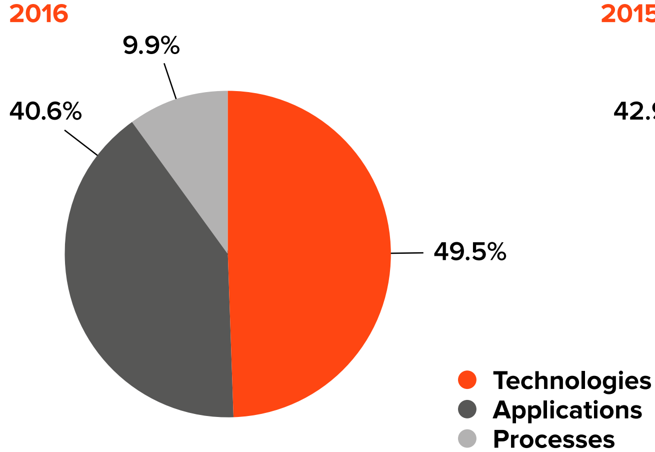
2015



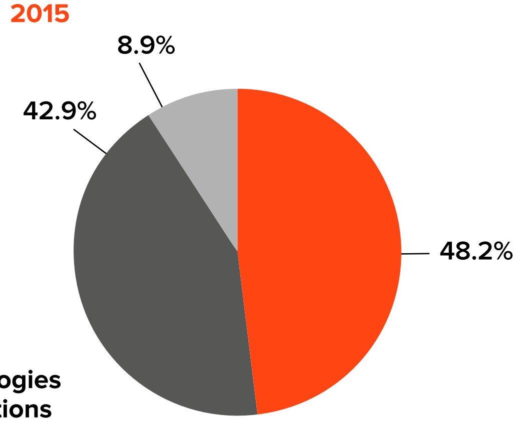
[*] **Region 1:** ITA, USA, BRA, POL, ROU
Region 2: DEU, CHE, CHN
Region 3: GBR, LUX, BEL, NLD, FRA, BLR

REVENUES BY BUSINESS LINES

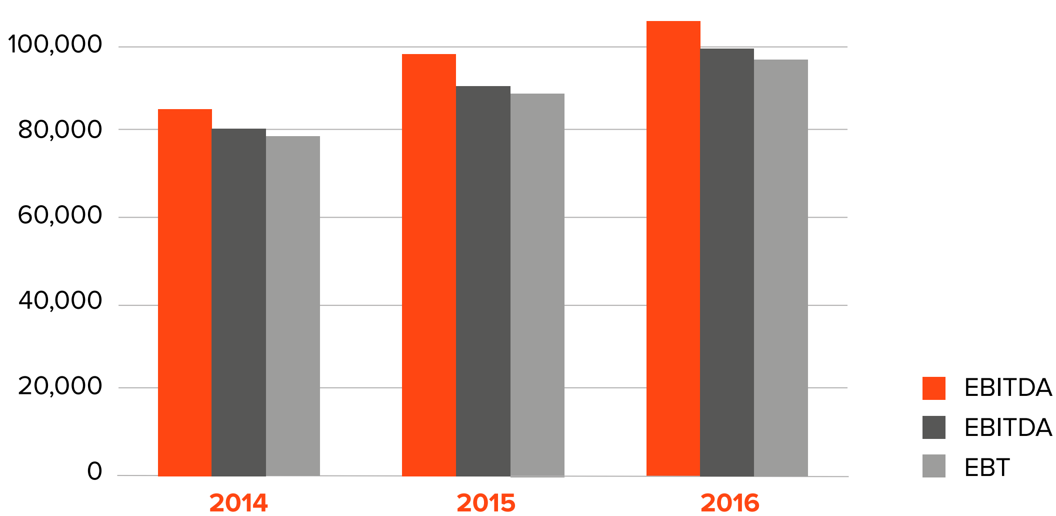
2016



2015



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 2016, compared to 31 December 2015:

(THOUSAND EUROS)	31/12/2016	%	31/12/2015	%	CHANGE
Current operating assets	442,655		401,151		41,504
Current operating liabilities	(282,251)		(238,585)		(43,665)
Working capital, net (A)	**160,404**		**162,566**		**(2,162)**
Non current assets	232,441		191,259		41,182
Non current liabilities	(84,067)		(85,932)		1,865
Fixed capital (B)	**148,374**		**105,327**		**43,047**
Invested capital, net (A+B)	**308,779**	**100.0**	**267,893**	**100.0**	**40,886**
Shareholders' equity (C)	337,537	109.3	296,079	110.5	41,458
NET FINANCIAL POSITION (A+B-C)	**(28,758)**	**(9.3)**	**(28,186)**	**(10.5)**	**(572)**

Net invested capital on 31 December 2016, amounting to 308,779 thousand Euros, was funded by Shareholders' equity for 337,537 thousand Euros and by available overall funds of 28,758 thousand Euros.

The following table provides a breakdown of net working capital:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Work in progress	58,651	57,929	722
Trade receivables	339,194	302,250	36,944
Other current assets	44,810	40,973	3,837
Current operating assets (A)	**442,655**	**401,151**	**41,504**
Trade payables	92,735	77,686	15,049
Other current liabilities	189,515	160,899	28,616
Current operating liabilities (B)	**282,251**	**238,585**	**43,665**
Working capital, net (A-B)	**160,404**	**162,566**	**(2,162)**
% return on investments	*20.5%*	*23.0%*	

NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Cash and cash equivalents, net	76,511	70,109	6,402
Current financial assets	2,925	2,289	(636)
Due to banks	(18,893)	(10,786)	(8,107)
Due to other providers of finance	(738)	(466)	(273)
Short-term financial position	**59.805**	**61.147**	**(1.342)**
Non current financial assets	4	909	(908)
Due to banks	(29,985)	(33,009)	3,024
Due to other providers of finance	(1,066)	(861)	(206)
M/L term financial position	**(31.047)**	**(32.960)**	**1.913**
Total net financial position	**28,758**	**28,186**	**572**

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

(THOUSAND EUROS)	31/12/2016
Cash flows from operating activities (A)	79,497
Cash flows from investment activities (B)	(67,909)
Cash flows from financial activities (C)	(5,186)
Change in cash and cash equivalents (D) = (A+B+C)	**6,402**
Cash and cash equivalents at beginning of period (*)	70,109
Cash and cash equivalents at year end (*)	76,511
Total change in cash and cash equivalents (D)	**6,402**

(*) 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) and
  - Financial liabilities (short-term)

The Net financial position having a positive sign means financial indebtedness.

SIGNIFICANT OPERATIONS IN 2016

ACQUISITION OF WM360 LIMITED

WM360 Group, held by WM360 Limited, acquired in the month of March 2016 by Reply Ltd. that holds 100% of the shares. WM360 is a Group constituted of five companies incorporated under English law and one under Belorussian law, leader in consulting and system integration on Microsoft technology, in particular specializing in the development of intranet SharePoint platforms.

ACQUISITION OF PROTOCUBE S.R.L.

In March 2016 Protocube S.r.l., a company with headquarters in Turin, was acquired by Reply S.p.A. that holds 55% of the share capital. The company is leader in the 3D modelling and engineering.

ACQUISITION OF LIMITED TROMMSDORFF + DRÜNER, INNOVATION + MARKETING CONSULTANTS GMBH

trommsdorff + drüner, innovation + marketing consultants GmbH, acquired in the month of May 2016 by Reply AG that holds 100% of the share capital, leading in innovative and marketing consulting based on use of Data.

ACQUISITION OF XISTER

In July 2016 Xister S.r.l. was acquired by Reply S.p.A. that holds 89.2% of the share capital. The company is a digital creative agency, leader in consulting and development of solutions and strategies in digital branding.
Attention to design, propensity for leading-edge ideas and a focus on campaign results constitute the heart of Xister, a company able to attract great creative talents with highly specialized skills in digital communication. Recently, Xister was awarded two international gold medals in the “emerging platform” and “technical innovation” categories at the prestigious Promax international awards in marketing and design held in New York, in recognition of its “The Brain Show” project for National Geographic in Washington.
With this acquisition, Reply confirms its position as an Italian digital agency leader in Europe in the development of marketing strategies and of integrated and multi-channel communication solutions.

ACQUISITION OF LYNX RECRUITMENT LTD.

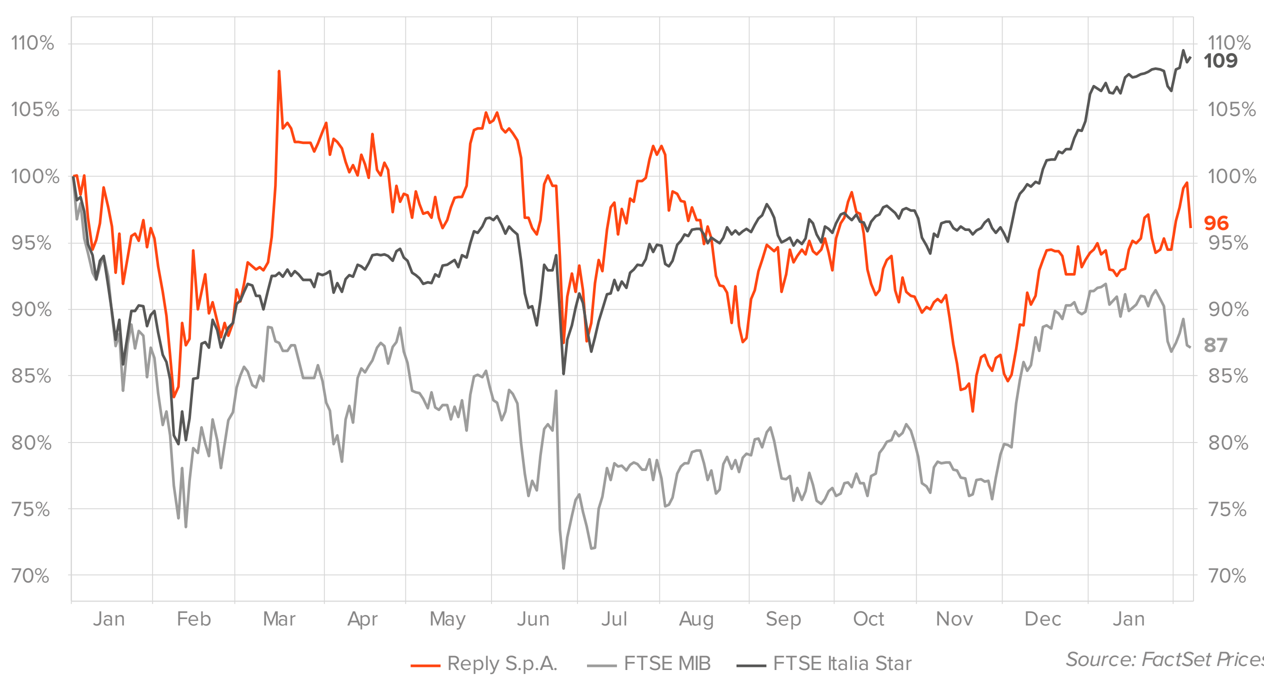
In July 2016 Lynx Recruitment Ltd., a company incorporated under English law, was acquired by Reply Ltd. that holds 100% of the share capital. The company offers recruitment and selection services of temporary and permanent staff.

REPLY ON THE STOCK MARKET

Reply's strategy is directed to creating long-term value for our shareholders. The performance of the Reply share and the dividend policy are sustaining this goal. The assets of an investor who invested 1,000 Euro in Reply shares at the end of 2006 – and reinvested the dividends in additional Reply shares – would have increased to 7,125 Euro at the end of 2016. This performance clearly outperformed the relevant benchmark indices and most of the members of the peer group of Reply.

The future continues to be exciting: The explosive influence of the Internet of Things, virtual reality and the cloud is radically changing the world. Today, technology can no longer be considered as a separate industry. People must deal with digital transformation as a singular event, based on interactions and continuous exchanges between machines and people. This new ecosystem requires the management of ever larger quantities of data, as well as the ability to very quickly adapt the business processes. Reply will play a leading role in this new scenario. We invite our shareholders to join Reply's development towards a point of reference for consultancy and technology in Europe.

For the European capital markets 2016 was a difficult year. Following 3 years of consecutive fund inflows, Europe registered an outflow of ca. 9% of assets under management, the highest



Source: FactSet Prices

outflow since the financial crisis in 2008 (according to an HSBC analysis). Especially Italy, Spain and Germany were hit by this development, whereas Norway, Switzerland and the UK posted relatively low negative flows.
The decline of the oil price and ongoing concerns about the economic situation in China affected the share price of Reply in the beginning of 2016. It started the year with Euro 125.90 and fell during the first weeks to Euro 105 on 8 February. Subsequently the share price – with strong underlying trading volumes –steadily increased to its year-high of Euro 135.90 on 16 March, shortly after the communication of the results of financial year 2015.

The share afterwards entered into a lateral movement until in June the unexpected Brexit decision in the UK heavily hit the capital markets. The Reply share was able to compensate this severe dip until the beginning of August. Afterwards it became part of the rising discussions around the bad debt situation of Italian banks and the general Italian prospects in the wake of the referendum. This environment prevented the share from coming back to the performance of the first 7 months of the year. Only the result of the American elections lifted the share price during December, partially recovering previous losses. Due to this volatile environment the Reply share in total fell by 6%, trading at Euro 118 at the end of 2016. Reply outperformed the Italian MIB index by 4 percentage points; compared to the STAR index the performance was 10 percentage points lower.

Source: FactSet Prices

Taking December 6, 2000, the date of the Reply IPO, as a reference the Italian main index MIB performed dissatisfying. It lost more than 60% 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 600%. In 2016 Reply stabilized the value creation adding another 4 percentage points to the outperformance versus the MIB.

CAPITAL MARKET POSITION

During 2016 Reply stabilized its market capitalization, continuously exceeding Euro 1 billion. The liquidity situation with +1% year-on-year was basically stable. The average share price increased further by 24% going along with a further reduction of the number of traded shares by 19%. The number of trading days where the daily volume exceeded Euro 1 million further augmented throughout the financial year.

In 2016 the valuation of the Reply share converged with its peers: Reply valuations took a period of relief whereas peers who were neglected in 2015 picked up. As an outcome Reply was valued 10% above market average when considering the topline (enterprise value / revenue). In terms of profitability valuations (enterprise value / EBITDA or EBIT) Reply at the end of 2016 was valued at the average of the peer group. The same became true for the cash evaluation; Reply has closed the gap that had existed in the financial years before 2016.

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 2016 Reply achieved earnings per share of Euro 7.22, an increase of 19% compared to 2015. For the financial year 2016 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 1.15 (dividend 2015: Euro 1.00). Referred to the share price of Reply at the end of 2016 this corresponds to a dividend yield of 1.0%. Due to a reduced share price in conjunction with the operational progress of 2015 this yield is higher than the 2015 value of 0.8%. Assuming the approval of the shareholders' meeting Reply will pay to its shareholders a dividend sum of Euro 10.76 million. In 2015 Euro 9.35 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.

		2016	2015	2014	2013	2012
Share price						
Year-end	Euro	118.0	125.9	60.90	56.90	20.99
High for the year	Euro	136.3	129.2	67.90	56.90	21.00
Low for the year	Euro	100.1	58.45	47.70	20.92	15.89
Trading						
Number of shares traded (year)	# thousand	2,354.8	2,862.0	3,586.0	3,705.0	1,497.3
Number of shares traded (day)	# thousand	9.0	11.0	13.8	14.7	5.9
Trading volume (year)	Euro million	282.6	279.5	212.7	123.9	27.3
Trading volume (day)	Euro million	1.095	1.083	0.844	0.492	0.108
Capital structure						
Number of shares	# thousand	9,352.9	9,352.9	9,352.9	9,307.9	9,222.9
Share capital	Euro million	4.863	4.863	4.863	4.840	4.796
Free Float	%	42.0	42.0	43.1	42.1	41.8
Market capitalization	Euro million	1,103.6	1,177.5	569.6	529.6	193.6
Allocation of net income						
Earnings per share	Euro	7.22	6.07	5.12	3.70	2.94
Dividend [1)]	Euro	1.15	1.00	0.85	0.70	0.57
Dividend payment	Euro million	10.756	9.353	7.950	6.515	5.257
Dividend yield [2)]	%	1.0%	0.8%	1.4%	1.2%	2.7%

[1)] Amount proposed for shareholder approval for 2016
[2)] Related to year-end closing price

THE SHAREHOLDER BASE

According to the Reply shareholders' register the free float of the share amounted unchanged to 42%. 58% of the Reply shares are owned by the founders of Reply. As well the distribution between institutional and retail shareholders was quite stable with 33% and 9% of all shares respectively. In the institutional shareholders' base American investors made up the largest regional group (30% of institutional holdings), while the stake of British investors fell slightly to 15%. Also the relationship with French investors was further extended. Today 3 out of the top 10 institutional investors are coming from France.

ANALYSTS

3 Italian analysts currently are covering the Reply share. Reflecting the share price development ratings were set to “outperform” or “neutral” rating.

DIALOG WITH THE CAPITAL MARKETS

In 2016 Reply once again increased its activities with the capital markets. During 16 conferences and 5 roadshows Reply actively explained its equity story. Reply further intensified its activities to increase brand awareness in the US markets; in 2016 a roadshow in Boston, Chicago and Atlanta was conducted. As well Reply joined 3 investor conferences in New York. French, Spanish and UK investors were furthermore in the focus of our activities. Roadshows and conferences in Copenhagen, Lisbon, Vienna, Luxemburg and Düsseldorf completed the 2016 activities.

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 2016 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 2016 the Parent Company had 87 employees (87 employees in 2015). 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 Revenue from fronting operations of the Income Statement set forth below. The Parent Company's income statement is summarized as follows:

(THOUSAND EUROS)	2016	2015	CHANGE
Revenues from operating activities	54,356	52,095	2,262
Pass-through revenues	321,596	280,938	40,658
Purchases, services and other expenses	(355,085)	(313,490)	(41,595)
Personnel and related expenses	(20,177)	(17,994)	(2,182)
Other unusual operating (expenses)/income	1,781	(3,750)	5,531
Amortization, depreciation and write-downs	(732)	(472)	(260)
Operating income	**1,739**	**(2,674)**	**4,413**
Financial income/(expenses)	(2,900)	3,407	(6,308)
Gain on equity investments	20,189	39,578	(19,389)
Loss on equity investments	(2,189)	(1,640)	(549)
Income before taxes	**16,839**	**38,671**	**(21,832)**
Income taxes	425	(1,757)	2,182
NET INCOME	**17,263**	**36,914**	**(19,651)**

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 21,692 thousand Euros (19,541 thousand Euros in the financial year 2015);
- shared service activities in favor of its subsidiaries for 24,492 thousand Euros (23,606 thousand Euros in the financial year 2015);
- management services for 7,498 thousand Euros (7,876 thousand Euros in the financial year 2015).

Operating income 2016 marked a positive result of 1,739 thousand Euros after having deducted amortization expenses of 732 thousand Euros (of which 390 thousand Euros referred to intangible assets and 342 thousand Euros to tangible assets). Financial income/(expenses) amounted to 2,900 thousand Euros, and included interest income for 4,562 thousand Euros and interest expenses for 749 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net negative exchange rate differences amounting to 6,283 thousand Euros. Income from equity investments which amounted to 20,189 thousand Euros refers to dividends received from subsidiary companies in 2016. 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 2016, amounted to 17,263 thousand Euros after income taxes of 425 thousand Euros.

FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2016, compared to that as at 31 December 2015, is provided below:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Tangible assets	723	765	(42)
Intangible assets	2,206	1,586	620
Equity investments	149,356	133,596	15,761
Other fixed assets	3,118	1,235	1,884
Non financial liabilities - L/T	(10,743)	(13,388)	2,645
Fixed capital	**144,660**	**123,793**	**20,867**
Net working capital	**2,797**	**22,145**	**(19,347)**
INVESTED CAPITAL	**147,457**	**145,937**	**1,520**
Shareholders' equity	200,742	192,907	7,835
Net financial position	(53,285)	(46,970)	(6,315)
TOTAL SOURCES	**147,457**	**145,937**	**1,520**

The net invested capital on 31 December 2016, amounting to 147,457 thousand Euros, was funded by Shareholders' equity in the amount of 200,742 thousand Euros from Shareholders' equity and available overall funds of 53,285 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 2016, compared to 31 December 2015, is detailed as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Cash and cash equivalents, net	35,361	20,557	14,804
Financial loans to subsidiaries	62,430	57,779	4,652
Receivables from factor	-	744	(744)
Financial loans	738	-	738
Due to banks	(18,778)	(10,475)	(8,303)
Due to subsidiaries	(64,428)	(41,141)	(23,287)
Net financial position short term	**15,324**	**27,463**	**(12,139)**
Long term financial assets	67,299	52,112	15,187
Due to banks	(29,339)	(32,606)	3,267
Net financial position long term	**37,960**	**19,506**	**18,454**
Total net financial position	**53,285**	**46,970**	**6,315**

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.

	31/12/2016		31/12/2015	
(THOUSAND EUROS)	**NET EQUITY**	**NET INCOME**	**NET EQUITY**	**NET INCOME**
Reply S.p.A.'s separate financial statements	**200,742**	**17,263**	**192,907**	**36,914**
Results of the subsidiary companies	211,675	77,365	161,236	68,655
Carrying value of investments in consolidated companies	(68,576)	-	(52,791)	-
Elimination of dividends from subsidiary companies	-	(23,354)	-	(39,629)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(5,784)	(3,567)	(4,623)	(8,512)
Non controlling interests	(520)	(163)	(653)	(680)
Net Group consolidated financial statement	**337,537**	**67,544**	**296,079**	**56,748**

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 2015, 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 2016 financial statements.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

Reply offers high technology services and solutions in a market where innovation is of primary importance.
Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.
Reply dedicates resources to Research and Development activities in order to project and define highly innovative products and services as well as possible applications of evolving technologies. In this context, Reply has developed its own platforms:

- Brick Reply™
- Click Reply™
- Discovery Reply™
- Hi Reply™
- Sideup Reply™
- Starbytes™
- TamTamy™
- Ticuro Reply™

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, among which:

- Microsoft
- Oracle
- SAP
- Amazon
- Google
- Hybris
- Salesforce

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 2016 the Group had 6,015 employees compared to 5,245 in 2015. During the year 1,459 were employed, 947 left the Group and 258 new entries owe to change in consolidation.

SECURITY PLANNING DOCUMENT

As part of the requirements of Legislative Decree 196/03, the Italian “Data Protection Act”, several activities to evaluate the system of data protection for information held by Group companies subject to this law, including specific audits, were performed. These activities confirmed that legislative requirements relating to the protection of personal data processed by Group companies had been substantially complied with, including preparation of the Security Planning Document.

TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

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

The company in the notes to the financial statements and consolidated financial statements provides the information required pursuant to Art. 154-ter of the TUF [Consolidated Financial Act] as indicated by Consob Reg. no. 17221 of 12 March 2010, indicating that there were no significant transactions concluded during the period.
Information on transactions with related parties as per Consob communication of 28 July 2006 is disclosed at the Note to the Consolidated financial statements and Notes to the financial statements.

TREASURY SHARES

At the balance sheet date, the Parent Company holds 1,007 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 2016

At the end of December 2016, an agreement was signed for the acquisition of the 100% share capital of comSysto GmbH, a company incorporated under German law based in Munich for an initial cash consideration of 6 million Euros. The agreement is effective commencing January 2017. The company is specialized in Agile solutions on Open Source technology.

OUTLOOK ON OPERATIONS

Year ended 2016 was a remarkable year. The events of recent months have set the foundations for a new world, one in which things are rapidly changing and significantly different from what we have been accustomed to: the barriers between physical and digital, real and virtual, have definitely collapsed.

Technology, a step outside the ICT boundaries, has become the key element that guides and influences daily life. Proof of this is the desire of freedom and independence, that for years many young generations sought through the purchase of a new car, means by which one could physically reach different destinations, and is now being substituted by the desire to “always be connected” or to have access to “a media” that allows, to be virtually connected at anytime and anyplace and to share experiences, contents and objects in real time.

Reply has always invested to position itself on the technological frontier, and topics that many are only now beginning to face, such as Artificial Intelligence, Big Data, Machine Learning, Mixed Reality, Industry 4.0 and the Internet of Things, are for Reply, already structured proposals on which it has been working together with its customers for some time.

Reply must seize and interpret future evolutions of technology, in particular for the development of algorithms and data processing; their transformation into relevant business information and their use in automation of processes and decisions, as well as in making "smart" objects and services.

Reply has the strength, determination and speed needed to emerge and conquer new markets, to innovate the quality of its services and grow further in this new context.

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

The financial statements at year ended 2016 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 17,263,478 Euros and net shareholders' equity on 31 December 2016 amounted to 200,741,730 Euros thus formed:

(EUROS)	31/12/2016
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	154,314,874
Total share capital and reserves	**183,478,251**
Net income	17,263,478
Total	**200,741,730**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2016 showing a net result of 17,263,478 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 17,263,478 Euros;
- to approve the motion to allocate the net result of 17,263,478 as follows:
  - a unit dividend to shareholders amounting to 1.15 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 10 May 2017, coupon cutoff date 8 May 2017 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 9 May 2017;
  - approving the proposal of attribution to Directors entrusted with operative positions as regards a shareholding in the profits of the Parent Company in accordance with Article 22 of the articles of association, to be established for an overall amount of 2,300,000.00 Euros, corresponding to around 2.1% of the consolidated gross operative margin 2016,

(before allocation of the shareholding in profits for Directors invested with operative positions) calculated at 106,417 thousand Euros, which will be paid taking into account the related reserve funds in the financial statement in compliance with that foreseen in the main IAS/FRS international accounts, ratifying as the related allocation in the statement requires.

- The residual amount to be allocated to the retained earnings reserve, as the Legal Reserve has already reached the limits of one fifth of the share capital as set forth at art. 2430 of the Italian Civil Code.

Turin, 15 March 2017
For the Board of Directors
The Chairman
Mario Rizzante

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

CONSOLIDATED INCOME STATEMENT (*)

(THOUSAND EUROS)	NOTE	2016	2015
Revenues	5	780,739	705,601
Other income		19,579	15,643
Purchases	6	(16,969)	(14,049)
Personnel	7	(379,713)	(349,721)
Services and other costs	8	(296,650)	(256,138)
Amortization, depreciation and write-downs	9	(11,669)	(9,371)
Other unusual (cost)/income	10	4,277	(1,408)
Operating income (EBIT)		**99,594**	**90,558**
(Loss)/gain on investments	11	(668)	440
Financial income/(expenses)	12	(1,520)	(2,067)
Income before taxes (EBT)		**97,405**	**88,930**
Income taxes	13	(29,698)	(31,502)
Net income		**67,707**	**57,428**
Non controlling interest		(163)	(680)
Group net result		**67,544**	**56,748**
Earnings per share	*14*	*7.22*	*6.07*
Diluted earnings per share	*14*	*7.22*	*6.07*

(*) 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 35.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSAND EUROS)	NOTE	2016	2015
Profit of the period (A)		**67,703**	**57,428**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) from employee benefit plans		(1,597)	567
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		**(1,597)**	**567**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		(62)	(4)
Gains/(losses) on exchange differences on translating foreign operations		(10,562)	894
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**(10,624)**	**898**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**25**	**(12,221)**	**1,465**
Total comprehensive income (A)+(B)		**55,482**	**58,894**
Total comprehensive income attributable to:			
Owners of the parent		55,323	58,213
Non-controlling interests		159	680

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

(THOUSAND EUROS)	NOTE	31/12/2016	31/12/2015
Tangible assets	15	17,686	17,022
Goodwill	16	157,429	133,376
Other intangible assets	17	17,016	9,696
Equity investments	18	14,110	9,105
Other financial assets	19	9,739	5,629
Deferred tax assets	20	16,466	17,339
Non current assets		**232,445**	**192,167**
Inventories	21	58,651	57,929
Trade receivables	22	339,194	302,250
Other receivables and current assets	23	44,810	40,973
Financial assets	19	2,925	2,289
Cash and cash equivalents	24	92,550	105,137
Current assets		**538,130**	**508,577**
TOTAL ASSETS		**770,575**	**700,745**
Share Capital		4,863	4,863
Other reserves		264,610	233,814
Net result of the period		67,544	56,748
Group shareholders' equity	**25**	**337,017**	**295,425**
Non controlling interest	25	520	653
NET EQUITY		**337,537**	**296,079**
Due to minority shareholders and for earn-out	26	24,558	19,746
Financial liabilities	27	31,051	33,869
Employee benefits	28	30,401	25,866
Deferred tax liabilities	29	18,563	21,471
Provisions	30	10,545	18,849
Non current liabilities		**115,118**	**119,801**
Financial liabilities	27	35,670	46,280
Trade payables	31	92,735	77,686
Other current liabilities	32	189,144	160,640
Provisions	30	371	260
Current liabilities		**317,921**	**284,865**
TOTAL LIABILITIES		**433,038**	**404,666**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**770,575**	**700,745**

(*) 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 35.

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 2015	**4,863**	**(9)**	**52,836**	**196,878**	**(4)**	**652**	**(3,309)**	**936**	**252,843**
Dividends distributed	-	-	-	(7,950)	-	-	-	(1,012)	(8,962)
Change in treasury shares	-	(15)	20,000	(20,000)	-	-	-	-	(15)
Total profit (loss)	-	-	-	56,748	4	894	567	680	58,894
Other changes	-	-	-	(6,730)	-	-	-	49	(6,681)
On 31 December 2015	**4,863**	**(25)**	**72,836**	**218,946**	**-**	**1,546**	**(2,742)**	**653**	**296,079**

(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 2016	**4,863**	**(25)**	**72,836**	**218,194**	**-**	**1,546**	**(1,990)**	**653**	**296,079**
Dividends distributed	-	-	-	(9,353)	-	-	-	(816)	(10,169)
Total profit (loss)	-	-	-	67,544	(62)	(10,562)	(1,597)	159	55,482
Other changes	-	-	-	(4,378)	-	-	-	523	(3,855)
On 31 December 2016	**4,863**	**(25)**	**72,836**	**272,007**	**(62)**	**(9,016)**	**(3,586)**	**520**	**337,537**

CONSOLIDATED STATEMENT OF CASH FLOWS

(THOUSAND EUROS)	2016	2015
Group net income	67,544	56,748
Income taxes	29,698	31,502
Amortization and depreciation	11,669	9,371
Other non-monetary expenses/(income)	(3,464)	(2,604)
Change in inventories	(974)	(17,128)
Change in trade receivables	(28,882)	(16,785)
Change in trade payables	13,508	(5,674)
Change in other assets and liabilities	22,376	20,545
Income tax paid	(31,502)	(30,646)
Interest paid	(755)	(1,372)
Interest collected	278	377
Net cash flows from operating activities (A)	**79,497**	**44,334**
Payments for tangible and intangible assets	(19,344)	(14,564)
Payments for financial assets	(4,253)	(1,202)
Payments for the acquisition of subsidiaries net of cash acquired	(44,311)	(9,561)
Net cash flows from investment activities (B)	**(67,909)**	**(25,328)**
Dividends paid	(10,169)	(8,962)
In payments from loans	15,294	28,615
Repayment of loans	(10,553)	(21,543)
Other changes	242	2,247
Net cash flows from financing activities (C)	**(5,186)**	**357**
Net cash flows (D) = (A+B+C)	**6,402**	**19,363**
Cash and cash equivalents at the beginning of period	70,109	50,746
Cash and cash equivalents at period end	76,511	70,109
Total change in cash and cash equivalents (D)	**6,402**	**19,363**

DETAIL OF CASH AND CASH EQUIVALENTS

(THOUSAND EUROS)	2016	2015
Cash and cash equivalents at beginning of period:	**70,109**	**50,745**
Cash and cash equivalents	105,137	88,819
Bank overdrafts	(35,028)	(38,073)
Cash and cash equivalents at period end:	**76,511**	**70,109**
Cash and cash equivalents	92,550	105,137
Bank overdrafts	(16,039)	(35,028)

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION	NOTE 1	General information
	NOTE 2	Accounting principles and basis of consolidation
	NOTE 3	Risk management
	NOTE 4	Consolidation
INCOME STATEMENT	NOTE 5	Revenue
	NOTE 6	Purchases
	NOTE 7	Personnel
	NOTE 8	Services and other costs
	NOTE 9	Amortization, depreciation and write-downs
	NOTE 10	Other unusual operating income/(expenses)
	NOTE 11	(Loss)/gain on investments
	NOTE 12	Financial income/(expenses)
	NOTE 13	Income taxes
	NOTE 14	Earnings per share
STATEMENT OF FINANCIAL POSITION - ASSETS	NOTE 15	Tangible assets
	NOTE 16	Goodwill
	NOTE 17	Other intangible assets
	NOTE 18	Equity Investments
	NOTE 19	Financial assets
	NOTE 20	Deferred tax assets
	NOTE 21	Work-in-progress
	NOTE 22	Trade receivables
	NOTE 23	Other receivables and current assets
	NOTE 24	Cash and cash equivalents
STATEMENT OF FINANCIAL POSITION - LIABILITIES AND EQUITY	NOTE 25	Shareholders' equity
	NOTE 26	Payables to minority shareholders and Earn-out
	NOTE 27	Financial liabilities
	NOTE 28	Employee benefits
	NOTE 29	Deferred tax liabilities
	NOTE 30	Provisions
	NOTE 31	Trade payables
	NOTE 32	Other current liabilities
OTHER INFORMATION	NOTE 33	Segment Reporting
	NOTE 34	Additional disclosures to financial instruments and risk management policies
	NOTE 35	Transactions with related parties
	NOTE 36	Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities
	NOTE 37	Guarantees, commitments and contingent liabilities
	NOTE 38	Events subsequent to 31 December 2016
	NOTE 39	Approval of the Consolidated financial statements and authorization to publish

NOTE 1 - GENERAL INFORMATION

Reply [MTA, STAR: REY] 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 IAS 39.

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. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.
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.

BUSINESS COMBINATIONS

Acquisition of subsidiary companies is recognized according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company. In addition, any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognized according with IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance with IFRS 5, which are recognized and measured at fair value less selling costs.
The positive difference between the acquisition costs and Group interest of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.
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 IAS 39 " financial instruments: recognition and Measurement "and any change therein is recognized in profit and loss.

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.

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 2016 and 2015 financial statements of the foreign companies included in consolidation:

	AVERAGE 2016	ON 31 DECEMBER 2016	AVERAGE 2015	ON 31 DECEMBER 2015
GBP	0.818896	0.85618	0.726002	0.73395
Brazilian Real	3.861627	3.4305	3.691603	4.3117
Rumanian Leu	4.490754	4.539	4.445215	4.5240
Belarussian Ruble	2.20087	2.17226	-	-
US Dollar	1.106598	1.0541	1.109625	1.0887
Chinese Yuan	7.349579	7.39643	-	-
Polish Zloty	4.363635	4.4103	4.182785	4.2639

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	3%
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, 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 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 recognized in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.
Investments are recognized and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.
At subsequent reporting dates, financial assets that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured and amortized at cost according to the prevailing market interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.
Investments other than held-to maturity securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where financial assets are held for trading purposes, gains and losses arising from changes in fair value are included in the net profit or loss for the period; for available-for-sale investments, gains and

losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired; at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.
This item is stated in the current financial assets.

TRANSFER OF FINANCIAL ASSETS

The 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 payables and receivables and other current assets and liabilities are measured at nominal value and eventually written down to reflect their recoverable amount.
Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

CASH
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. 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 IAS 39, 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 IAS 39 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 is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

Revenue from sales and services is recognized when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.

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

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 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.

In this context it is made known that the situation caused by the current economic and financial crisis has included the need to carry out undertakings regarding future progress characterized by significant uncertainty, for which the materialization cannot be excluded in the next financial year of results different from that estimated and that therefore could require rectification, up to the present day, neither assessable or foreseeable in the accounting value of the related items. The items of the financial statements mainly effected by such uncertainty are the impairment funds, risk funds, goodwill and deferred taxes.

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 2016". 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 BY THE GROUP

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 February 2015. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

These improvements are effective for accounting periods beginning on or after 1 February 2015. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting

period, the service condition is not satisfied

The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. Thus, these amendments did not impact the Group's financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 33 in this period's financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in

Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

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.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact on its balance sheet and equity.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments. On the basis of the preliminary analysis, no significant impacts are expected on the Group.

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

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 2015 is related to:

- WM360 Group, held by WM360 Limited, acquired in the month of March 2016 by Reply Ltd. that holds 100% of the shares. WM360 is a Group constituted of five companies incorporated under English law and one under Belorussian law, leader in consulting and system integration on Microsoft technology, in particular specializing in the development of intranet SharePoint platforms.
- Protocube S.r.l., acquired in the month of March 2016 by Reply S.p.A. that holds 55% of the share capital with headquarters in Turin, leader in the 3D modelling and engineering.
- trommsdorff + drüner, innovation + marketing consultants GmbH, acquired in the month of May 2016 by Reply AG that holds 100% of the share capital, leading in innovative and marketing consulting based on use of Data.
- Xister S.r.l. acquired in July 2016 by Reply S.p.A. that holds 89.2% of the share capital. The company is a digital creative agency, leader in consulting and development of solutions and strategies in digital branding.
- Lynx Recruitment Ltd. a company incorporated under English law, acquired in July 2016 by Reply Ltd. that holds 100% of the share capital. The company offers recruitment and selection services of temporary and permanent staff.

Change in the consolidation does not significantly affect the Group's revenues and profits before tax on 31 December 2016 (approximately 2.6% on consolidated revenue).

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 31 December 2015:

- Blue Reply GmbH, incorporated under German law in which Reply AG holds 100% of the share capital.

- Open Reply GmbH, incorporated under German law in which Reply AG holds 100% of the share capital.
- Healthy Reply Gmbh, incorporated under German law in which Reply AG holds 100% of the share capital.
- Triplesense Reply S.r.l., incorporated under Italian law in which Reply S.p.A. holds 100% of the share capital.
- Spark Reply S.r.l., incorporated under Italian law in which Reply S.p.A. holds 85% of the share capital.
- Reply NL Ltd., incorporated under English law in which Avantage Reply (Netherlands) BV holds 100% of the share capital.
- Spark Reply GmbH, incorporated under German law in which Reply AG holds 100% of the share capital.

NOTE 5 - REVENUE

Revenues from sales and services, including changes in work in progress on orders, amounted to 780,739 thousand Euros (705,601 thousand Euros in 2015).
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:

COUNTRY (*)	2016	2015
Region 1	70.90%	71.00%
Region 2	16.50%	16.50%
Region 3	12.30%	12.30%
IoT Incubator	0.30%	0.20%
Total	**100.0%**	**100.0%**

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

Disclosure required by IFRS 8 (“Operating segment”) is provided in Note 33 herein.

NOTE 6 - PURCHASES

Detail is as follows:

(THOUSAND EUROS)	2016	2015	CHANGE
Software licenses	9,389	6,268	3,121
Hardware	2,068	1,548	520
Other	5,512	6,232	(721)
Total	**16,969**	**14,049**	**2,921**

Purchases of Software licenses and Hardware are recognized net of any change in inventory. The item Other includes the purchase of fuel for 2,236 thousand Euros and the purchase of consumption material for 1,819 thousand Euros.

NOTE 7 - PERSONNEL

Detail is as follows:

(THOUSAND EUROS)	2016	2015	CHANGE
Payroll employees	357,867	317,485	40,382
Executive Directors	21,847	26,673	(4,826)
Project collaborators	-	5,563	(5,563)
Total	**379,713**	**349,721**	**29,992**

The increase in the cost of employees, amounting to 29,992 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)	2016	2015	CHANGE
Directors	326	294	32
Managers	836	774	62
Staff	4,853	4,177	676
Total	**6,015**	**5,245**	**770**

On 31 December 2016 the Group had 6,015, employees compared with 5,245 at the end of 2015. Change in consolidation brought an increase of 258 employees.
The average number of employees in 2016 was 5,663 marking an increase with respect to n. 4,949 in the previous year.
Payroll employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Universities.

NOTE 8 - SERVICES AND OTHER COSTS

Services and other costs comprised the following:

(THOUSAND EUROS)	2016	2015	CHANGE
Commercial and technical consulting	178,885	152,500	26,385
Travelling and professional training expenses	29,569	27,826	1,744
Other services costs	52,315	43,458	8,857
Office expenses	18,910	16,158	2,752
Lease and rentals	8,143	7,773	370
Other	8,827	8,424	404
Total	**296,650**	**256,138**	**40,512**

The change in Services and other costs, amounting to 40,512 Euros, is attributable to an overall increase in the Group's business.
The item Other services mainly includes marketing services, administrative and legal services, telephone and canteen.
Office expenses include services rendered by third parties for 438 thousand Euros and related parties for 808 thousand Euros, in connection to service contracts for the use of premises,

domiciliation and provision of secretarial services, and rent charged by third parties for 11,637 thousand Euros. This item also includes utility expenses for 3,276 thousand Euros.

NOTE 9 - 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 2016 of 6,120 thousand Euros. Details of depreciation are provided in the notes to tangible assets.
Amortization of intangible assets for the year ended 2016 amounted to an overall loss of 5,548 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

NOTE 10 - OTHER UNUSUAL OPERATING INCOME/(EXPENSES)

Other unusual operating income amounted to 4,277 thousand Euros (other unusual operating expenses amounted to 1,408 thousand Euros in 2015) and refer to:

- other operating costs amounting to 569 thousand Euros in relation to provision for contractual and commercial risks and lawsuits;
- other unusual items amounting to positive 4,846 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 11 - (LOSS)/GAIN ON INVESTMENTS

This item amounting to negative 668 thousand Euros is related to:

- Impairment of the investment in Xmetrics in the amount of 788 thousand Euros,
- The fair value adjustment of the investment in Inova Design Ltd. resulting in a gain of 156 thousand Euros.

NOTE 12 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(THOUSAND EUROS)	2016	2015	CHANGE
Financial income	342	427	(84)
Interest expenses	(1,017)	(1,335)	318
Other	(846)	(1,159)	313
Total	**(1,520)**	**(2,067)**	**547**

Financial gains mainly include interest on bank accounts amounting to 278 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, as well as changes in fair value of financial liabilities pursuant to IAS 39.

NOTE 13 - INCOME TAXES

Income taxes for the financial year ended 2016 amounted to 29,698 thousand Euros and is detailed as follows:

(THOUSAND EUROS)	2016	2015	CHANGE
IRES and other taxes	31,114	24,276	6,838
IRAP (Italy)	4,734	5,206	(472)
Current taxes	**35,848**	**29,481**	**6,367**
Deferred tax expenses	(4,593)	5,272	(9,865)
Deferred tax income	(1,557)	(3,252)	1,695
Deferred taxes	**(6,150)**	**2,020**	**(8,170)**
Total income taxes	**29,698**	**31,502**	**(1,804)**

The tax burden on the result before taxes was equivalent to 30.5% (35.4% in the financial year of 2015).

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	**97,405**	
Theoretical income taxes	26,786	27.5%
Effect of fiscal permanent differences	(1,488)	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	(333)	
Other differences	1	
Current and deferred income tax recognized in the financial statement excluding IRAP	**24,964**	**25.6%**
IRAP current and deferred	4,734	
Current and deferred income recognized in the financial statements	**29,698**	**30.5%**

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 27.5%, on the result before tax of continuing operations.

NOTE 14 - EARNINGS PER SHARE

The basic and diluted earnings per share as at 31 December 2016 was calculated on the basis of the Group's net result amounting to 67,544 thousand Euros (56,748 thousand Euros as at 31 December 2015) divided by the weighted average number of shares, net of treasury shares, as at 31 December 2016 which amounted to 9,351,850 (9,351,850 as at 31 December 2015).

(EUROS)	**31/12/2016**	**31/12/2015**
Group net result	67,544,000	56,748,000
Average no. shares	9,351,850	9,351,850
Earnings per share	7.22	6.07

NOTE 15 - TANGIBLE ASSETS

Tangible assets as at 31 December 2016 amounted to 17,686 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Buildings	1,764	1,906	(142)
Plant and machinery	3,132	2,805	326
Hardware	3,920	3,357	564
Other	8,870	8,955	(85)
Total	**17,686**	**17,023**	**663**

Change in tangible assets during 2016 is summarized below:

(THOUSAND EUROS)	BUILDINGS	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical Cost	4,023	8,165	26,777	19,331	58,296
Accumulated depreciation	(2,117)	(5,359)	(23,420)	(10,377)	(41,274)
31/12/2015	**1,906**	**2,805**	**3,357**	**8,955**	**17,022**
Historical Cost					
Increases	-	1,285	3,099	2,664	7,048
Disposals	-	(433)	(980)	(810)	(2,223)
Other changes	-	288	383	(312)	360
Accumulated depreciation					
Depreciation	(142)	(1,124)	(2,590)	(2,265)	(6,120)
Utilized	-	426	789	681	1,895
Other changes	-	(115)	(138)	(43)	(296)
Historical Cost	4,023	9,305	29,279	20,874	63,481
Accumulated depreciation	(2,259)	(6,173)	(25,359)	(12,004)	(45,795)
31/12/2016	**1,764**	**3,132**	**3,920**	**8,870**	**17,686**

During the financial year the Group carried out total investments for 7,048 thousand Euros (7,686 thousand Euros at 31 December 2015).

The item Buildings mainly includes the net value of a building owned by the group amounting to 1,762 thousand Euros, located in Guetersloh, Germany.
Increase in the item Plant and machinery mainly refers to purchases of specific devices and to plant systems for the offices in which the Group operates.
Change in the item Hardware is due to investments made by operating companies for purchases of specific equipment about mobile and the construction of plants for the new headquarters of Group. Furthermore this item includes financial leases for 556 thousand Euros (230 at 31 December 2015).
The item Other as at 31 December 2016 mainly includes improvements to third party assets and office furniture. The increase of 2,664 Euros mainly refers to improvements made to the offices where the Group companies operate. Such item also includes a financial lease for furniture for a net value amounting to 894 thousand Euros (1,412 thousand Euros at 31 December 2015).
Other changes mainly refer to change in consolidation and to translation differences.
As at 31 December 2016 tangible assets were depreciated by 72.1% of their value, compared to 70.8% at the end of 2015.

NOTE 16 - GOODWILL

This item includes goodwill arising from consolidation of subsidiaries and the value of business branches purchased against payment made by some Group companies.

Goodwill in 2016 developed as follows:

(THOUSAND EUROS)	
Beginning balance	**133,376**
Increases	27,537
Impairment	-
Total	**160,913**
Exchange rate differences	(3,484)
Ending balance	**157,429**

Increase in Goodwill owes to the acquisition of:

- TD GmbH, a company incorporated under German law (Region 2) acquired by the subsidiary Reply AG;

- WM Ltd., a company incorporated under English law (Region 3) acquired by the subsidiary Reply Ltd.;
- Lynx Ltd., a company incorporated under English law (Region 3) acquired by the subsidiary Reply Ltd.;
- Protocube S.r.l., a company incorporated under Italian law (Region 1) acquired by Reply S.p.A.;
- Xister S.r.l. a company incorporated under Italian law (Region 1) acquired by Reply S.p.A..

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

(THOUSAND EUROS)	FAIR VALUE (*)
Tangible and intangible assets	416
Trade receivables and other current assets	9,532
Cash and cash equivalents	5,281
Financial liabilities	(820)
Trade payables and other current liabilities	(8,179)
Deferred taxes, net	37
Net assets acquires	**6,268**
Compensation	39,724
Difference	**33,805**
Goodwill	27,537
Other intangible assets, net of fiscal effect	5,919

(*) book value is equal to fair value

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:

CGU	AT 31/12/2015	INCREASES	TRANSLATION DIFFERENCES	AT 31/12/2016
Region 1	39,003	9,249	-	48,252
Region 2	39,572	14,210	-	53,782
Region 3	54,801	4,078	(3,484)	55,394
Total	**133,376**	**27,537**	**(3,484)**	**157,429**

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:	8.16%	6.06%	7.32%
Discount rate, before taxes:	11.26%	8.62%	9.15%
Multiple of EBIT	11.4	11.4	11.4

As to all CGUs subject to the impairment tests at 31 December 2016 no indications emerged that such businesses may have been subject to impairment.
The positive difference between the value in use thus estimated on the accounting value of the net invested capital on 31 December 2016 of the CGU is equal to 206.9% for Region 1, 357.7% for Region 2 and 110.1% 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 17 - OTHER INTANGIBLE ASSETS

Net intangible assets as at 2016 amounted to 17,016 thousand Euros (9,696 thousand Euros on 31 December 2015) and are detailed as follows:

(THOUSAND EUROS)	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE 31/12/2016
Development costs	24,675	(18,667)	6,007
Software	22,276	(18,464)	3,812
Trademark	537	-	537
Other intangible assets	7,400	(741)	6,659
Total	**54,888**	**(37,872)**	**17,016**

Change in intangible assets during 2016 is summarized in the table below:

(THOUSAND EUROS)	NET BOOK VALUE 31/12/2015	INCREASES	AMORTIZATION	OTHER CHANGES	NET BOOK VALUE 31/12/2016
Development costs	5,436	3,064	(2,493)	-	6,007
Software	3,723	2,284	(2,278)	83	3,812
Trademark	537	-	-	-	537
Other intangible assets	-	-	(777)	7.436	6,659
Total	**9,696**	**5,348**	**(5,548)**	**7.519**	**17,016**

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 505 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.

Increase in Other changes of the item Other intangible assets is related to the Purchase price allocation following several Business combinations in 2016.

NOTE 18 - EQUITY INVESTMENTS

The item Equity investments amounts to 14,110 thousand Euros and includes for 6 thousand Euros non- consolidated subsidiary companies as they were not operational at the closing date and for 14,104 to investments in start-up companies in the IoT field made principally by the Investment company Breed Investments Ltd.

Note that the companies listed below, mainly held through an Investment Entity as defined by IFRS 10, are designated at fair value and accounted for in accordance with IAS 39 “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.

COMPANY NAME	COUNTRY	% ACQUIRED	VALUE AT 31/12/2015	INCREASE/ DECREASE	FAIR VALUE EVALUATION	IMPAIRMENT	EXCHANGE DIFFERENCES	VALUE AT 31/12/2016
Cocoon Alarm Limited	UK	22.09%	2,990	-	-	-	(427)	2,565
Xmetrics Sports Limited	UK	30.00%	920	-	-	(788)	(131)	-
iNova Design Ltd.	UK	25.95%	704	302	156	-	(107)	1,055
Zeeta Networks Ltd.	UK	23.23%	579	496	-	-	(82)	994
Amiko Digital Health Ltd.	UK	20.00%	-	993	-	-	-	993
Sentryo	France	12.64%	-	750	-	-	-	750
Connecterra B.V.	Netherlands	16.50%	-	1,250	-	-	-	1,250
Iotic Labs	UK	9.50%	-	934	-	-	-	934
RazorSecure Ltd.	UK	18.52%	-	438	-	-	-	438
Senseye Ltd.	UK	15.59%	-	1,051	-	-	-	1,051
Wearable Technologies Ltd.	UK	7.24%	-	730	-	-	-	730
Sensoria	USA	24.00%	3,888	-	-	-	(545)	3,343
Total			**9,081**	**6,944**	**156**	**(788)**	**(940)**	**14,104**

COCOON

A UK based start-up that has created a smart home security system that senses unusual activity throughout the house in real time, without the need for any additional sensors or professional installation. It avoids false alarms by learning what is normal for home, only sending alerts and high quality video straight to your smartphone via the mobile app. Cocoon received a London Design Award and has been listed in Forbes as one of the top new businesses to keep an eye on in 2015. The investments was valued at the market value of the last round that took place on October 12, 2015.

XMETRICS

A company that offers innovative devices for swimmers Xmetrics uses sensors, electronic components and software via mobile devices, to enhance the training sessions of professional and amateur swimmers, analyzing their main biometric parameters and their real time performance. The investment was completely impaired due to non-favorable financial conditions.

INOVA DESIGN

Inova Design is a technology company specializing in design, development and marketing of new solutions for detecting body parameters in order to optimize performance and prevention of illnesses. The product is a headset capable of offering the accurate measurement of all the physiological parameters together with the monitoring of the movement, all in a single miniaturized device, not- invasive and that provides the user data in a continuous, real-time and wireless way. The Inova's patented technology can be applied in many fields such as sports, health and defense. The investment was valued at the price paid upon acquisition. The increase is related to the payment of the third tranche defined in the first round of investment on 24 February 2016. The investment was valued at fair value of the last operation dated 14 July 2016.

ZEETTA NETWORKS LTD.

Zeetta Networks offers NetOS®: a powerful orchestration software which manages, automates and monitors an ICT network while significantly reducing its operating costs. The increase is related to the payment of the second tranche defined in the first round of investment, following the acquirement of previewed milestones. The investment was valued at the price paid upon acquisition of the second tranche on 2 November 2016.

AMIKO DIGITAL HEALTH LTD.

Quantified medicine to improve healthcare with real-world data. Amiko's Quantified Medicine is a connected health platform that enables a smarter management of chronic treatments based on the acquisition and analysis of medication usage data. Amiko's sensor-based technology is improving care, cost efficiency and outcomes by transforming drug delivery devices into smart objects that collect data to empower patients, caregivers, physicians and researchers. The investment was valued at the price paid upon acquisition.

SENTRYO

Sentryo ICS Cybervision prevents cyberattacks by monitoring machine to machine networks, detecting abnormal events and streamlining incident response.

Sentryo is pioneering the market for cybersecurity protection for machine-to-machine networks and critical industrial systems. ICS CyberVision passively monitors the network and detects abnormal events utilizing machine learning algorithms, therefore preventing cyber-attacks, streamlining incident response and avoiding damage. ICS CyberVision simplifies operational and information technology collaboration to keep critical industrial infrastructure owners ahead of the threat. Sentryo addresses the energy, transportation, telco and aerospace segments and more broadly all companies needing to meet the Industry 4.0 challenge. The investment was valued at the price paid upon acquisition.

CONNECTERRA

The Connecterra dairy health service provides actionable insights to farmers to improve farm productivity. Using advanced sensors and machine learning, the system provides near real time analytics for end users.

combines the power of sensor technologies and deep learning to provide a complete health monitoring service for dairy cattle. Connecterra's end-to-end solution consists of a wearable device, which monitors the herd in real-time and transmits the data to a cloud platform for analysis and prediction of behavioral patterns.

This allows farmers to free up labor time, improve production per animal and save a significant amount of money by optimizing their breeding cycles. The investment was valued at the price paid upon acquisition.

IOTIC LABS LTD.

Iotic Labs provides access to Iotic Space, a place where things can share data, where data can be mashed with different sorts of data from others things, where anything can be related to anything else.

Iotic Labs has created an Internet-like environment for things. Data from anything can be shared or exchanged with anything else creating new relationships, insights and whole new ways to interact.

It is free from pre-defined formats, database structures and any other pre-determined model. Just like the Internet you are free to interact with myriads of data sources and mash data together with Iotic Mashapps. The investment was valued at the price paid upon acquisition.

RAZORSECURE LTD.

Active monitoring software monitors systems continuously and alerts the instant that a system breach occurs. Combined with automated defence system and a low cost, low maintenance approach, RazorSecure is the ideal solution for difficult to manage small scale/IoT systems in harsh environments. The investment was valued at the price paid upon acquisition.

SENSEYE LTD.

PROGNOSYS by Senseye helps manufacturers avoid downtime and save money. It automatically monitors the condition of machines and predicts future breakdowns, it's scalable, simple to use and able to work with any equipment. The investment was valued at the price paid upon acquisition.

WEARABLE TECHNOLOGIES LTD.

Is an English early stage company active in the “connected worker” segment of the rapidly growing industrial IoT market, to address worker safety and reporting in complex hazardous environments. The company’s end-to-end solution, protected by more than 40 patents, trademarks and proprietary know-how, is based on sensors and communication devices directly embedded into Personal Protection Equipment (PPE) connected via mesh networks to colleagues, machinery and control rooms. WTL aims to improve not only accident reporting and responses, but also to allow companies to capture in real time “near miss” and non-compliant working to improve working practices and safety. The investment was valued at the price paid upon acquisition.

SENSORIA

Headquartered in Redmond, Washington – Sensoria is a leading developer of wearable platforms and devices. The company was founded on the vision that clothing would become the fulcrum between Internet of Things and People as a seamless, naturally wearable body-sensing computer. The investment was valued at the price paid upon acquisition.
All fair value assessments shall be part of the hierarchy level 3.

NOTE 19 - FINANCIAL ASSETS

Current and non-current financial assets amounted to 12,664 thousand Euros compared to 7,918 thousand Euros as at 31 December 2015.

Detail is as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Receivables from insurance companies	3,190	3,194	(4)
Guarantee deposits	1,039	853	186
Loans to non consolidated subsidiaries	-	68	(68)
Long term securities	-	55	(55)
Other financial assets	759	14	745
Convertible loans	5,489	1,512	3,977
Receivables from factor	-	744	(744)
Short term securities	2,187	1,478	709
Total	**12,664**	**7,918**	**4,746**

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. At year end no invoices were assigned to factoring companies without recourse.

Convertible loans are related to the option to convert into shares of the following start-up companies in the IoT field:

START-UP	VALUE AT 31/12/2015	INCREASE/ DECREASE	CAPITALIZED INTERESTS	WRITE-OFF	EXCHANGE DIFFERENCES	VALUE AT 31/12/2016
enModus Ltd.	993	1,041	118	-	(142)	2,011
Gymcraft Ltd.	519	437	-	-	(74)	881
Kokoon Technology Ltd.	-	569	35	-	-	605
Xmetrics Sports Limited	-	467	-	(467)	-	-
Inova Design Solutions Limited	-	438	11	-	-	449
Callsign, Inc	-	1,460	-	-	84	1,544
Total	**1.512**	**4,413**	**164**	**(467)**	**(131)**	**5,489**

- **EnModus:** technology company specializing in the monitoring, control and Internet connectivity of any device on AC power. Wattwave is the enModus patented powerline technology that uses the existing wiring infrastructure.
- **Gymcraft:** sport - tech company, combining the fitness industry with the world of video games in an innovative way to build the virtual sporting experience of the future. Gymcraft takes full advantage of the potential of virtual reality, giving to users a fitness, real time and interactive experience during the course of their favorite sports.
- **Kokoon Technology Ltd.:** Kokoon's headphones are designed to help you relax and sleep better, anywhere. Using advanced sensor technology and machine learning, the headphones adapt and respond to the body and environment, enabling improved sleep quality and waking the user at the perfect point in the natural sleep cycle.
- **Xmetrics:** during 2016 the investment was completely impaired due to non-favorable financial conditions.
- **Callsign Ltd.:** has built the most comprehensive authentication platform for enterprises, financial institutions and consumer facing web companies. Built upon a non-repudiable military grade Crypto Engine, Callsign's layered security approach provides a set of services that are unparalleled in the market today.
- **Inova Design:** is a technology company specializing in design, development and marketing

of new solutions for detecting body parameters in order to optimize performance and prevention of illnesses. The product is a headset capable of offering the accurate measurement of all the physiological parameters together with the monitoring of the movement, all in a single miniaturized device, not- invasive and that provides the user data in a continuous, real-time and wireless way. The Inova's patented technology can be applied in many fields such as sports, health and defense.

Short term securities mainly refer to Time Deposit investments.

NOTE 20 - DEFERRED TAX ASSETS

Such an item, amounting to 16,466 thousand Euros as at 31 December 2016 (17,339 thousand Euros as at 31 December 2015), includes 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:

(THOUSANDS EUROS)	31/12/2015	CHANGE IN CONSOLIDATION	ACCRUALS	UTILIZATION	31/12/2016
Prepaid tax on costs that will become deductible in future years	6,254	891	3,103	(2,644)	7,604
Prepaid tax on greater provisions for doubtful accounts	7,054	-	1,855	(3,811)	5,097
Deferred fiscal deductibility of amortization	1,677	-	274	(268)	1,684
Consolidation adjustments and other items	2,353	-	5,409	(5,682)	2,080
Total	**17.339**	**891**	**10,642**	**(12,406)**	**16,466**

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 21 - WORK IN PROGRESS

Work in progress, amounting to 58,651 thousand Euros, is detailed as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Contract work in progress	169,802	141,309	28,493
Advance payments from customers	(111,151)	(83,380)	(27,771)
Total	**58,651**	**57,929**	**722**

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 22 - TRADE RECEIVABLES

Trade receivables as at 31 December 2016 amounted to 339,194 thousand Euros with a net increase of 36,944 thousand Euros.

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Domestic clients	265,976	233,502	32,474
Foreign trade receivables	75,076	71,178	3,897
Credit notes to be issued	(9)	(9)	-
Total	**341,042**	**304,672**	**36,370**
Allowance for doubtful accounts	(1,848)	(2,422)	574
Total trade receivables	**339,194**	**302,250**	**36,944**

Trade receivables are shown net of allowances for doubtful accounts amounting to 1,848 thousand Euros on 31 December 2016 (2,422 thousand Euros at 31 December 2015).

The Allowance for doubtful accounts developed in 2016 as follows:

(THOUSANDS EUROS)	31/12/2015	ACCRUALS	UTILIZATION	REVERSAL	31/12/2016
Allowance for doubtful accounts	2,422	795	(925)	(444)	1,848

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2014, are summarized in the tables below:

AGING AT 31/12/2016

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	341,042	310,338	27,283	1,773	341	1,306	30,704
Allowance for doubtful accounts	(1,848)	(25)	(307)	(128)	(183)	(1,205)	(1,824)
Total trade receivables	**339,194**	**310,313**	**26,976**	**1,645**	**158**	**101**	**28,881**

AGING AT 31/12/2015

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	304,672	256,601	41,039	3,574	1,615	1,843	48,071
Allowance for doubtful accounts	(2,422)	(11)	(301)	(220)	(499)	(1,391)	(2,411)
Total trade receivables	**302,250**	**256,590**	**40,738**	**3,354**	**1,116**	**452**	**45,660**

ASSIGNMENT OF RECEIVABLES

The Group assigns part of its trade receivables through factoring operations.
The assignments of receivables can be with or without recourse; some assignments without recourse can include deferred payment clauses (for example, payment by the factor of a minor part of the purchase price is subordinated on the collection of the total amount of the receivables), require a deductible from the assignor, or require maintaining significant exposure to the cash flow trend deriving from the assigned receivables. This type of operation does not comply with the requirements of IAS 39 for the elimination of the assets from the financial statements, since the risks and benefits related to their collection have not been substantially transferred.

Consequently, all receivables assigned through factoring operations that do not satisfy the requirements for elimination provided by IAS 39 continue to be recognized in the Group's financial statements, even though they have been legally assigned and a financial liability for the same amount is recognized in the consolidated financial statements as Liabilities for advance payments on assignments of receivables. Gains and losses related to the assignment of these assets are only recognized when the assets are derecognized from the Group's financial-economic position.

As at 31 December 2016 the receivables transferred via Factoring operations with recourse amounted to 18,028 thousand Euros.
As at 31 December 2016 no assets were assigned without recourse.
The carrying amount of Trade receivables is in line with its fair value.

Trade receivables are all collectible within one year.

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Tax receivables	14,543	15,425	(882)
Advances to employees	131	100	31
Accrued income and prepaid expenses	9,254	6,049	3,205
Other receivables	20,882	19,399	1,483
Total	**44,810**	**40,973**	**3,837**

The item Tax receivables mainly includes:
- VAT receivables (5,289 thousand Euros);
- income tax prepayments net of the accrued tax liability (5,629 thousand Euros);
- receivables for withholding tax (298 thousand Euros).

The item Other receivables mainly includes the grant receivables in relation to research projects for 12,762 thousand Euros (15,761 thousand Euros at 31 December 2015).
This item furthermore includes the advance payment made for the acquisition of comSysto GmbH for a total of 6 million Euros.

NOTE 24 - CASH AND CASH EQUIVALENTS

The balance of 92,550 thousand Euros, with a decrease of 12,587 thousand Euros compared with 31 December 2015, represents cash and cash equivalents at year end.
Changes in cash and cash equivalents are fully detailed in the Consolidated statement of cash flow.

NOTE 25 - SHAREHOLDERS' EQUITY

SHARE CAPITAL

On 31 December 2016 the company capital of Reply S.p.A, wholly undersigned and paid up, was amounting to 4,863,486 Euros and is composed of n. 9,352,857 ordinary shares with nominal value of 0.52 Euros each.

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 2016 were equal to n. 1,007.

CAPITAL RESERVES

On 31 December 2016 Capital reserves, amounting to 72,836 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 49,976 thousand Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 21 April 2016 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 50 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 272,007 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 973 thousand Euros;
- Retained earnings amounted to 161,226 thousand Euros (retained earnings amounted to 161,226 thousand Euros on 31 December 2015);
- Profits/losses attributable to shareholders of the Parent Company amounted to 67,544 thousand Euros (56,748 thousand Euros as on 31 December 2015).

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015
Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax:		
Actuarial gains/(losses) from employee benefit plan	(1,597)	567
Total Other comprehensive income that will not be classified subsequently to profit or loss, net of tax (B1):	**(1,597)**	**567**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(62)	4
Gains/(losses) from the translation of assets in foreign currencies	(10,562)	894
Total Other comprehensive income that may be classified subsequently to profit or loss, net of tax (B2):	**(10,624)**	**898**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**(12,221)**	**1,465**

SHARE BASED PAYMENT PLANS

There are no stock option plans resolved by the General Shareholders' meetings.

NOTE 26 – PAYABLES TO MINORITY SHAREHOLDERS AND EARN-OUT

Payables to minority shareholders and for company operations (Earn out) owed on 31 December 2016 amounted to 24,558 thousand Euros inclusive of a negative exchange difference amounting to 333 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2015	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	EXCHANGE DIFFERENCES	31/12/2016
Payable to minority shareholders	11,942	2,000	2	(434)	226	13,736
Payables for Earn-out	7,803	8,394	(2,563)	(2,253)	(559)	10,822
Total payables to minority shareholders and Earn-out	**19,746**	**10,394**	**(2,561)**	**(2,687)**	**(333)**	**24,558**

The increase in this item amounting to 10,394 thousand Euros reflects the best estimate of the liability for the option to acquire the minority shares in future reporting periods, subject to the achievement of profitability parameters contractually defined and the best estimate of future considerations for earn-outs in relation to the original contracts signed.

The increase is related to:

- WM360 Group, held by WM360 Limited, acquired in the month of March 2016 by Reply Ltd. that holds 100% of the shares.
- trommsdorff + drüner, innovation + marketing consultants GmbH, acquired in the month of May 2016 by Reply AG that holds 100% of the share capital.
- Xister S.r.l. acquired in July 2016 by Reply S.p.A. that holds 89.2% of the share capital.
- Lynx Recruitment Ltd. a company incorporated under English law, acquired in July 2016 by Reply Ltd. that holds 100% of the share capital.

The item Fair value adjustments in 2016 amounted to 2,561 thousand Euros with a balancing entry in Profit and loss, reflects the best estimate in relation to the deferred consideration originally posted at the time of acquisition.

Total payments made amounted to 2,687 thousand Euros and refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

NOTE 27 – FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2016			31/12/2015		
(THOUSAND EUROS)	**CURRENT**	**NON CURRENT**	**TOTAL**	**CURRENT**	**NON CURRENT**	**TOTAL**
Bank overdrafts	16,039	-	16,039	35,028	-	35,028
Bank loans	18,893	29,985	48,877	10,786	33,008	43,794
Total due to banks	**34,932**	**29,985**	**64,916**	**45,814**	**33,009**	**78,822**
Other financial borrowings	737	1,066	1,803	466	860	1,326
Total financial liabilities	**35,669**	**31,051**	**66,720**	**46,280**	**33,869**	**80,149**

The following table illustrates the financial liabilities by due date:

	31/12/2016				31/12/2015			
(THOUSAND EUROS)	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Bank overdrafts	16,039	-	-	16,039	35,028	-	-	35,028
M&A loans	18,767	29,985	-	48,752	10,553	32,606	-	43,159
Mortgage loans	115	-	-	115	311	403	-	714
Other financial borrowings	737	1,066	-	1,803	466	860	-	1,326
Other	11	-	-	11	(78)		-	(78)
Total	**35,669**	**31,051**	**-**	**66,720**	**46,280**	**33,869**	**-**	**80,149**

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 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan is reimbursed on a half-year basis deferred to commence on 31 May 2016 and will expire on 31 December 2018. The residual loan amounted to 12,106 thousands Euros at 31 December 2016.
- 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 to commence on 30 September 2016. The residual loan amounted to 7,000 thousands Euros at 31 December 2016.
- Tranche B, amounting to 20,000,000 Euros, to be used by 30 September 2016.The loan will be reimbursed on a half-year basis to commence on 31 March 2017. Such credit line was entirely used at 31 December 2016 and the residual loan amounted to 20,000 thousands Euros.

- On 8 April 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 10,000,000 Euros entirely used for the reimbursement of the credit line dated 19 September 2012. The loan is reimbursed on a half-year basis deferred to commence on 31 October 2016. The residual loan amounted to 7,500 thousand Euros at 31 December 2016.
- 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. The loan will be reimbursed on a half basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500 thousands Euros at 31 December 2016.
- 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 thousands 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. The credit line is not be used at 31 December 2016.
- On 21 September 2016 Reply S.p.A. entered onto an Interest Rate Swap contract with Intesa San Paolo S.p.A. with effect from 31 March 2017 and will expire on 31 March 2020.

As contractually defined, such ratios are as follows:

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

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

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 30 September 2019.

Other financial borrowings are related to financial leases determined according to IAS 17.
The item Other mainly refers to the evaluation of derivative hedging instruments. The

underlying IRS amounted to 23,143 thousands Euros.

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

NET FINANCIAL POSITION

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's Recommendations for the consistent implementation of the European's regulation on Prospectuses issued on 10 February 2005, the Net financial position of the Reply Group at 31 December 2016 is illustrated below:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Cash and cash equivalents	92,550	105,137	(12,587)
Current financial assets	2,932	2,289	636
Non current financial assets	4	908	(904)
Total financial assets	**95,479**	**108,335**	**(12,856)**
Current financial liabilities	(35,670)	(46,280)	10,610
Non current financial liabilities	(31,051)	(33,869)	2,818
Total financial liabilities	**(66,721)**	**(80,149)**	**13,428**
Total net financial position	**28,758**	**28,186**	**572**

For further details with regards to the above table see Note 24 as well as Note 27.

NOTE 28 – EMPLOYEE BENEFITS

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Employee severance indemnities	22,094	18,489	3,605
Employee pension funds	6,771	5,860	911
Directors severance indemnities	1,520	1,502	18
Other	16	16	-
Total	**30,401**	**25,866**	**4,534**

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 2016: 2.50% frequency of turnover in 2016: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Average annual rate of 1.5%
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 1.31% was used for the year 2016.
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, development of Employment severance indemnities at 31 December 2016 is summarized in the table below:

(THOUSAND EUROS)	
Balance at 31/12/2015	**18,489**
Cost relating to current (*service cost*) work	3,638
Actuarial gain/loss	1,146
Interest cost	303
Change in consolidation	684
Indemnities paid during the year	(2,166)
Balance at 31/12/2016	**22,094**

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)	**31/12/2016**	**31/12/2015**
Present value of liability	7,641	6,209
Fair value of plan assets	(870)	(349)
Net liability	**6,771**	**5,860**

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

(THOUSAND EUROS)	
Present value at beginning of the year	**6,209**
Change in consolidation area	789
Service cost	36
Interest cost	145
Actuarial gains/(losses)	640
Indemnities paid during the year	(178)
Present value at year end	**7,641**

DIRECTORS SEVERANCE INDEMNITIES

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 18 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 2016 and to a partial payment of the indemnity.

NOTE 29 – DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2016 amounted to 18,563 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)	31/12/2016	31/12/2015
Deductible items off the books	1,767	1,836
Other	16,766	19,635
Total	**18,563**	**21,472**

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 30 - PROVISIONS

Provisions amounted to 10,916 thousand Euros (of which 10,545 thousand Euros are non-current).

Change in 2016 is summarized in the table below:

(THOUSAND EUROS)	BALANCE AT 31/12/2015	OTHER CHANGES	ACCRUALS	UTILIZATION	REVERSALS	BALANCE AT 31/12/2016
Fidelity provisions	305	-	22	(4)	-	323
Provision for risks	11,847	145	864	(1,193)	(1,068)	10,593
Motorola research Centre provision	6,957	-	-	-	(6,957)	-
Total	**19,108**	**145**	**886**	**(1,198)**	**(8,025)**	**10,916**

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 Motorola Research Centre provision, originally accrued to cover the difference between total costs of the financed projects and the government grants, as well as the receivables due from the Ministry, partially written-off in past accounting periods, has been completely reversed in 2016. Management has taken such measures as a consequence of not having reached an agreement with the counterparties involved in the operation.
The Company is in fact still waiting the judgment of the case concerning the obtaining from the Ministry compensation of damages and loss of earnings, as a result of failure to provide the funding that should have been granted with the acquisition of the Motorola Research Centre.

NOTE 31 – TRADE PAYABLES

Trade payables at 31 December 2016 amounted to 92,735 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Domestic suppliers	80,369	66,790	13,579
Foreign suppliers	13,383	11,577	1,807
Advances to suppliers	(1,017)	(681)	(336)
Total	**92,735**	**77,686**	**15,049**

NOTE 32 – OTHER CURRENT LIABILITIES

Other current liabilities at 31 December 2016 amounted to 189,144 thousand Euros with an increase of 28,505 thousand Euros with respect to the previous financial year.

Detail is as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015	CHANGE
Income tax payable	8,114	3,641	4,474
VAT payable	9,630	7,451	2,179
Withholding tax and other	6,691	5,886	805
Total due to tax authorities	**24,436**	**16,978**	**7,458**
National social insurance payable	22,927	20,578	2,349
Other	1,758	1,512	246
Total due to social securities	**24,685**	**22,090**	**2,595**
Employee accruals	52,965	46,578	6,387
Other payables	78,564	64,154	14,410
Accrued expenses and deferred income	8,495	10,840	(2,346)
Total other payables	**140,023**	**121,572**	**18,451**
Other current liabilities	**189,144**	**160,640**	**28,505**

Due to tax authorities amounting to 24,436 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 24,685 thousand Euros, is related to both Company and employees contribution payables.

Other payables at 31 December 2016 amount to 140,023 thousand Euros and mainly include:

- amounts due to employees that at the balance sheet date had not yet been paid;
- liabilities related to share based payment transactions to be settled in cash to some Group companies. Following agreements signed in 2014 with some Directors of subsidiary companies, the liability at year end amounted to 828 thousand Euros while the cost in Profit and loss amounted to 574 thousand Euros. Such options can be exercised in financial year 2018 upon achievement of some economic-financial parameters.
- 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 53,021 thousand Euros.

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 33 – 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	%	INTERSEG	TOTAL 2016	%
Revenues	**564,678**	**100**	**131,592**	**100**	**98,273**	**100**	**2,667**	**100**	**(16,472)**	**780,739**	**100**
Operating costs	(477,774)	(84.6)	(120,215)	(91.4)	(89,715)	(91.3)	(3,090)	(115.9)	16,472	(674,322)	(86.4)
Gross operating income	**86,905**	**15.4**	**11,377**	**8.6**	**8,558**	**8.7**	**(423)**	**(15.9)**		**106,417**	**13.6**
Amortization, depreciation and write-downs	(8,618)	(1.5)	(1,595)	(1.2)	(1,431)	(1.5)	(24)	(0.9)		(11,669)	(1.5)
Other non-recurring (costs)/income	1,251	-	983	0,7	2,612	3	-	-		4,846	1
Operating income	**79,538**	**14.1**	**10,764**	**8.2**	**9,739**	**9.9**	**(447)**	**(16.8)**		**99,594**	**12.8**
Gain/(loss) on investments	-	-	-	-	-	-	(668)	(25.1)		(668)	(0.1)
Financial income/(loss)	1,785	0,3	(2,036)	(1.5)	782	1	(2,051)	(76.9)		(1,520)	(0.2)
Income before taxes	**81,322**	**14.4**	**8,729**	**6.6**	**10,522**	**10.7**	**(3,167)**	**(118.8)**		**97,405**	**12.5**
Income taxes	(25,151)	(4.5)	(3,250)	(2.5)	(1,851)	(1.9)	553	21		(29,698)	(3.8)
Net income	**56,171**	**9.9**	**5,479**	**4.2**	**8,671**	**8.8**	**(2,614)**	**(98.0)**		**67,707**	**8.7**

(THOUSAND EUROS)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEG	TOTAL 2015	%
Revenues	**514,177**	**100**	**119,186**	**100**	**89,156**	**100**	**1,578**	**100**	**(18,496)**	**705,601**	**100**
Operating costs	(436,354)	(84.9)	(105,986)	(88.9)	(80,014)	(89.7)	(3,008)	(190.6)	18,496	(606,865)	(86.0)
Gross operating income	**77,824**	**15.1**	**13,200**	**11.1**	**9,142**	**10.3**	**(1,430)**	**(90.6)**		**98,736**	**14.0**
Amortization, depreciation and write-downs	(7,424)	(1.4)	(1,337)	(1.1)	(589)	(0.7)	(20)	(1.3)		(9,371)	(1.3)
Other non-recurring (costs)/income	250	-	-	-	942	1	-	-		1,192	-
Operating income	**70,649**	**13.7**	**11,863**	**10.0**	**9,495**	**10.7**	**(1,450)**	**(91.9)**		**90,558**	**12.8**
Gain/(loss) on investments	-	-	-	-	-	-	440	28		440	-
Financial income/(loss)	1,223	-	(1,505)	(1.3)	(1,372)	(1.5)	(411)	(26.1)		(2,065)	(0.3)
Income before taxes	**71,873**	**14.0**	**10,358**	**8.7**	**8,123**	**9.1**	**(1,422)**	**(90.1)**		**88,932**	**12.6**
Income taxes	(28,031)	(5.5)	(2,703)	(2.3)	(541)	(0.6)	(228)	(14.4)		(31,502)	(4.5)
Net income	**43,842**	**8.5**	**7,655**	**6.4**	**7,582**	**8.5**	**(1,650)**	**(104.5)**		**57,430**	**8.1**

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2016	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2015
Current operating assets	380,286	44,726	37,405	730	(20,492)	442,655	340,676	42,516	31,447	397	(13,885)	401,151
Current operating liabilities	(242,703)	(29,082)	(27,094)	(3,864)	20,492	(282,251)	(206,935)	(28,660)	(14,989)	(1,885)	13,885	(238,585)
Net working capital (A)	**137,583**	**15,644**	**10,312**	**(3,135)**	**-**	**160,404**	**133,741**	**13,856**	**16,458**	**(1,488)**	**-**	**162,566**
Non current assets	134,541	39,236	38,605	20,059	-	232,441	126,487	22,414	31,687	10,671	-	191,259
Non-financial liabilities long term	(49,388)	(27,033)	(7,646)	-	-	(84,067)	(63,567)	(18,165)	(3,975)	(225)	-	(85,932)
Fixed capital (B)	**85,153**	**12,203**	**30,959**	**20,059**	**-**	**148,374**	**62,920**	**4,249**	**27,712**	**10,446**	**-**	**105,327**
Net invested c apital (A+B)	**222,736**	**27,847**	**41,271**	**16,294**	**-**	**308,779**	**196,661**	**18,106**	**44,170**	**8,958**	**-**	**267,893**

Breakdown of employees by Region is as follows:

REGION	31/12/2016	31/12/2015	CHANGE
Region 1	4,507	4,069	438
Region 2	951	769	182
Region 3	549	400	149
IoT Incubator	8	7	1
Total	**6,015**	**5,245**	**770**

NOTE 34 – 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 2016 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 quantative 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.

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 2016 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 288 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 2016, according to the fair value hierarchical assessment level.

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Investments	18			14,110
Convertible loans	19			5,489
Financial securities	19	2,188	-	-
Total financial assets		**2,188**	**-**	**19,599**
Derivative financial liabilities (IRS)	27		62	
Liabilities to minority shareholders and earn out	26	-	-	24,558
Other financial liabilities	32			828
Total financial liabilities		**-**	**62**	**25,386**

The valuation of investments in start-ups 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 at the end of the financial year 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.
Cash settled share-based payments of companies belonging to the Group included within the caption Other financial liabilities, are valued on the basis of profitability parameters. Since these parameters are not observable market parameters (directly or indirectly) such debts fall under the hierarchy of Level 3.

As at 31 December 2016, there have not been any transfers within the hierarchy levels.

NOTE 35 – 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	31/12/2016	31/12/2015	NATURE OF TRANSACTION
Trade receivables	28	3	Receivables from professional services
Trade payables and other	2	8	Payables for professional services and official rentals offices
Other payables	2,965	3,924	Payables for emoluments to Directors and Managers with strategic responsibilities and Board of Statutory Auditors
ECONOMIC TRANSACTIONS	**2016**	**2015**	**NATURE OF TRANSACTION**
Revenues from professional services	-	-	Receivables from professional services
Services from Parent company and related parties	1,164	1,024	Service contracts relating to office rental, and office administration
Personnel	6,850	8,083	Emoluments to Directors and Key Management with strategic responsibilities
Services and other costs	122	122	Emoluments to Statutory Auditors

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.

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 36 – 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)	2016	2015
Executive Directors	5,224	5,276
Statutory auditors	122	122
Total	**5,346**	**5,398**

Emoluments to Key management amounted to approximately 1,626 thousand Euros (2,807 thousand Euros at 31 December 2015).

NOTE 37 – 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). Currently it is not possible to foresee the outcome of the said judgment but Management believes that any future economic-financial effects on the Group are not significant.
- with regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122 of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.

Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive

jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure.
On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.

At present, some minority shareholders have commenced the aforementioned procedures. With specific reference to the request to obtain the corresponding amount in cash, the time limit for exerting such an authority shall expire starting from the shortest time limit between the day following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

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 38 – EVENTS SUBSEQUENT TO 31 DECEMBER 2016

At the end of December 2016, an agreement was signed for the acquisition of the 100% share capital of comSysto GmbH, a company incorporated under German law based in Munich for an initial cash consideration of 6 million Euros. The agreement is effective commencing January 2017. The company is specialized in Agile solutions on Open Source technology.

NOTE 39 – APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The Consolidated financial statements at 31 December 2016 were approved by the Board of Directors on March 15, 2017 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)	2016	OF WHICH RELATED PARTIES	%	2015	OF WHICH OF WHICH PARTIES	%
Revenues	**780,739**	**-**	**-**	**705,601**	**-**	**-**
Other income	19,579	-	-	15,643	-	-
Purchases	(16,969)	-	-	(14,049)	-	-
Personnel	(379,713)	(6,850)	1.8%	(349,721)	(8,083)	2.3%
Services and other costs	(296,650)	(1,286)	0.4%	(256,138)	(1,146)	0.4%
Amortization, depreciation and write downs	(11,669)	-	-	(9,371)	-	-
Other unusual (cost)/income	4,277	-	-	(1,408)	-	-
Operating income	**99,594**	**-**	**-**	**90,558**	**-**	**-**
(Loss)/gain on investments	(668)	-	-	440	-	-
Financial income/(expenses)	(1,520)	-	-	(2,067)	-	-
Income before taxes	**97,405**	**-**	**-**	**88,930**	**-**	**-**
Income taxes	(29,698)	-	-	(31,502)	-	-
Net income	**67,707**	**-**	**-**	**57,429**	**-**	**-**
Non controlling interest	(163)	-	-	(680)	-	-
Group net result	**67,544**	**-**	**-**	**56,748**	**-**	**-**

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

(THOUSAND EUROS)	31/12/2016	OF WHICH RELATED PARTIES	%	31/12/2015	OF WHICH RELATED PARTIES	%
Tangible assets	17,686	-	-	17,023	-	-
Goodwill	157,429	-	-	133,376	-	-
Other intangible assets	17,016	-	-	9,696	-	-
Equity investments	14,110	-	-	9,105	-	-
Other financial assets	9,739	-	-	5,629	-	-
Deferred tax assets	16,466	-	-	17,339	-	-
Non current assets	**232,445**	**-**	**-**	**192,167**	**-**	**-**
Work in progress	58,651	-	-	57,929	-	-
Trade receivables	339,194	28	0.0%	302,250	3	0.0%
Other current assets	44,810	-	-	40,973	-	-
Financial assets	2,925	-	-	2,289	-	-
Cash and cash equivalents	92,550	-	-	105,137	-	-
Current assets	**538,130**	**-**	**-**	**508,578**	**-**	**-**
TOTAL ASSETS	**770,575**	**-**	**-**	**700,745**	**-**	**-**
Share capital	4,863	-	-	4,864	-	-
Other reserves	264,610	-	-	233,814	-	-
Group net income	67,544	-	-	56,748	-	-
Group Shareholder's equity	**337,017**	**-**	**-**	**295,425**	**-**	**-**
Non controlling interest	520	-	-	653	-	-
SHAREHOLDER'S EQUITY	**337,537**	**-**	**-**	**296,079**	**-**	**-**
Payables to minority shareholders and corporate transactions	24,558	-	-	19,746	-	-
Financial liabilities	31,051	-	-	33,869	-	-
Employee benefits	30,401	-	-	25,866	-	-
Deferred tax liabilities	18,563	-	-	21,472	-	-
Provisions	10,545	-	-	18,849	-	-
Non current liabilities	**115,118**	**-**	**-**	**119,801**	**-**	**-**
Financial liabilities	35,670	-	-	46,280	-	-
Trade payables	92,735	2	0.0%	77,686	8	-
Other current liabilities	189,144	2,965	1.6%	160,640	3,924	2.4%
Provisions	371	-	-	260	-	-
Current liabilities	**317,921**	**-**	**-**	**284,865**	**-**	**-**
Total liabilities	**433,038**	**-**	**-**	**404,666**	**-**	**-**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITES	**770,575**	**-**	**-**	**700,745**	**-**	**-**

REPLY
LIST OF COMPANIES AT 31 DECEMBER 2016

COMPANY NAME	HEADQUARTERS	GROUP INTEREST
Parent company		
Reply S.p.A.	Turin – Corso Francia, 110 - Italy	
Companies consolidated on a line-by-line basis		
logistics Reply S.r.l.	Turin, Italy	100.00%
logistics Reply GmbH	Munich, Germany	100.00%
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, Luxembourg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherland	100.00%
Avvio Reply Ltd. (***)	London, United Kingdom	100.00%
Bitmama S.r.l.	Turin, Italy	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 LTD.A. (*)	San Paolo, Brazil	76.00%
Cluster Reply Roma S.r.l.	Turin, Italy	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%
InEssence Reply GmbH	Düsseldorf, Germany	70.00%
IrisCube Reply S.p.A.	Turin, Italy	100.00%
Leadvise Reply GmbH	Darmstad, 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%
Lynx Recruitment 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 Ltd.a	Belo Horizonte, Brazil	100.00%

Reply Inc.	Michigan, USA	100.00%
Reply Ltd.	London, United Kingdom	100.00%
Reply Belgium SA	Mont Saint Guibert, Netherland	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%
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.	Milano, Italia	100.00%
Security Reply S.r.l.	Turin, Italy	100.00%
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	80.00%
Syskoplan Reply S.r.l.	Turin, Italy	100.00%
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 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%
Triplesense Reply S.r.l.	Turin, Italy	100.00%
Triplesense Reply GmbH	Frankfurt, Germany	100.00%
Twice Reply S.r.l.	Turin, Italy	98.00%
Twice Reply GmbH	Munich, Germany	100.00%

Trommsdorf+druner, 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%
Xister USA Corporation	Beverly Hills, USA	100.00%
Xuccess Reply GmbH	Munich, Germany	100.00%

Companies carried at fair value

Amiko Digital Health Ltd.	England	11.11%
Cocoon Alarm Ltd.	England	22.09%
iNova Design Ltd.	England	30.00%
Sensoria Inc.	USA	24.00%
Zeeta Networks Ltd.	England	15.83%
Iotic Labs Ltd.	England	9.50%
Sentryo SAS	France	12.64%
Connecterra BV	Belgium	16.50%
RazorSecure Ltd.	England	18.52%
Senseye Ltd.	England	15.59%
Wearable Technologies Ltd.	England	7.24%

Companies carried at cost

Technology Reply Roma S.r.l.	Turin, Italy	100.00%

(*) 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 2016 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 section 479A with respect to the year ended 31 December 2016. Reply S.p.A. has given a statement of guarantee under Companies Act 2006 section 479C whereby it will guarantee all outstanding liabilities to which these subsidiaries are subject as at 31 December 2016. The companies are Avantage Reply Ltd (registration no. 05177605), Avvio Reply Ltd (registration no. 02865104), France Reply Ltd (registration no. 08823238), Lynx Recruitment Ltd (registration no. 04289642) Reply NL Ltd (registration no. 09920476), Risk Reply Ltd (registration no. 09030959), WM360 Ltd (registration no. 08856068), WM360 Consultancy Services Ltd (registration no. 08732888), WM360 Crashpad Ltd (registration no. 09030933) and WM360 Resourcing Ltd (registration no. 06238310).

INFORMATION IN ACCORDANCE WITH ARTICLE 149-DUODECIES ISSUED BY CONSOB

The following table, prepared in accordance with Art. 149-duodeciesof Consob's Regulations for Issuers reports the amount of fees charged in 2016 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 2016
Audit	EY S.p.A.	Parent Company - Reply S.p.A.	28
	EY S.p.A.	Subsidiaries	192
	Ernst & Young GmbH	Subsidiaries	195
	Ernst & Young LLP	Subsidiaries	117
	Ernst & Young Auditores Independentes S.S.	Subsidiaries	27
	Total		**560**
Audit related services	EY S.p.A.	Parent Company - Reply S.p.A. (1)	1
	EY S.p.A.	Subsidiaries (1)	18
	Total		**19**
Other services	Ernst & Young LLP	Parent Company - Reply S.p.A. (2)	144
	Ernst & Young GmbH	Subsidiaries (3)	29
	Total		**173**
Total			**752**

(1) Signed tax forms (Modello Unico, IRAP and Form 770)
(2) Due Diligence activities
(3) Activities in relation to the group reorganization of investments

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 2016.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2016 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Consolidated Financial Statement

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

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

Turin, 15 March 2017

Chairman and
Chief Executive Officer
Mario Rizzante

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 2016

Dear Shareholders,

The Board of Directors is submitting to you the Consolidated Financial Statements as at 31 December 2016 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 2016 present a consolidated Shareholders' equity amounting to 337,017 thousand Euros, including a consolidated profit of 67,544 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 sub-division of the volumes of assets of the principal business lines and the consolidated results. The consolidation area is determined in such context, which included as at 31 December 2016 in addition to the Parent Company, 103 companies and 2 consortiums, all of which consolidated on a line-by-line basis.

The controls made by the Independent Auditor EY S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2016 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.

EY S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements, has issued its report on today's date, in which it confirms that, in its opinion, the Consolidated Financial Statements of the Reply Group as at 31 December 2016 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, and further, the Report on Operations and 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.

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

- The consolidation area has been determined in 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 2016;
- The measurement criteria are homogeneous with those used for the previous reporting period;
- Changes in the consolidation compared to 31 December 2015 consist of the inclusion of the following companies:
  - WM360 Ktd;
  - WM360 Consultancy Services Ltd;
  - WM360 Crashpad Ltd;
  - WM Reply Ltd;
  - WM360 Resocurcing Ltd;
  - Protocube Reply S.r.l.;
  - Trommsdorff + drüner, innovation + marketing consultants GmbH;
  - Xister Reply S.r.l.;
  - Xister USA Corporation;
  - Lynx Recruitment Ltd;
  - Blue Reply GmbH;
  - Open Reply GmbH;
  - Healthy Reply GmbH;
  - Triplesense Reply S.r.l.;
  - Spark Reply S.r.l.;
  - Spark Reply GmbH;
  - Reply NL Ltd.
  - First Development Hub LLC
  - Go Reply S.r.l.
  - TD China (TD Marketing Conultants, Beijing Co. Ltd.)

Turin, 30 March 2017.

THE STATUTORY AUDITORS

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

Building a better working world

EY S.p.A.
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Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of Reply S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Reply Group, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidate income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other notes.

Directors' responsibility for the consolidated financial statements

The Directors of Reply S.p.A. are responsible for the preparation of these 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 art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Group Reply as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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working world

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Reply Group as at December 31, 2016.

Turin, March 30, 2017

EY S.p.A.
Signed by: Luigi Conti, partner

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

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

INCOME STATEMENT (*)

(EUROS)	NOTE	2016	2015
Revenue	5	367,952,177	326,911,581
Other income	6	7,999,405	6,120,821
Purchases	7	(16,293,478)	(8,741,850)
Personnel	8	(20,176,553)	(17,994,188)
Services and other costs	9	(338,791,654)	(304,748,471)
Amortization, depreciation and write-downs	10	(731,885)	(471,681)
Other unusual operating income/(expenses)	11	1,780,821	(3,750,000)
Operating income		**1,738,834**	**(2,673,788)**
Gain/(loss) on equity investments	12	18,000,006	37,937,457
Financial income/(expenses)	13	(2,900,297)	3,407,322
Income before taxes		**16,838,543**	**38,670,992**
Income taxes	14	424,935	(1,756,577)
Net income		**17,263,478**	**36,914,414**
Net income per share	*15*	*1.85*	*3.95*
Diluted net income per share	*15*	*1.85*	*3.95*

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

STATEMENT OF COMPREHENSIVE INCOME

(EUROS)	NOTE	2016	2015
Profit of the period (A)		**17,263,478**	**36,914,414**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) from employee benefit plans	26	(14,351)	17,617
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):		**(14,351)**	**17,617**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges	26	(62,261)	3,612
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**(62,261)**	**3,612**
Total other comprehensive income, net of tax (B) = (B1) + (B2):		**(76,612)**	**21,229**
Total comprehensive income (A)+(B)		**17,186,867**	**36,935,643**

STATEMENT OF FINANCIAL POSITION (*)

(EUROS)	NOTE	31/12/2016	31/12/2015
Tangible assets	16	722,796	764,619
Goodwill	17	86,765	86,765
Other intangible assets	18	2,118,907	1,498,954
Equity investments	19	149,356,195	133,595,730
Other financial assets	20	67,399,932	52,112,144
Deferred tax assets	21	3,017,480	1,234,807
Non current assets		**222,702,075**	**189,293,019**
Trade receivables	22	304,557,549	259,856,229
Other receivables and current assets	23	20,042,881	33,158,420
Financial assets	24	63,168,559	58,522,084
Cash and cash equivalents	25	50,108,291	55,745,286
Current assets		**437,877,280**	**407,282,018**
TOTAL ASSETS		**660,579,355**	**596,575,038**
Share Capital		4,863,486	4,863,486
Other reserves		178,614,766	151,128,813
Net income		17,263,478	36,914,414
SHAREHOLDERS' EQUITY	**26**	**200,741,730**	**192,906,713**
Due to minority shareholders	27	2,364,114	4,468,788
Financial liabilities	28	29,338,628	32,605,828
Employee benefits	29	436,717	416,302
Deferred tax liabilities	30	1,121,147	1,105,248
Provisions	33	6,821,300	7,398,000
Non current liabilities		**40,081,906**	**45,994,165**
Financial liabilities	28	97,952,769	86,803,962
Trade payables	31	296,231,941	252,342,479
Other current liabilities	32	24,371,010	16,501,719
Provisions	33	1,200,000	2,026,000
Current liabilities		**419,755,719**	**357,674,160**
TOTAL LIABILITIES		**459,837,625**	**403,668,324**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**660,579,355**	**596,575,038**

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

STATEMENT OF CHANGES IN EQUITY

(EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	TOTAL
Balance at 1 January 2015	**4,863,486**	**(9,127)**	**59,183,600**	**99,913,252**	**(3,612)**	**(12,081)**	**163,935,518**
Dividends distributed	-	-	-	(7,949,073)	-	-	(7,949,073)
Change in treasury shares	-	(15,375)	20,000,000	(20,000,000)	-	17,617	(15,375)
Total profit	-	-	-	36,914,414	3,612	-	36,935,643
Balance at 31 December 2015	**4,863,486**	**(24,502)**	**79,183,600**	**108,878,593**	**-**	**5,536**	**192,906,714**

(EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	TOTAL
Balance at 1 January 2016	**4,863,486**	**(24,502)**	**79,183,600**	**108,878,593**	**-**	**5,536**	**192,906,714**
Dividends distributed	-	-	-	(9,351,850)	-	-	(9,351,850)
Total profit	-	-	-	17,263,478	(62,261)	(14,351)	17,186,867
Balance at 31 December 2016	**4,863,486**	**(24,502)**	**79,183,600**	**116,790,222**	**(62,261)**	**(8,815)**	**200,741,730**

STATEMENT OF CASH FLOWS

(EUROS)	31/12/2016	31/12/2016
Result	17,263,478	36,914,414
Income taxes	(424,935)	1,756,577
Amortization and depreciation	731,885	471,681
Other non-monetary expenses/(income)	(3,958,627)	(747,557)
Change in trade receivables	(44,701,320)	(38,564,536)
Change in trade payables	43,889,462	29,382,704
Change in other assets and liabilities	20,729,321	(4,034,321)
Income tax paid	(1,756,577)	(1,208,521)
Interest paid	(712,037)	(966,951)
Net cash flows from operating activities (A)	**31,060,651**	**23,003,490**
Payments for tangible and intangible assets	(1,310,015)	(773,483)
Payments for financial assets	(15,925,279)	(9,625,320)
Payments for the acquisition of subsidiaries net of cash acquired	(13,906,512)	(1,984,781)
Net cash flows from investment activities (B)	**(31,141,806)**	**(12,383,583)**
Dividends paid	(9,351,850)	(7,949,073)
In payments from treasury shares	15,500,000	28,418,972
Payment of instalments	(10,641,506)	(21,291,041)
Other changes	-	5,854
Net cash flows from financing activities (C)	**(4,493,356)**	**(815,287)**
Net cash flows (D) = (A+B+C)	**(4,574,511)**	**9,804,619**
Cash and cash equivalents at the beginning of period	37,938,088	28,133,468
Cash and cash equivalents at period end	33,363,577	37,938,088
Total change in cash and cash equivalents (D)	**(4,574,511)**	**9,804,619**

DETAIL OF CASH AND CASH EQUIVALENTS

(IN EUROS)	31/12/2016	31/12/2015
Cash and cash equivalents at beginning of period:	**37,938,088**	**28,133,468**
Cash and cash equivalents	55,745,286	40,913,939
Other	743,560	959,512
Transaction accounts - surplus	57,778,523	49,849,243
Transaction accounts - overdraft	(41,140,870)	(26,868,340)
Bank overdrafts	(35,188,412)	(36,720,886)
Cash and cash equivalents at the end of the year:	**33,363,577**	**37,938,088**
Cash and cash equivalents	50,108,291	55,745,286
Other	(19,164)	743,560
Transaction accounts - surplus	62,449,382	57,778,523
Transaction accounts - overdraft	(64,428,008)	(41,140,870)
Bank overdrafts	(14,746,924)	(35,188,412)

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION	NOTE 1	General information
	NOTE 2	Accounting principles
	NOTE 3	Financial risk management
	NOTE 4	Other
INCOME STATEMENT	NOTE 5	Revenues
	NOTE 6	Other revenues
	NOTE 7	Purchases
	NOTE 8	Personnel
	NOTE 9	Services and other costs
	NOTE 10	Amortization, depreciation and write-downs
	NOTE 11	Other unusual operating income/(expenses)
	NOTE 12	Result of equity investments
	NOTE 13	Financial income/(expenses)
	NOTE 14	Income taxes
	NOTE 15	Earnings per share
FINANCIAL POSITION- ASSETS	NOTE 16	Tangible assets
	NOTE 17	Goodwill
	NOTE 18	Other intangible assets
	NOTE 19	Equity Investments
	NOTE 20	Non current financial assets
	NOTE 21	Deferred tax assets
	NOTE 22	Trade receivables
	NOTE 23	Other receivables and current assets
	NOTE 24	Current financial assets
	NOTE 25	Cash and cash equivalents
FINANCIAL POSITION- LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE 26	Shareholders' equity
	NOTE 27	Payables to minority shareholders
	NOTE 28	Financial liabilities
	NOTE 29	Employee benefits
	NOTE 30	Deferred tax liabilities
	NOTE 31	Trade payables
	NOTE 32	Other current liabilities
	NOTE 33	Provisions
OTHER INFORMATION	NOTE 34	Transactions with related parties
	NOTE 35	Additional disclosures to financial instruments and risk management policies
	NOTE 36	Significant non-recurring transactions
	NOTE 37	Transactions resulting from unusual and/or abnormal operations
	NOTE 38	Guarantees, commitments and contingent liabilities
OTHER INFORMATION	NOTE 39	Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities
	NOTE 40	Events subsequent to 31 December 2016
	NOTE 41	Approval of the financial statements and authorization for publication

NOTE 1 - GENERAL INFORMATION

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

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

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The 2016 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 IAS 39.

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 relative to its ability to continue as a going concern.

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

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

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

FINANCIAL STATEMENTS

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

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

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

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

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

TANGIBLE ASSETS

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses. Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.
In compliance with IAS 36 – Impairment of assets, the carrying value is immediately remeasured to the recoverable value, if lower.

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

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

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

GOODWILL

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

OTHER INTANGIBLE ASSETS

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

Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably.

Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.

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

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

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

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

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

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

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization is determined on a straight line basis over the relevant useful lives.

When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognized to the statement of income in the period in which they are incurred.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

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

IMPAIRMENT

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

The recoverable amount of an asset is the higher of *fair value* less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment.

The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, (the so-called *Cash generating unit*). With reference to goodwill, Management assesses return on investment with reference to the smallest *cash generating unit* including goodwill.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately. When the recognition value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the *Cash generating unit*.

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

EQUITY INVESTMENTS

Investments in subsidiaries and associated companies are valued using the cost method.
As implementation of such method, they are subject to an impairment test if there is any objective evidence that these investments have been impaired, due to one or more events that occurred after the initial measurement if such events have had an impact on future cash flows, thus inhibiting the distribution of dividends. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly negative. If such is the case, *impairment* is recognized as the difference between the carrying value and the recoverable value, normally determined on the basis of fair value less disposal costs.
At each reporting period, the Company assesses whether there is objective evidence that a write-down due to impairment of an equity investment recognized in previous periods may be reduced or derecognized. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly positive. In this case, the recoverable value is re-measured and eventually the investment is restated at initial cost.
Equity investments in other companies, comprising non current financial assets not held for trading, are measured at *fair value*, if it can be determined. Any subsequent gains and losses resulting from changes in *fair value* are recognized directly in Shareholders' equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized in the Income Statement for the period.
Minor investments in other companies for which *fair value* is not available are measured at cost, and adjusted for any impairment losses.
Dividends are recognized as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution. If such dividends arise from the distribution of reserves prior to the acquisition, these dividends reduce the initial acquisition cost.

CURRENT AND NON CURRENT FINANCIAL ASSETS

Financial assets are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Investments are recognized and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.

At subsequent reporting dates, financial assets that the Company has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortized cost according to the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts, and are classified among non current financial assets.

Investments other than held-to maturity securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where financial assets are held for trading purposes, gains and losses arising from changes in fair value are included in the net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period. This item is stated in the current financial assets.

TRANSFER OF FINANCIAL ASSETS

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

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

extent of its residual involvement with such financial asset.

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

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

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

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

CASH AND CASH EQUIVALENTS

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

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

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

- Equity instruments
  Equity instruments issued by the 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

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 IAS 39, 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 IAS 39 at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.
For effective hedging against a change in *fair value*, the hedged item is adjusted by the changes in *fair value* attributable to the risk hedged with a balancing entry in the Income Statement. Gains and losses arising from the measurement of the derivative are also

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

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

EMPLOYEE BENEFITS
The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan up until 31 December 2006. The legislation regarding this scheme was amended by Law No. 296 of 27 December 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Financial Statements for those benefits accruing up to 31 December 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.
Employee termination indemnities ("TFR") are classified as a "*post-employment benefit*", falling under the category of a "*defined benefit plan*"; the amount already accrued must be projected in order to
estimate the payable amount at the time of employee termination and subsequently be discounted through the "*projected unit credit method*", an actuarial method based on demographic and finance data that allows the reasonable estimate of the extent of benefits that each employee has matured in relation to the time worked. Through actuarial measurement, *interest cost* is recognized as financial gains or losses and represents the figurative expenditure that the Company would bear by securing a market loan for an amount corresponding to the Employee Termination Indemnities ("TFR").
Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized in Shareholders' equity.

SHARE-BASED PAYMENT PLANS

The Company has applied the standard set out by IFRS 2 “Share-based payment”.
Share-based payments are measured at fair value at granting date. Such amount is recognized in the Income Statement, with a balancing entry in Shareholders’ equity, on a straight-line basis and over the (vesting period). The fair value of the option, measured at the granting date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted.
The stock options resolved in the previous financial years have been exercised and therefore the Company does not have existing stock option plans.

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

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

Revenue from sales and services is recognized when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.
Revenues from services include the activities the Company carries out directly with respect to some of its major clients in relation to their businesses. These activities are also carried out in exchange for services provided by other Group companies, and the costs for such services are recognized as Services and other costs.
Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances,

settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognized.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable that represents the discounted interest rate of the future estimated proceeds estimated over the expected life of the financial asset in order to bring them to the accounting value of the same asset.
Dividends from investments is recognized when the shareholders' rights to receive payment has been established.

FINANCIAL INCOME AND EXPENSES
Financial income and expenses are recognized and measured in the income statement on an accrual basis.

TAXATION
Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the 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 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 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 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 2015 reporting period.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS ADOPTED FROM 1 JANUARY 2016

Reply S.p.A. applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. Reply S.p.A. has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statement of Reply S.p.A.. The nature and the impact of each new standard or amendment are described below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 February 2015. This amendment is not relevant to the Company, since the entity hasn't defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

These improvements are effective for accounting periods beginning on or after 1 February 2015. The Company has applied these improvements for the first time in this financial statement. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

The clarifications are consistent with how the Company has identified any performance and service conditions which are vesting conditions in previous periods. Thus, these amendments did not impact the Reply's financial statement or accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Reply's current accounting policy and, thus, this amendment did not impact the Company's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

Reply S.p.A. has not applied the aggregation criteria in IFRS 8.12 because has only one operating segment.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Company during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Company as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Company given that Reply S.p.A. has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Company's financial statement.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Company.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Company.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. Overall, the Company expects no significant impact on its balance sheet and equity.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments. On the basis of the preliminary analysis, no significant impacts are expected on the Company.

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Company.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its financial statement.

IFRS 16 Leases

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Company plans to assess the potential effect of IFRS 16 on its financial statement.

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

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

As the company operates mainly in a "Euros area" the exposure to currency risks is limited.
The exposure to interest rate risk arises from the need to fund operating activities and the

necessity to deploy surplus. Changes in market interest rates may have the effect of either increasing or decreasing the company's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The exposure to interest rate risk arises from the need to fund operating activities and M&A investments, as well as the necessity to deploy available liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Company's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
The interest rate risk to which the Company is exposed derives from bank loans; to mitigate such risks, Reply S.p.A., when useful, uses derivative financial instruments designated as "cash flow hedges". The use of such instruments is disciplined by written procedures in line with the Company's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

NOTE 4 - OTHER INFORMATION

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

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

FISCAL CONSOLIDATION

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

NOTE 5 - REVENUE

Revenues amounted to 367,952,177 Euros and are detailed as follows:

(EUROS)	2016	2015	CHANGE
Revenues from services	319,687,582	279,688,517	39,999,065
Royalties on "Reply" trademark	21,691,597	19,540,814	2,150,783
Intercompany services	18,478,081	18,815,682	(337,600)
Other intercompany revenues	8,094,917	8,866,569	(771,652)
Total	**367,952,177**	**326,911,581**	**41,040,596**

Reply manages business relationships on behalf of some of its major clients. Such activities were recorded in the item Revenues from services to third parties which increased by 39,999,065 Euros.

Revenues from Royalties on the “Reply” trademark refer to charges to subsidiaries, corresponding to 3% of the subsidiaries’ turnover with respect to third parties.
Revenues from *Intercompany services* and *Other intercompany charges* refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

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

NOTE 6 - OTHER INCOME

Other revenues that as at 31 December 2016 amounted to 7,999,405 Euros (6,120,821 Euros at 31 December 2015) 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)	2016	2015	CHANGE
Software licenses	10,502,020	5,838,205	4,663,815
Hardware	5,249,071	2,477,880	2,771,191
Other	542,387	425,765	116,622
Total	**16,293,478**	**8,741,850**	**7,551,628**

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

The item Other includes the purchase of supplies, e-commerce material, stationary and printed materials (340,276 Euros) and fuel (198,297 Euros).

NOTE 8 - PERSONNEL EXPENSES

Personnel costs amounted to 20,176,553 Euros, with an increase of 2,182,365 Euros and are detailed in the following table:

(EUROS)	2016	2015	CHANGE
Payroll employees	15,982,802	13,699,901	2,282,901
Directors	4,193,751	4,294,287	(100,537)
Total	**20,176,553**	**17,994,188**	**2,182,365**

Detail of personnel by category is provided below:

(NUMBER)	2016	2016	CHANGE
Directors	58	56	2
Managers	8	8	-
Staff	21	23	(2)
Total	**87**	**87**	**-**

The average number of employees in 2016 was 90 (in 2015 91).

NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

(EUROS)	2016	2015	CHANGE
Commercial and technical consulting	2,813,911	2,488,978	324,933
Travelling and training expenses	2,059,581	1,718,375	341,207
Professional services from group companies	302,717,479	272,051,485	30,665,994
marketing expenses	3,263,321	2,466,410	796,911
Administrative and legal services	1,459,381	1,294,805	164,576
Statutory auditors and Independent auditors fees	152,424	171,234	(18,810)
Leases and rentals	1,316,967	889,648	427,319
Office expenses	3,179,460	2,851,088	328,373
Other services from group companies	11,699,912	11,420,839	279,073
Expenses incurred on behalf of group companies	5,986,389	4,682,000	1,304,389
Other	4,142,829	4,713,609	(570,781)
Total	**338,791,654**	**304,748,471**	**34,043,183**

Professional Services from Group companies, which changed during the year by 30,665,994 Euros, relate to revenues from services to third parties (pass-through revenues).
Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

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

NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2016 to an overall cost of 341,577 Euros. Details of depreciation are provided at the notes to tangible assets.

Amortization of intangible assets amounted in 2016 to an overall cost of 390,309 Euros. Details of depreciation are provided at the notes to intangible assets.

NOTE 11 - OTHER UNUSUAL OPERATING INCOME/(EXPENSES)

Other unusual operating income/(expenses) amounted to 1,780,821 Euros and refers to the fair value adjustment of liabilities to minority shareholders (1,250,821 Euros) and to the reversal of provisions for risks (530,000 Euros).

NOTE 12 - GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is a follows:

(EUROS)	2016	2015	CHANGE
Dividends	20,189,006	39,577,457	(19,388,451)
Loss on equity investments	(2,189,000)	(1,640,000)	(549,000)
Total	**18,000,006**	**37,937,457**	**(19,937,451)**

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

Detail is as follows:

(IN EURO)	**2016**
logistics Reply S.r.l.	110,000
Arlanis Reply S.r.l.	80,000
Aktive Reply S.r.l.	480,000
Atlas Reply S.r.l.	130,000
Bitmama S.r.l.	105,083
Blue Reply S.r.l.	1,860,000
Bridge Reply S.r.l.	99,000
Business Reply S.r.l.	330,000
Cluster Reply S.r.l.	2,460,000
Reply Consulting S.r.l.	420,000
Discovery Reply S.r.l.	230,000
Eos Reply S.r.l.	104,923
E*finance Consulting S.r.l.	670,000
Hermes Reply S.r.l.	710,000
Data Reply S.r.l.	20,000
Iriscube Reply S.p.A.	970,000
Open Reply S.r.l.	970,000
Pay Reply S.r.l.	360,000
Power Reply S.r.l.	1,100,000
Ringmaster S.r.l.	750,000
Santer Reply S.p.A.	1,110,000
Security Reply S.r.l.	570,000
Square Reply S.r.l.	80,000
Syskoplan Reply S.r.l.	230,000
Sytel Reply Roma S.r.l.	1,820,000
Sytel Reply S.r.l	1,660,000
Target Reply S.r.l.	610,000
Technology Reply S.r.l.	1,560,000
Whitehall Reply S.r.l.	590,000
Total	**20,189,006**

Losses on equity investments refer to write-downs and the year-end losses of several subsidiary companies that were prudentially deemed as non-recoverable with respect to the value of the investment. For further details see Note 19 herein.

NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(EUROS)	2016	2015	CHANGE
Interest income from subsidiaries	4,562,480	3,183,172	1,379,308
Interest income on bank accounts	10,349	6,672	3,677
Interest expenses	(738,646)	(966,951)	228,305
Other	(6,734,480)	1,184,430	(7,918,909)
Total	**(2,900,297)**	**3,407,322**	**(6,307,619)**

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 losses on exchange rate differences amounting to 6,464 thousand Euros and gains on exchange rate differences amounting to 181 thousand Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 - INCOME TAXES

The details are provided below:

(EUROS)	2016	2015	CHANGE
IRES	1,136,839	1,011,488	125,351
IRAP	205,000	264,000	(59,000)
Current taxes	**1,341,839**	**1,275,488**	**66,351**
Deferred tax liabilities	15,899	194,016	(178,117)
Deferred tax assets	(1,782,673)	287,073	(2,069,746)
Deferred taxes	(1,766,774)	481,089	(2,247,863)
Total income taxes	**(424,935)**	**1,756,577**	**(2,181,512)**

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	**16,838,543**	
Theoretical tax rate	**27.5 %**	**4,630,599**
Temporary differences, net	(12,545,636)	
Taxable income	**4,292,907**	**1,180,550**
Total IRES		**1,186,000**
Benefit arising from the National Fiscal Consolidation	49,161	
Total current IRES		**1,136,839**

Temporary differences, net refer to:

- Deductible differences amounting to 29,847 thousand Euros arising mainly from the non taxable share of the dividends received in the financial year (19,180 thousand Euros);
- Non deductible differences amounting to 17,302 thousand Euros owing mainly to the exchange rate losses related to foreign currency interest-free loans (5,713 thousand Euros), write-down of equity investments (4,665 thousand Euros) and Directors' fees to be paid (2,300 thousand Euros).

CALCULATION OF TAXABLE IRAP

(EUROS)	AMOUNT	TAXATION
Difference between value and cost of production	**3,764,834**	
IRAP net	966,566	
Taxable IRAP	**4,731,400**	
Total IRAP		**205,000**

Temporary differences, net refer to:

- Non deductible differences amounting to 5,571 thousand Euros mainly due to emoluments to Directors (4,084 thousand Euros);
- Deductible differences amounting to 4,604 thousand Euros due to financial income components not relevant for tax purposes (mainly to the reversal of provision for losses on equity investments for 2,026 thousand Euros and the adjustments of payables to minority shareholders for 1,251 thousand Euros).

NOTE 15 - EARNINGS PER SHARE

Basic earnings and diluted earnings per share as at 31 December 2016 was calculated with reference to the net profit which amounted to 17,263,478 Euros (36,914,414 Euros at 31 December 2015) divided by the weighted average number of shares outstanding as at 31 December 2016, net of treasury shares, which amounted to 9,351,380 (9,351,380 at 31 December 2015).

(EUROS)	2016	2015
Net profit of the year	17,263,478	36,914,414
Weighted number of shares	9,351,380	9,351,380
Basic earnings per share	1.85	3.95

NOTE 16 - TANGIBLE ASSETS

Tangible assets as at 31 December 2016 amounted to 722,796 Euros are detailed as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Plant and machinery	369,202	299,310	69,892
Hardware	119,055	140,995	(21,940)
Other tangible assets	234,540	324,315	(89,775)
Total	**722,796**	**764,619**	**(41,823)**

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

Change in Tangible assets during 2016 is summarized below:

(EUROS)	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical cost	1,654,860	1,563,774	1,982,950	5,201,583
Accumulated depreciation	(1,355,550)	(1,422,779)	(1,658,635)	(4,436,964)
31/12/2015	**299,310**	**140,995**	**324,315**	**764,619**
Historical cost				
Increases	204,641	69,359	51,249	325,249
Disposals/write off	(151,838)	(6,313)	(344,297)	(502,447)
Accumulated depreciation				
Depreciation	(130,135)	(90,497)	(120,946)	(341,577)
Disposals/write off	147,223	5,511	324,219	476,952
Historical cost	1,707,663	1,626,820	1,689,902	5,024,385
Accumulated depreciation	(1,338,462)	(1,507,765)	(1,455,362)	(4,301,589)
31/12/2016	**369,202**	**119,055**	**234,540**	**722,796**

During the year under review the Company made investments amounting to 325,249 Euros, which mainly refer to general plant and machinery (205 thousands Euros) and hardware (67 thousands Euros).
The write off amounting to 502,447 Euros mainly refer to improvements to third party assets (263 thousands Euros) and plant and machinery (152 thousands Euros) related to the disposal of the assets located in the office in Rome (Via Regina Margherita 8) no longer in activity.

NOTE 17 - GOODWILL

Goodwill as at 31 December 2016 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000.

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

NOTE 18 - OTHER INTANGIBLE ASSETS

Intangible assets as at 31 December 2016 amounted to 2,118,907 Euros (1,498,954 Euros at 31 December 2015) and are detailed as follows:

(EUROS)	HISTORICAL COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE AT 31/12/2016
Software	6,465,399	(4,882,555)	1,582,843
Trademark	536,064	-	536,064
Total	**7,001,463**	**(4,882,555)**	**2,118,907**

Change in intangible assets in 2016 is summarized in the table below:

(EUROS)	NET BOOK VALUE AT 31/12/2015	INCREASES	DEPRECIATION	NET BOOK VALUE AT 31/12/2016
Software	962,890	1,061,261	(390,309)	1,582,843
Trademark	536,064	-	-	536,064
Total	1,498,954	1,061,261	(390,309)	2,118,907

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

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

NOTE 19 - EQUITY INVESTMENTS

The item Equity investments at 31 December 2016 amounted to 149,356,195 Euros, with an increase of 15,760,465 Euros compared to 31 December 2015.

(EUROS)	BALANCE AT 31/12/2015	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2016	INTEREST
logistics Reply S.r.l.	1,049,168					1,049,168	100.00%
Air Reply S.r.l.	378,500		180,000			558,500	85.00%
Aktive Reply S.r.l.	512,697					512,697	100.00%
Arlanis Reply S.r.l.	588,001					588,001	100.00%
Arlanis Reply AG	1,005,000				(1,005,000)	-	0.00%
Atlas Reply S.r.l.	356,576					356,576	100.00%
Avantage Ltd	9,483,485					9,483,485	100.00%
Bitmama S.r.l.	217,020	4,000,000	220,000	(220,000)		4,217,020	100.00%
Blue Reply S.r.l.	527,893					527,893	100.00%
Breed Reply Ltd.	12,477					12,477	100.00%
Breed Reply Investment Ltd.	103					103	80.00%
Bridge Reply S.r.l.	6,001					6,001	60.00%
Business Reply S.r.l.	268,603					268,603	100.00%
Cluster Reply S.r.l.	2,610,033				(69,184)	2,540,849	100.00%
Cluster Reply Roma S.r.l.	227,000				69,184	296,184	100.00%
Concept Reply GMBH	25,000	18,000			(43,000)	-	0.00%
Consorzio Reply Public Sector	32,501					32,501	36.70%
Consorzio Reply Energy	1,000					1,000	25.00%
Data Reply S.r.l.	140,000				177,662	317,662	100.00%
Discovery Reply S.r.l.	1,311,670					1,311,670	100.00%
e*finance Consulting Reply S.r.l.	3,076,386					3,076,386	100.00%
Ekip Reply S.r.l.	30,000					30,000	100.00%
Eos Reply S.r.l.	155,370					155,370	80.70%
Forge Reply S.r.l.	12,000		1,020,000	(1,020,000)		12,000	100.00%
Go Reply S.r.l.	200,000	1,720,000				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%
Inessence Reply GmbH	17,500				(17,500)	-	0.00%
IrisCube Reply S.p.A.	6,724,953					6,724,953	100.00%
Lem Reply S.r.l.	400,012		395,000	(395,000)		400,012	100.00%
Like Reply S.r.l.	132,317		695,000	(695,000)		132,317	100.00%
Live Reply GmbH	52,500				(52,500)	-	0.00%
Open Reply S.r.l.	1,417,751					1,417,751	100.00%
Pay Reply S.r.l.	10,000					10,000	100.00%
Portaltech Reply S.r.l.	104,500		210,000	(210,000)		104,500	100.00%
Portaltech Reply GmbH	2,017,000				(2,017,000)	-	0.00%
Power Reply S.r.l.	2,500,850					2,500,850	100.00%
Protocube Reply S.r.l.	-	287,000	280,000	(280,000)		287,000	55.00%

(EUROS)	BALANCE AT 31/12/2015	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2016	INTEREST
Reply Consulting S.r.l.	3,518,435					3,518,435	100.0 %
Reply AG	41,277,722				16,558,060	57,835,782	100.0 %
Reply do Brasil Sistemas de Informatica Ltd.a	206,817					206,817	98.5 %
Reply Inc	40,596					40,596	100.0 %
Reply Ltd.	11,657,768					11,657,768	100.0 %
Reply Services S.r.l.	104,132					104,132	100.0 %
Ringmaster s.r.l.	5,000					5,000	50.0 %
Riverland Reply GmbH	10,269,990				(10,269,990)	-	0.00%
Santer Reply S.p.A.	11,386,967					11,386,967	100.0 %
Sensoria Inc.	3,887,432					3,887,432	24.00%
Spark Reply S.r.l.	8,500		395,000			403,500	85.00%
Spike Reply	392,867					392,867	100.0 %
Square Reply S.r.l.	100,000					100,000	100.00%
Storm Reply S.r.l. (*)	986,000					986,000	95.00%
Syskoplan Reply S.r.l.	949,573					949,573	100.00%
Sytel Reply S.r.l.	4,991,829					4,991,829	100.0 %
Sytel Reply Roma S.r.l.	894,931					894,931	100.0 %
Tamtamy Reply S.r.l.	254,551					254,551	100.0 %
Target Reply S.r.l.	778,001				(177,662)	600,339	100.0 %
Technology Reply Roma	-	10,000				10,000	100.0 %
Technology Reply S.r.l.	216,659					216,659	100.0 %
Technology Reply S.r.l. (Romania)	9,919					9,919	100.0 %
Triplesense Reply S.r.l.	10,000		160,000	(160,000)		10,000	100.00%
Triplesense Reply GmbH	5,153,070				(5,153,070)	-	0.00%
Twice Reply S.r.l.	521,203					521,203	98.00%
Whitehall Reply S.r.l.	160,213					160,213	100.00%
Xister Reply S.r.l.	-	11,150,465	-	-	-	11,150,465	89.20%
Total	**133,595,730**	**17,185,465**	**3,555,000**	**(2,980,000)**	**(2,000,000)**	**149,356,195**	

(*) 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

Bitmama S.r.l.
In the month of May 2016 Reply S.p.A. acquired the remaining 49% of the share capital of Bitmama S.r.l.

Go Reply S.r.l.
During the year Reply re-funded the investment.

Protocube Reply S.r.l.
In the month of March 2016 Reply S.p.A. acquired the 55% of the share capital of Protocube S.r.l., with headquarters in Turin, leader in 3D modelling and engineering.

Technology Reply Roma S.r.l.
In November 2016 Technology Reply Roma S.r.l. was constituted, a company in which Reply S.p.A. holds 100% of the share capital.

Xister Reply S.r.l.
In the month of July 2016 Reply S.p.A. acquired 89.2% of the share capital of Xister S.r.l.. The company is a digital agency, leader in consulting and development of solutions and strategies in digital branding.

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.

OTHER
These amounts are related to a company reorganization under which several companies incorporated under German law were transferred to the subsidiary Reply AG.

****

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

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

NOTE 20 - NON CURRENT FINANCIAL ASSETS

Detail is as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Guarantee deposits	100,850	162,066	(61,216)
Loans to subsidiaries	67,299,082	51,950,078	15,349,004
Total	**67,399,932**	**52,112,144**	**15,287,788**

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
Air Reply S.r.l.	20,000
Breed Reply Investments Ltd.	17,934,119
Breed Reply Ltd.	1,810,367
Concept Reply GmbH	900,000
Hermes Reply Polska Sp zo.o	516,045
InEssence Reply Gmbh	2,250,000
InEssence Reply Gmbh - Italia	400,000
Cluster do Brasil (ex Mind Services Informàtica LTD.A)	1,215,000
Portaltech Reply Ltd.	500,000
Portaltech Reply Gmbh	1,250,000
Reply do Brazil Sist. De Inf Ltd.a	1,561,740
Reply Inc.	687,169
Reply Ltd.	37,154,642
Spark Reply S.r.l.	300,000
Technology Reply Romania	650,000
Reply France Sarl	150,000
Total	**67,299,082**

NOTE 21 - DEFERRED TAX ASSETS

This item amounted to 3,017,480 Euros at 31 December 2016 (1,234,807 Euros at 31 December 2015), 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	TAX
Total deferred tax assets at 31/12/2015	**4,906,402**	**1,234,807**
Accrued	11,607,399	2,785,775
Utilization	(4,002,718)	(1,003,102)
Total deferred tax assets at 31/12/2016	**12,511,082**	**3,017,480**
Of which:		
- directors fees and employee bonuses accrued but not yet paid	3,201,300	783,132
- unrealized foreign exchange losses	5,958,563	1,430,055
- taxable amounts greater than book value	3,351,219	804,292
Total	**12,511,082**	**3,017,480**

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

NOTE 22 – TRADE RECEIVABLES

Trade receivables at 31 December 2016 amounted to 304,557,549 Euros and are all collectible within 12 months.

Detail is as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Third party trade receivables	182,690,437	166,995,031	15,695,406
Allowance for doubtful accounts	(266,951)	(251,285)	(15,666)
Third party trade receivables	**182,423,485**	**166,743,745**	**15,679,740**
Receivables from subsidiaries	122,133,909	93,111,017	29,022,892
Receivables from Parent Company	155	1,467	(1,312)
Trade receivables from subsidiaries and Parent Company	**122,134,064**	**93,112,484**	**29,021,580**
Total trade receivables	**304,557,549**	**259,856,229**	**44,701,320**

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third Party Receivables which increased by 15,679,740 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 2016 the provision for doubtful accounts was increased by 15,666 Euros following a specific risk analysis of all the trade receivables.

ASSIGNMENT OF RECEIVABLES

The Company assigns part of its trade receivables through factoring operations.
The assignments of receivables can be with or without recourse; Some assignments without recourse can include deferred payment clauses (for example, payment by the factor of a minor part of the purchase price is subordinated on the collection of the total amount of the receivables), require a deductible from the assignor, or require maintaining significant exposure to the cash flow trend deriving from the assigned receivables. This type of operation does not comply with the requirements of IAS 39 for the elimination of the assets from the Financial Statements, since the risks and benefits related to their collection have not been substantially transferred.

Consequently, all receivables assigned through factoring operations that do not satisfy the requirements for elimination provided by IAS 39 continue to be recognized in the Company's Financial Statements, even though they have been legally assigned and a financial liability for the same amount is recognized in the consolidated Financial Statements as Liabilities for advance payments on assignments of receivables. Gains and losses related to the assignment of these assets are only recognized when the assets are derecognized from the Company's financial-economic position.

As at 31 December 2016 the assignment of receivables through factoring operations with recourse amounted to 18,028 thousand Euros.
As at 31 December 2016 no assets were assigned without recourse.

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

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Tax receivables	3,360,938	5,359,875	(1,998,937)
Other receivables from subsidiaries	12,851,076	20,914,569	(8,063,493)
Other receivables	172,850	1,078,809	(905,959)
Accrued income and prepaid expenses	3,658,017	5,805,168	(2,147,151)
Total	**20,042,881**	**33,158,420**	**(13,115,539)**

The item Tax receivables includes VAT receivables net (1,697,837 Euros) and IRAP and IRESS tax prepayments (413,051 Euros).

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

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

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

NOTE 24 - CURRENT FINANCIAL ASSETS

This item amounted to 63,168,559 Euros (58,522,084 Euros at 31 December 2015) and refers to:

- the transaction accounts held under the centralized cash-pooling system of the Parent Company Reply S.p.A.; the interest yielded on these accounts is in line with current market conditions.
- a loan amounting to 738,141 Euros.

NOTE 25 - CASH AND CASH EQUIVALENTS

This item amounted to 50,108,291 Euros, with a decrease of 5,636,995 Euros compared to 31 December 2015 and is referred to cash at banks and on hand at year-end.

NOTE 26 - SHAREHOLDERS' EQUITY

SHARE CAPITAL

As at 31 December 2016 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,863,486 Euros and is made up of no. 9,352,857 ordinary shares having a nominal value of euro 0.52 each.

TREASURY SHARES

The value of the Treasury shares, amounting to 24,502 Euros, refers to the shares of Reply S.p.A. that at 31 December 2016 were equal to no. 1.007.

CAPITAL RESERVES

At 31 December 2016 amounted to 79.183.600 Euros, and included the following:

- Share premium reserve amounting to 23,302,692 Euros.
- Treasury share reserve amounting to 24,502 Euros, relating to the shares of Reply S.p.A which at 31 December 2016 were equal to no. 1.007.
- Reserve for the purchase of treasury shares amounting to 49,975,498 Euros.
- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
  - Share swap surplus reserve amounting to 3,445,485 Euros
  - Surplus annulment reserve amounting to 2,902,479 Euros.

EARNINGS RESERVE

Earning reserves amounted to 116,790,222 Euros and were comprised as follows:

- The Legal reserve amounting to 972,697 Euros (972,697 Euros at 31 December 2015);
- Extraordinary reserve amounting to 95,731,345 Euros (68,168,781 Euros at 31 December 2015);
- Retained earnings amounting to 2,822,701 Euros (2,882,701 Euros at 31 December 2015);
- Net result totaling 17,263,478 Euros (36,914,414 Euros at 31 December 2015).

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

(THOUSAND EUROS)	31/12/2016	31/12/2015
Other comprehensive income that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) from employee benefit plans	(14,351)	17,617
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	**(14,351)**	**17,617**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(62,261)	3,612
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):	**(62,261)**	**3,612**
Total Other comprehensive income, net of tax (B) = (B1) + (B2)	**(76,612)**	**21,229**

NOTE 27 - PAYABLES TO MINORITY SHAREHOLDERS

Payables to Minority shareholders and for operations (earn-out) at 31 December 2016 amounted to 2,364,114 Euros (4,468,788 Euros at 31 December 2015) and are detailed as follows:

(EUROS)	31/12/2015	INCREASES	FAIR VALUE ADJUSTMENTS	OTHER	PAYMENTS	31/12/2016
Payables to minority shareholders	2,798,000	2,000,000	-	(2,000,000)	(433,886)	2,364,114
Payables for Earn-out	1,670,788	-	(1,383,627)	-	(287,161)	-
Total payables to minority shareholders and earn-out	**4,468,788**	**2,000,000**	**(1,383,627)**	**(2,000,000)**	**(721,047)**	**2,364,114**

The increase of the item Payables to minority shareholders amounting to 2,000,000 Euros reflects the best estimate in relation to the acquisition of the share capital of Xister S.r.l. in the month of July 2016. The item Fair value adjustments in 2016 amounted to 1,383,627 Euros with a balancing entry in Profit and loss, and reflects the best estimate in relation to the deferred consideration originally posted at the time of acquisition.
The item Other refers to the transfer of payable to minority shareholders following the Corporate reorganization. Total payments made amounted to 721,047 Euros and refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

NOTE 28 - FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2016			31/12/2015		
(EUROS)	**CURRENT**	**NON CURRENT**	**TOTAL**	**CURRENT**	**NON CURRENT**	**TOTAL**
Bank overdrafts	14,746,924	-	14,746,924	35,188,412		35,188,412
Bank loans	18,767,199	29,338,628	48,105,827	10,552,913	32,605,828	43,158,741
Transaction accounts	64,428,008	-	64,428,008	41,140,870	-	41,140,870
Other	10,637	-	10,637	(78,233)	-	(78,233)
Total financial liabilities	**97,952,769**	**29,338,628**	**127,291,397**	**86,803,962**	**32,605,828**	**119,409,790**

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

	31/12/2016			31/12/2015		
(IN EURO)	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**TOTAL**	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**TOTAL**
Bank overdrafts	14,746,924	-	14,746,924	35,188,412		35,188,412
Bank loans	18,767,199	29,338,628	48,105,827	10,552,913	32,605,828	43,158,741
Transaction accounts	64,428,008	-	64,428,008	41,140,870	-	41,140,870
Other	10,637	-	10,637	(78,233)	-	(78,233)
Total financial liabilities	**97,952,769**	**29,338,628**	**127,291,397**	**86,803,962**	**32,605,828**	**119,409,790**

M&A loans refers to credit lines to be used for acquisition operations carried out 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 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan is reimbursed on a half-year basis deferred to commence on 31 May 2016 and will expire on 31 December 2018. The residual loan amounted to 12,106 thousands Euros at 31 December 2016.
- 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 to commence on 30 September 2016. The residual loan amounted to 7,000 thousands Euros at 31 December 2016.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 September 2016.The loan will be reimbursed on a half-year basis to commence on 31 March 2017. Such credit line was entirely used at 31 December 2016 and the residual loan amounted to 20,000 thousands Euros.
- On 8 April 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 10,000,000 Euros entirely used for the reimbursement of the credit line dated 19

September 2012. The loan is reimbursed on a half-year basis deferred to commence on 31 October 2016. The residual loan amounted to 7,500 thousand Euros at 31 December 2016.

- 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. The loan will be reimbursed on a half basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500 thousands Euros at 31 December 2016.
- 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 thousands 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. The credit line is not be used at 31 December 2016.
- On 21 September 2016 Reply S.p.A. entered onto an Interest Rate Swap contract with Intesa San Paolo S.p.A. with effect from 31 March 2017 and will expire on 31 March 2020.

As contractually defined, such ratios are as follows:

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

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

The item Other refers to the valuation of derivative hedging instruments. The underlying IRS amounted to 23,143 thousand Euros.

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

NET FINANCIAL POSITION

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's *"Recommendations for the consistent implementation of the European's regulation on Prospectuses"* issued on 10 February 2005 the Net financial position at 31 December 2016 was as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Cash and cash equivalents	50,108,291	55,745,286	(5,636,995)
Transaction accounts, asset	62,430,218	57,778,523	4,651,695
Receivables from factor	-	743,560	(743,560)
Loans to third parties	738,341	-	738,341
Total current financial assets	**113,276,850**	**114,267,370**	**(990,520)**
Other financial assets	-	162,066	(162,066)
Loans to subsidiaries	67,299,082	51,950,078	15,349,004
Total non current financial assets	**67,299,082**	**52,112,144**	**15,186,938**
Total financial assets	**180,575,933**	**166,379,514**	**14,196,419**
Due to banks	(33,524,760)	(45,663,092)	12,138,332
Transaction accounts	(64,428,008)	(41,140,870)	(23,287,138)
Current financial liabilities	**(97,952,769)**	**(86,803,962)**	**(11,148,807)**
Due to banks	(29,338,628)	(32,605,828)	3,267,200
Non current financial liabilities	**(29,338,628)**	**(32,605,828)**	**3,267,200**
Total financial liabilities	**(127,291,397)**	**(119,409,790)**	**(7,881,607)**
Total net financial position	**53,284,536**	**46,969,724**	**6,314,812**
of which related parties	*65,320,456*	*68,857,731*	*(3,267,275)*

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

NOTE 29 - EMPLOYEE BENEFITS

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

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations.

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General 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 2016: 2.50% frequency of turnover in 2016: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Constant average annual rate equal to 1.50%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2016 was 1.31%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance with IAS 19, development of Employment severance indemnities at 31 December 2016 is summarized in the table below:

31/12/2015	**416,302**
Actuarial gains/(losses)	14,351
Interest cost	6,541
Indemnities paid	(15,615)
Transfers	15,138
31/12/2016	**436,717**

NOTE 30 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2016 amounted to 1,121,147 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 31/12/2015	**4,503,984**	**1,105,248**
Accruals	66,247	15,899
Utilization	-	-
Total at 31/12/2016	**4,570,231**	**1,121,147**
-deductions allowance for doubtful accounts	718,805	172,513
- different goodwill/trademark measurements	622,828	173,769
- gains on unrecognized differences and other minor differences	3,162,351	774,865
Total at 31/12/2016	**4,570,231**	**1,121,147**

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2016 amounted to 296,231,941 Euros with an increase of 43,889,462 Euros.

Detail is as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Due to suppliers	14,481,539	16,959,933	(2,478,393)
Due to subsidiaries	185,959,407	166,034,822	19,924,585
Advance payments from customers - asset	95,790,995	69,347,724	26,443,271
Total	**296,231,941**	**252,342,479**	**43,889,462**

Due to suppliers mainly refers to services from domestic suppliers (13,908,528 Euros).
Due to subsidiary companies recorded a change of 19,924,585 Euros, and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. carries out commercial fronting activities for some of its major clients, whereas delivery is carried out by the operational companies.

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

NOTE 32 - OTHER CURRENT LIABILITIES

Detail is as follows:

(EUROS)	31/12/2016	31/12/2015	CHANGE
Income tax payable	5,572,864	871,779	4,701,085
Withholding tax and other	1,275,175	785,709	489,466
Total payable to tax authorities	**6,848,039**	**1,657,488**	**5,190,551**
INPS (National Italian insurance payable)	848,457	812,927	35,530
Other	306,550	274,390	32,160
Total social security payable	**1,155,006**	**1,087,316**	**67,690**
Employee accruals	1,592,652	1,442,349	150,303
Payable to subsidiary companies	8,973,992	3,754,469	5,219,524
Miscellaneous payables	2,962,237	3,280,323	(318,086)
Accrued expenses and deferred income	2,839,083	5,279,774	(2,440,690)
Total other payables	**16,367,965**	**13,756,914**	**2,611,050**
Total other current liabilities	**24,371,010**	**16,501,719**	**7,869,291**

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

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

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

Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2016 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

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

NOTE 33 – PROVISIONS

The item Provisions amounting to 8,021,300 Euros is summarized as follows:

(EUROS)	31/12/2015	ACCRUALS	UTILIZED	REVERSALS	31/12/2016
Provision for risks	7,398,000	373,300	(420,000)	(530,000)	6,821,300
Provision for losses on equity investments	2,026,000	1,200,000	-	(.2,026,000)	1,200,000
Total	**9,424,000**	**1,573,300**	**(420,000)**	**(2,556,000)**	**8,021,300**

The item Provision for risks reflects the best estimate of contingent liabilities deriving from ongoing legal litigations, at 31 December 2016 an accrual of 373,300 euros was made.

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

NOTE 34 - TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2015 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	**31/12/2016**		**31/12/2015**		
Financial receivables	67,299	-	51,950	-	Financial loans
Guarantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	(1,979)	-	16,638	-	Transaction accounts held by the Parent company
Trade receivables and other	135,683	-	114,026	-	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	195,851	-	169,787	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	2,300	-	2,400	Compensation paid to Directors and Key Management
ECONOMIC TRANSACTIONS	**2016**		**2015**		
Revenues from Royalties	21,692		19,541		Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	28,288	-	26,854	7	Administrations services, marketing, quality management and office rental
Revenues from management services	6,793	-	7,129	-	Strategic management services
Costs for professional services	331,065	-	292,140	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,370	420	1,214	420	Services related to office rental and office of the secretary
Personnel	-	5,224	-	5,276	Emoluments to Directors and Key Management
Interest income, net	4,562	-	3,183	-	Interest on financial loans: 3 month Euribor + spread of 3 percentage points

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

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

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

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

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

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

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

CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 2016 is represented by the carrying amounts stated for financial assets in the balance sheet.

Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the fair value of any guarantees received. General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience. Refer to the note on trade receivables for a quantitate analysis.

LIQUIDITY RISK

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

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

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

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

SENSITIVITY ANALYSIS

In assessing the potential impact of changes in interest rates, the company separates fixed

rate financial instruments (for which the impact is assessed in terms of *fair value*) from floating rate financial instruments (for which the impact is assessed in terms of cash flows). Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavorable and instantaneous change of 50 *basis points* in short-term interest rates at 31 December 2016 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 643 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 2016, 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)	28	-	62	
Liabilities to minority shareholders and earn out	27	-	-	2,364
Total Liabilities		**-**	**62**	**2,364**

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 Company for the exploitation of hedging derivatives contracts in existence at the end of the financial year 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 2016, there have not been any transfers within the hierarchy levels.

NOTE 36 - SIGNIFICANT NON-RECURRING TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non-recurring transaction during 2016.

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

Pursuant to Consob communication no. 6064293 of 28 July 2006, in 2016 Reply S.p.A. has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the Financial Statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

NOTE 38 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

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

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

On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.

In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.

At present, some minority shareholders have commenced the aforementioned procedures.

With specific reference to the request to obtain the corresponding amount in cash, the time limit for exerting such an authority shall expire starting from the shortest time limit between the day following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

CONTINGENT LIABILITIES

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

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

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

NOTE 40 - EVENTS SUBSEQUENT TO 31 DECEMBER 2016

No significant events have occurred subsequent to 31 December 2016.

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

The financial statements for the year-ended 31 December 2016 were approved by the Board of Directors on March 15, 2017 which approved their publication.

ANNEXED TABLES

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

EUROS	2016	OF WHICH WITH RELATED PARTIES	%	2015	OF WHICH WITH RELATED PARTIES	%
Revenue	367,952,177	51,395,823	14.0%	326,911,581	43,399,565	15.1%
Other income	7,999,405	6,091,535	76.1%	6,120,821	4,871,450	79.6%
Purchases	(16,293,478)	(15,694,310)	96.3%	(8,741,850)	(8,158,512)	93.3%
Personnel	(20,176,553)	(5,224,000)	25.9%	(17,994,188)	(5,276,000)	29.3%
Services and other costs	(338,791,654)	(322,573,699)	95.2%	(304,748,471)	(289,788,209)	95.1%
Amortization and depreciation	(731,885)			(471,681)		
Non recurring income/(expenses)	1,780,821			(3,750,000)		
Operating income (EBIT)	**1,738,834**			**(2,673,788)**		
Gain/(loss) on equity investments	18,000,006			37,937,457		
Financial income/(loss)	(2,900,297)	4,562,480	(157.3%)	3,407,322	3,183,172	93.4%
Income before taxes	**16,838,543**			**38,670,992**		
Income taxes	424,935			(1,756,577)		
Net income	**17,263,478**			**36,914,414**		
Earnings per share	*1.85*			*3.95*		
Diluted earnings per share	*1.85*			*3.95*		

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

(EUROS)	31/12/2016	OF WHICH WITH RELATED PARTIES	%	31/12/2015	OF WHICH WITH RELATED PARTIES	%
Tangible assets	722,796			764,619		
Goodwill	86,765			86,765		
Other intangible assets	2,118,907			1,498,954		
Equity investments	149,356,195			133,595,730		
Other financial assets	67,399,932	67,299,082	99.9%	52,112,144	51,950,078	99.7%
Deferred tax assets	3,017,480			1,234,807		
Non-current assets	**222,702,075**			**189,293,019**		
Trade receivables	304,557,549	122,134,064	40.1%	259,856,229	92,942,484	35.8%
Other receivables and current assets	20,042,881	13,548,794	67.6%	33,158,420	20,914,569	63.1%
Financial assets	63,168,559	62,430,218	98.8%	58,522,084	57,778,523	98.7%
Cash and cash equivalents	50,108,291			55,745,286		
Current assets	**438,877,280**			**407,282,018**		
TOTAL ASSETS	**660,579,355**			**596,575,038**		
Share Capital	4,863,486			4,863,486		
Other reserves	178,614,766			151,128,813		
Net income	17,263,478			36,914,414		
SHAREHOLDERS' EQUITY	**200,741,730**			**192,906,713**		
Due to minority shareholders	2,364,114			4,468,788		
Financial liabilities	29,338,628			32,605,828		
Employee benefits	436,717			416,302		
Deferred tax liabilities	1,121,147			1,105,248		
Provisions	6,821,300			7,398,000		
Non-current liabilities	**40,081,906**			**45,994,165**		
Financial liabilities	97,952,769	64,428,008	65.8%	86,803,962	41,140,870	47.4%
Trade payables	296,231,941	185,959,406	62.8%	252,342,479	166,034,822	65.8%
Other current liabilities	24,371,010	9,537,061	39.1%	16,501,719	3,857,513	23.4%
Provisions	1,200,000			2,026,000		
Current liabilities	**419,755,719**			**357,674,160**		
TOTAL LIABILITIES	**459,837,625**			**403,668,324**		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**660,579,355**			**596,575,038**		

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 31/12/2016
logistics Reply S.r.l.	Turin	€	78,000	2,732,078	1,963,829	100.00%	1,049,168
Air Reply S.r.l.	Turin	€	10,000	14,602	(181,240)	85.00%	558,500
Arlanis Reply S.r.l.	Turin	€	10,000	1,037,049	761,514	100.00%	512,697
Aktive Reply S.r.l.	Turin	€	10,000	3,325,413	1,734,105	100.00%	588,001
Atlas Reply S.r.l.	Turin	€	10,000	870,569	133,849	100.00%	356,576
Avantage Reply Ltd.	London	GBP	5,086	2,971,539	(40,397)	100.00%	9,483,485
Bitmama S.r.l.	Turin	€	29,407	42,828	(479,220)	100.00%	4,217,020
Blue Reply S.r.l.	Turin	€	10,000	11,435,553	7,078,683	100.00%	527,893
Breed Reply Ltd.	London	GBP	10,000	(1,880,891)	(389,775)	100.00%	12,477
Breed Reply Investments Ltd.	London	GBP	100	(1,963,231)	(1,811,343)	80.00%	103
Bridge Reply S.r.l.	Turin	€	10,000	268,780	241,795	60.00%	6,001
Business Reply S.r.l.	Turin	€	78,000	3,129,063	1,987,449	100.00%	268,603
Cluster Reply S.r.l.	Turin	€	139,116	13,449,382	8,319,181	100.00%	2,540,849
Cluster Roma Reply S.r.l.	Turin	€	10,000	1,052,204	819,822	100.00%	296,184
Consorzio Reply Public Sector	Turin	€	88,500	20,320	-	36.72%	32,501
Consorzio Reply Energy	Turin	€	4,000	4,000	-	25.00%	1,000
Data Reply S.r.l	Turin	€	10,000	410,018	178,667	100.00%	317,662
Discovery Reply S.r.l.	Turin	€	10,000	1,168,867	772,853	100.00%	1,311,670
e*finance Consulting Reply S.r.l.	Turin	€	34,000	4,710,363	2,874,263	100.00%	3,076,386
Ekip Reply S.r.l.	Turin	€	10,400	92,082	55,249	100.00%	30,000
Eos Reply S.r.l.	Turin	€	14,000	1,012,466	398,753	80.71%	155,370
Forge Reply S.r.l.	Turin	-	10,000	13,661	(1,021,993)	100.00%	12,000
Go Reply S.r.l.	Turin	€	50,000	2,032,124	557,654	100.00%	1,920,000
Hermes Reply Polska zo.o	Katowice	ZLT	40,000	5,622,930	2,232,198	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	3,325,787	1,371,728	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	7,264,169	4,688,908	100.00%	6,724,953
Lem Reply S.r.l.	Turin	€	47,370	54,555	(393,222)	100.00%	400,012
Like Reply S.r.l.	Turin	€	10,000	12,219	(698,146)	100.00%	132,317
Open Reply S.r.l.	Turin	€	10,000	9,088,282	2,459,689	100.00%	1,417,751
Pay Reply S.r.l.	Turin	€	10,000	2,373,589	1,744,784	100.00%	10,000

COMPANY	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	TOTAL SHAREHOLDERS' EQUITY	NET RESULT	INTEREST	CARRYING VALUE AT 31/12/2016
Portaltech Reply S.r.l.	Turin	€	10,000	13,377	(212,730)	100.00%	104,500
Power Reply S.r.l.	Turin	€	10,000	6,092,565	1,685,494	100.00%	2,500,850
Protocube Reply S.r.l.	Turin	€	10,200	17,440	(217,734)	55.00%	287,000
Reply Consulting S.r.l.	Turin	€	10,000	2,624,084	1,082,790	100.00%	3,518,435
Reply AG	Guetersloh	€	100,200	47,809,813	(2,937,188)	100.00%	57,835,782
Reply Services S.r.l.	Turin	€	10,000	93,594	(135,143)	100.0 %	104,132
Reply Inc.	Michigan	$	50,000	(1,207,994)	(1,661,435)	100.00%	40,596
Reply Ltd.	London	GBP	54,175	8,654,923	6,458,629	100.00%	11,657,768
Reply do Brasil Sistemas de Informatica Ltd.a	Belo Horizonte	R$	650,000	5,747,885	1,258,097	98.50%	206,817
Ringmaster S.r.l.	Turin	€	10,000	1,540,978	1,450,222	50.00%	5,000
Santer Reply S.p.A.	Milan	€	2,209,500	12,421,230	(93,404)	100.0 %	11,386,967
Security Reply S.r.l.	Turin	€	50,000	4,778,552	3,728,649	100.00%	392,867
Sensoria Inc.	Washington	$	-	-	-	24.00%	3,887,432
Square Reply S.r.l.	Turin	€	10,000	464,945	340,306	100.00%	100,000
Spark Reply S.r.l.	Turin	€	10,000	14,365	(390,635)	85.00%	403,500
Storm Reply S.r.l.	Turin	€	10,000	3,137,914	1,530,666	80.00%	986,000
Syskoplan Reply S.r.l.	Turin	€	32,942	688,008	178,139	100.00%	949,573
Sytel Reply S.r.l.	Turin	€	115,046	12,428,347	7,205,897	100.00%	4,991,829
Sytel Reply Roma S.r.l.	Turin	€	10,000	8,809,818	3,848,648	100.0 %	894,931
Tamtamy Reply S.r.l.	Turin	€	10,000	421,474	405,819	100.0 %	254,551
Target Reply S.r.l.	Turin	€	10,000	4,288,661	2,618,105	100.0 %	600,339
Technology Reply Roma S.r.l.	Turin	€	-	-	-	100.0 %	10,000
Technology Reply S.r.l.	Turin	€	79,743	9,498,131	5,898,599	100.0 %	216,659
Technology Reply S.r.l. (Romania)	Romania	RON	44,000	(1,083,780)	244,301	100.00%	9,919
Triplesense Reply S.r.l.	Turin	€	10,000	15,218	(154,782)	100.00%	10,000
Triplesense Reply GmbH	Frankfurt	€	51,000	1,101,789	33,712	100.0%	5,153,070
Twice Reply S.r.l.	Turin	€	10,000	3,847,636	(2,946)	98.0%	521,202
Whitehall Reply S.r.l.	Turin	€	21,224	1,714,326	1,604,825	100.0%	160,211
Xister Reply S.r.l.	Rome	€	10,000	2,135,959,	706,072	89.20%	11,150,465

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

				SUMMARY OF THE AMOUNTS USED IN THE PRIOR THREE FISCAL YEARS.	
NATURE/DESCRIPTION	**AMOUNT**	**POSSIBILITY OF UTILIZATION**	**AVAILABLE**	**FOR COVERAGE OF LOSSES**	**OTHER**
Capital	4,863,486				
Capital reserve					
Reserve for treasury shares	24,502				
Share premium	23,302,692	A,B,C	23,302,692		
Reserve for treasury shares	29,990,873	A,B,C	29,990,873		
Income reserves					
Legal reserve	972,697	B			
Extraordinary reserve	95,731,345	A,B,C	95,731,345		
Surplus merger reserve	6,347,964	A,B,C	6,347,964		
Retained earnings	674,740	A,B,C	674,740		
Reserve for purchases of treasury shares	19,984,625	A,B,C	19,984,625		
Total			**176,032,238**		
Not available amount			-		
Residual available amount			**176,032,238**		
Reserves from transition to IAS/IFRS					
FTA Reserve	303,393				
Retained earnings	2,147,961				
Reserve for cash flow hedge	(62,261)				
IAS reserve	(24,502)				
Reserve for treasury shares	(8,815)				
Accounting expenses according to IAS 32	(770,448)				
	1,585,328				

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 2016 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	2016 FEES
Audit	EY S.p.A.	35,884
Audit related services	EY S.p.A. (1)	1,800
Total		**37,684**

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

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 2016.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2016 was carried out on the basis of regulations and methodologies defined by Reply prevalently coherent with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, an internationally-accepted reference framework.

The undersigned also certify that:

3.1 the Financial Statements

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

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

Turin, 15 March 2017

Chairman
and Chief Executive Officer
Mario Rizzante

Director in charge
of signing the financial statements
Giuseppe Veneziano

REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to article 153 of the legislative decree 58/1998 on the financial statements as at 31 December 2016

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 activity performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
During the course of the financial year ended 31 December 2016, we complied with the duties set forth in Article 149 of Legislative Decree No. 58/1998 and we are providing the following information with reference to the recommendations contained in the Consob communications issued up to the present day concerning the Regulations for Issuers:

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 2016 or subsequent to the end of the financial year, among which we note:

- Completion of the geographical rationalization project concerning the transfer, in two steps, of several German investments by Reply S.p.A. in favor of its German subsidiary Reply AG. The investments were Arlanis Reply AG, Live Reply GmbH, Riverland Reply GmbH, Triplesense Reply GmbH (January 2016), Concept Reply GmbH, Inessence Reply GmbH and Portaltech Reply GmbH (October 2016);
- In March 2016 Reply Ltd. acquired, at £ 2.8 million, the share capital of the English group company WM360 Ltd. Consisting of five companies incorporated under English law and one company incorporated under Belarusian law;
- The acquisition in March 2016 of 55% of the share capital of Protocube Reply S.r.l. for a

consideration of 225 thousand euros;

- In the month of March 2016, the company reorganization project concerning the partial spin-off of the business unit located in Rome of the company Cluster Reply S.r.l. (formerly Solidsoft Reply) in favor of the company Cluster Reply Roma S.r.l. was completed;
- In the month of May 2016, the company reorganization project concerning the partial spin-off of Target Reply S.r.l., operating in the field of Big Data projects, in favor of Data Reply S.r.l.(formerly Juice Reply S.r.l.) was completed;
- In the month of May 2016 Reply AG acquired 100 % of the share capital of the company trommsdorf + drüner, innovation + marketing consultants GmbH, incorporated under German law for a consideration price of 10 million Euros;
- In the month of May 2016 Reply S.p.A. acquired the residual 49% of the share capital of Bitmama S.r.l. for a total of 4 million Euros;
- In the month of July 2016 Reply S.p.A. acquired 89,2% of the share capital of Xister Reply S.r.l. for a total consideration of 9.15 million Euros;
- In July 2016 Reply Ltd. acquired, for a consideration of £ 2.79 million, the 100% share capital of the English company Lynx Recruitment Ltd.;
- In January 2017 Reply AG acquired, for a consideration of 6 million Euros the 100% share capital of the German company comSysto GmbH;
- The launch in the month of January 2017 of the company reorganization project concerning the merger of the company Triplesense Reply S.r.l. in favor or Bitmama S.r.l. both wholly owned by Reply S.p.A.;
- Completion of the demerger of the company Technology Reply S.r.l. by way of transfer of business represented by the operating unit within the framework of innovative solutions based on Oracle technology to the market "public sector and central government" and for all customers based in South-Central Italy in favor of the newly established Technology Reply Roma S.r.l. (March 2017);
- The launch of the company reorganization project concerning the partial spin-off of the company Reply Services S.r.l. in favor or TamTamy Reply S.r.l.;

During 2016 Reply S.p.A. also signed two loans / lines of credit with the following banks and for the following amounts:

- 49,000,000 Euros with Intesa Sanpaolo S.p.A. to be used by 30 June 2018. The credit line has not yet been used.
- 50,000,000 Euros with Unicredit S.p.A. to be used by 28 February 2020. The credit line has not yet been used.

In the month of February 2017 Reply S.p.A. has also taken steps to reduce to Euro 1,500,000 the credit line originally signed in 2015 with Unicredit S.p.A. for an amount of € 25 million.

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 intra-group transactions, we advise 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, payable on first request, to subsidiaries;
- Reply S.p.A. granted the following subsidiaries loans without restrictions on use, aimed at supporting their activity:
  - Air Reply S.r.l., Cluster Reply Roma S.r.l. (formerly Solidsoft S.r.l.), Spark Reply S.r.l. and Storm – non-interest bearing loan;
  - Arlanis AG, Breed Investments Ltd, Breed Reply Ltd, Reply Ltd., Concept Reply GmbH, Hermes Reply Polska Sp Zoo, InEssence Reply Gmbh, InEssence Reply Gmbh Italian Branch, Cluster do Brazil Ltda (ex Mind Services Informatica Ltda), Portaltech Reply Ltd, Portaltech Reply GmbH, Reply do Brazil Sistemas de Informatica Ltda, Reply Inc., Reply Ltd, Technology Reply S.r.l. (Romania), Triplesense Reply GmbH and Reply France Sarl– interest bearing loans;
- Reply S.p.A. provided subsidiaries with management, administrative, commercial and marketing services, the lease of premises, as well as services to manage the corporate internet network, electronic mail and web;
- Reply S.p.A. centrally managed the Group's treasury by means of correspondence bank accounts held by the individual subsidiaries;
- Reply S.p.A. granted Group companies the use of the "REPLY" trademark that it owns;
- Reply S.p.A. acquired "office services" (general services and the availability of office space) from Reply Services S.r.l. and from Santer Reply S.p.A..

Transactions with related parties in 2016, which took place in accordance with market conditions, are related to Emoluments to Directors and Key Management and to "office services, in particular to the office situated in Corso Francia, 110 Turin, provided by Alika S.r.l., Reply S.p.A.'s direct parent company. 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.
Such situation also exist as at the date of this report.

3. INFORMATION PROVIDED IN THE REPORT ON THE OPERATION ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRA-GROUP 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 2016 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2016 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 does not reveal that any atypical and/or unusual transactions occurred during the year or after it ended.

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

EY S.p.A., the company entrusted with the audit of the Financial Statements and Consolidated Financial Statements as at 31 December 2016, issued its Report on today's date, in which it confirms:

- that the Financial Statements as at 31 December 2016 of Reply S.p.A. conform to the International Financial Reporting Standards endorsed by the European Union, as well as to the measures issued in implementation of Article 9 of Legislative Decree 38/2005, and were therefore prepared with clarity and represent in a true and fair manner the economic and financial situation, economic result and cash flows of Reply S.p.A. for the financial year ended on such date,
- that the Report on Operations and the information set forth in Article 123-bis, paragraph 4, of Legislative Decree 58/1998 presented in the Report on Corporate Governance and the Ownership Structure are consistent with the Financial Statements as at 31 December 2016.

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 2014 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 2016, in addition to the appointment to audit the Financial Statements as at 31 December 2016, EY S.p.A. received the following appointments:

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

The consideration for such appointment was 1 thousand Euros;

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

The consideration for such appointment was 18 thousand Euros.

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

In 2016 Reply S.p.A. assigned to Ernst & Young LLP services to perform a Due Diligence on a target acquisition company incorporated under American law in the United States.
The consideration for such assignment was 144 thousand Euros.
Furthermore, in 2016 Ernst & Young GmbH was assigned in providing a fair opinion in relation to the transfer of several equity investments held by Reply S.p.A. in favor of Reply AG.

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 4 times, and the Board of Statutory Auditors 8 times.
The Internal Control and Risk Management Committee 4 times, whereas the Remuneration Committee met once, and the Committee for Related Party Transactions did not meet.
The Board of Statutory Auditors attended the meetings of the Board of Directors, and through its Chairman, those of the Internal Control and Risk Management Committee and the Remuneration Committee.

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

The instructions given by Reply S.p.A. to subsidiaries, pursuant to the second paragraph of Article 114 of Legislative Decree 58/1998 appear to be adequate; similarly, the subsidiaries provided the Parent Company with the necessary information for its timely knowledge of the business situation.
We advise you that in order to guarantee the timely communication of the information requested, Mr. Daniele Angelucci, Executive Director and Finance and Control Manager of Reply S.p.A., also acted as advisor within all of the administrative bodies of the Italian subsidiaries, with the exclusion of the company Ringmaster S.r.l., as well as Director in numerous foreign subsidiaries and is also a member of the Supervisory Board of Reply AG.
We further advise you that the Chairman of Reply S.p.A.'s Board of Directors, Mr. Mario Rizzante, is the Director of the English subsidiaries Reply Ltd., Portaltech Reply Ltd., Avantage Reply Ltd, Breed Reply Ltd, Breed Reply Investments Ltd. and is also a member of the Supervisory Board of Reply AG. Tatiana Rizzante, Chief Executive Officer is Director of the English subsidiaries Avantage Reply Ltd and Reply Ltd and is the Managing Director of the German subsidiaries, InEssence Reply GmbH, Portaltech Reply GmbH and Reply AG. Filippo Rizzante, Executive Director holds office as Vice President of Ringmaster S.r.l.

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 significant issues emerged that are worthy of mention.

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 2015.

On 15 March 2017 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

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

The Board's supervisory activity was carried out through:

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

The Board confirmed that the organizational requirements were met to 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 approved on 4 May 2015, according to the standards indicated in the Regulations approved by Consob by means of Resolution No. 17221 of 12 March 2010 and subsequent modifications, as well as compliance with 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, 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 controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "Market abuse" and "Protection of savings" in matters of corporate disclosures of information and "Internal Dealings" based on the information provided by the Company. In this respect, the Internal Dealing Procedure was updated in accordance to the EU Regulation no. 596/2014 and was approved by the Board of Directors on August 2, 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 Directors of the Independent Auditor and the organizational department, to gather the necessary information.
This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure 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, a Remuneration and Nominating Committee, 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 received from EY S.p.A. the notice issued pursuant to Article 17(9)a) of Legislative Decree 39/2010, as well as the report set forth in Article 19(3) of Legislative Decree No. 39/2010 which states that no fundamental issues emerged during the audit, nor significant gaps in the Internal Control System in relation to the financial reporting process.

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, and they also appear to be imposed on the companies belonging to the Group.

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. ANY 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 2016 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.

Turin, 30 March, 2017

THE STATUTORY AUDITORS

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

Building a better working world

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Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders of Reply S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Reply S.p.A., which comprise the statement of financial position as at December 31, 2016, and the consolidate income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other notes.

Directors' responsibility for the financial statements

The Directors of Reply S.p.A. are responsible for the preparation of these 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 art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated January 27, 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Group Reply as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Reply S.p.A. as at December 31, 2016.

Turin, March 30, 2017

EY S.p.A.
Signed by: Luigi Conti, partner

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

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE 2016

Reply S.p.A.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE 2016

Approved by the Board of Directors on 15 March 2017

www.reply.com

Pursuant to art.123 bis Legislative Decree no. 58/1998.

260 **CORPORATE GOVERNANCE SYSTEM**

262 **OWNERSHIP STRUCTURE (ex Art. 123-bis, paragraph 1, of Italian Legislative Decree. 58/1998) at 15 March 2017**

262 Capital structure
262 Restrictions on the transfer of shares
262 Significant shareholders
263 Shares granting special rights
263 Employee shareholdings: mechanism exercising voting rights
263 Restrictions on voting rights
263 Agreement with shareholders
264 Change of control and statutory rulings in public tender offices
264 Financing contracts
264 Business agreements and contracts
264 Public offices
265 Proxies to increase share capital and authorization to buy treasury shares

267 **MANAGEMENT AND COORDINATION ACTIVITIES**

267 **COMPLIANCE (EX ART. 123-BIS, PARA 2, LETTER A, TUF)**

268 **BOARD OF DIRECTORS**

268 Nomination and substitution of Directors
269 Members
277 Role of the Board of Directors
280 Chairman of the Board, Chief Executive officers and executive Directors
286 Independent Directors
288 Lead Independent Director

288 **PROCESSING OF CONFIDENTIAL INFORMATION**

290 **COMMITTEES WITHIN THE BOARD OF DIRECTORS**

290 **REMUNERATION COMMITTEE**

291 **REMUNERATION OF DIRECTORS**

292 **CONTROL AND RISK COMMITTEE**

293 **INTERNAL CONTROL AND RISK MANAGEMENT**

293 Foreword
293 Instruments and monitoring business objectives
294 Instruments monitoring compliance objectives
295 Instruments monitoring reporting objectives
296 Characteristics of the current internal control and risk management system in relation to the financial reporting period
300 Director in charge of the Internal control system
300 Head of the Internal Audit department
300 Organizational model pursuant to ex Legislative Decree 231/01
302 Independent audit firm
302 Director in charge of drawing up the Financial Statements and legal documents
303 Coordination between those involved in the Internal Control and Risk Management System

303 **DIRECTORS' INTEREST AND TRANSACTIONS WITH RELATED PARTIES**

306 **APPOINTMENT OF STATUTORY AUDITORS**

307 **STATUTORY AUDITORS**

312 **RELATIONS WITH SHAREHOLDERS**

312 **GENERAL SHAREHOLDERS' MEETING**

313 **OTHER CORPORATE GOVERNANCE PRACTICES**

314 **CHANGES SUBSEQUENT TO THE YEAR END UNDER REVIEW**

CORPORATE GOVERNANCE SYSTEM

The Corporate governance system adopted by the company, that is, the set of laws and bylaws adopted in order to ensure the efficient and transparent functioning of the corporate bodies and of the control systems, adheres to the Corporate Governance Code issued by Borsa Italiana in March 2006, updated in July 2015 (hereinafter "the Code").

The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment. The governance structure of Reply S.p.A. – based on the traditional model, is made up of the following bodies: The General Shareholders' meeting, the Board of Directors (that carries out its function through Executive Directors and is advised by an Internal Control and Risks Committee and a Remuneration and Nomination Committee), the Board of Statutory Auditors and Independent Auditors.

The General Shareholders' meeting is the corporate body, which expresses the requests of the shareholders through its resolutions. Resolutions passed in compliance with the law and the by-laws are binding on all shareholders independently whether they agree or disagree unless the latter draw out, in the cases allowed. The Shareholders are convened according to the rules set out for listed companies.

The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board is invested with the broadest powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company object, with the exception of those reserved to the Shareholders' meeting.

The Board of Statutory Auditors is responsible for the supervision of compliance with the law and by-laws and more specifically:

- Supervision of proper management by verifying:
  - The respect of good management principles;
  - The adequate structure of the company;
  - The implementation of the rules of corporate governance;
  - The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.
- Role of committee for internal control and audit responsible for
  - overseeing
    - the financial reporting process;
    - the effectiveness of the internal control, internal audit and risk management systems;
    - the audit of the annual separate and consolidated accounts;

- » the independence of the independent auditors;
- › informing the administrating body the outcome of the audit;
- › is responsible for the procedures in the independent audit firm selection.

The Board of Statutory Auditors is not responsible for the legal audit which is a function performed by an independent company appointed by the Shareholders' meeting.
The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records. The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement.
Governance also includes the Internal Control System, the Organizational and management Model pursuant to Article 6 of Legislative Decree no. 231/2011 and the structure of the powers and proxies, as presented herein.
The following Report - and where it is deemed necessary in Report on Remuneration- includes the governance structure examined by the Board of Directors on 15 March 2016 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations and/or, where pertinent, the alternative recommendations adopted.
The Report on Corporate Governance, that is an integral part of the Report on Operations, along with the company's by-laws, are available on the company's website (www.reply.com – Investors – Corporate Governance).

OWNERSHIP STRUCTURE (ex Art. 123-bis, paragraph 1, of Italian Legislative Decree. 58/1998) at 15 March 2017

CAPITAL STRUCTURE

The share capital structure of Reply S.p.A. is summarized below.

The share capital fully paid and subscribed at 15 March 2017, amounts to 4,863,485.64 Euros, divided in 9,352,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.

At present, the stock option plans, no longer exist as the stock options have been entirely exercised.

OWNERSHIP STRUCTURE

	ORDINARY SHARES	% WITH RESPECT TO S.C.	LISTED/ NON-LISTED	RIGHTS AND OBLIGATIONS
Ordinary shares	9,352,857	100%	Listed	ex law
Plural voting share	-	-	-	-
Limited voting share	-	-	-	-
Non voting share	-	-	-	-
Other	-	-	-	-

RESTRICTIONS ON THE TRANSFER OF SHARES

The by-laws do not foresee restrictions on the transfer of shares.

SIGNIFICANT SHAREHOLDERS

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 15 March 2017, the shareholders that directly or indirectly hold stakes greater than 3% of the share capital having the right to vote are the following:

SHAREHOLDER	DIRECT SHAREHOLDER	OWNERSHIP % OVER SHARE CAPITAL	OWNERSHIP % OVER VOTING CAPITAL
Rizzante Mario	Alika S.r.l.	52.7775	52.7775
	Rizzante Mario	0.1080	0.1080
	Total	**52.8855**	**52.8855**
Goldman Sachs Segregation	Goldman Sachs Segregation	3.628	3.628

SHARES GRANTING SPECIAL RIGHTS

No shares have been issued that grant special rights of control.

EMPLOYEE SHAREHOLDINGS: MECHANISM EXERCISING VOTING RIGHTS

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

RESTRICTIONS ON VOTING RIGHTS

The company by-laws have not established restrictions on voting rights.

AGREEMENT WITH SHAREHOLDERS

At present, the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree n. 58/1998, in which shareholders have more than 2% of the share capital: Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, and tacitly renewed for a further three-year period until 9 November 2019, by which the shareholders of Alika S.r.l., with headquarters in Torino Corso Francia no. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, for a stake of 46,206.00 Euros equivalent to 51% (fifty-one percent) of the share capital and more specifically:

- Mr. Mario Rizzante holder of 5,706.00 Euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
- Mrs. Maria Graziella Paglia holder of 17,100.00 Euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
- Mrs. Tatiana Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
- Mr. Filippo Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

have signed a lock up agreement according to ex Article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice, having the right to vote in the company Alika S.r.l., holding of Reply S.p.A..

CHANGE OF CONTROL AND STATUTORY RULINGS IN PUBLIC TENDER OFFICES

With reference to agreements that could be cancelled in relation to a change of control in Reply S.p.A., the following is noted:

FINANCING CONTRACTS

Reply S.p.A., has entered into the following loan agreement with Intesa San Paolo:

- On 31 March 2015 a contract was signed for 30 million Euros;
- On 28 July 2016 a contract was signed for 49 million Euros.

Reply S.p.A., has entered into the following loan agreements with Unicredit S.p.A.:

- On 25 November 2013 a contract was signed for 25 million Euros;
- On 8 April 2015 a contract was signed for 10 million Euros;
- On 30 September 2015 a contract was signed for 25 million Euros and then on 17 February 2017 was reduced to 1.5 million Euros;
- On 17 February 2017 a contract was signed for 50 million Euros.

These contracts, having the scope of financing the Group for acquisitions on the Italian or European market, allow the funding banks the faculty to call off the contract in case of a change of control directly or indirectly in Reply S.p.A., in accordance with Art. 2359 of the Italian Civil Code.

BUSINESS AGREEMENTS AND CONTRACTS

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control: the Company has also undersigned contracts in which the clause "Change of control" implies immediate cancellation of the contract.
Such agreements, which are not very significant when compared to the whole of Group activities, are subject to confidentiality clauses.

PUBLIC OFFICES

Reply's by-laws do not provide any regulations in relation to the passivity rule provided for by art. 104, paragraph 1 and 2 of TUF nor does it foresee the application of the neutralization rules contemplated in art. 104-bis, paragraphs 2 and 3 of the TUF.

PROXIES TO INCREASE SHARE CAPITAL AND AUTHORIZATION TO BUY TREASURY SHARES

The General Shareholders' meeting has given proxy to the Board of Directors to increase the share capital, pursuant to Article 2443 of the civil code.
The information regarding the current proxies is detailed in the table below:

RESOLUTION					AMOUNT PROXY	PROXY EXECUTED
THE GENERAL SHAREHOLDERS' MEETING	**EXPIRY PROXY**	**DATE**	**EUROS**	**SHARES**	**THE GENERAL SHAREHOLDERS' MEETING**	**PROXY**
21/04/2016	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, payable in different forms and to be executed separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	21/04/2021	312,000	600,000	-	-

On 21 April 2016 the Company resolved to grant the Board of Directors, pursuant to Article 2443 of the Civil Code, the powers to increase the share capital in one or more tranches for a period of five years pursuant to art. 2441 paragraph 4, for a maximum nominal value of 312,000 Euros through the issue of 600,000 Reply S.p.A ordinary shares with a par value of 0.52 Euros each, to be executed in one or more tranches and therefore separable, for a maximum five year period;
The new shares will be issued separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.
The Board of Directors pursuant to Article 2441, paragraph 6 of the Civil Law, shall determine the price of the shares with reference to the trend of the stock market for the operation in the increase of share capital, and subordinated to the best practice methods of evaluation at an international level that take into consideration the market multipliers of comparable companies and to financial economic models commonly recognized and used in the respect of the minimum share price calculated as the single value of the share of the consolidated net equity resulting in the most recently approved Financial Statements by the Board of Directors prior to the resolution of the increase in share capital.

The Shareholder's, following resolution passed on 21 April 2016, have authorized the acquisition of treasury shares in accordance with art. 2357 of the Italian Civil Code as follows:
number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 1,869,564 ordinary shares at 0.52 Euros, corresponding to 19.9892% of the existing share capital within the maximum spending limit of 30,000,000 Euros;
duration: for a period of 18 months, that is from 21 April 2016 to 21 October 2017, in substitution of the previous authorization resolved by the Shareholders' meeting of 23 April 2015;
minimum purchase price: nominal value of the ordinary shares (presently 0.52 Euros);
maximum purchase price: not greater than the official trade price on the MTA Market the day prior to the purchase applying a spread of 15%, and a disbursement of maximum 50,000,000 Euros;
authorization to sell: (i)on the market or in blocks, through a public bid; (ii) sale, transfer, or trade of shares for investment acquisitions or negotiations with strategic *partners* (iii) following agreements made with individual Directors, employees and or collaborators of the Company or with directly or indirectly controlled companies, that do not meet the requirements of Stock granting pursuant to ex. Art. 114 bis of the TUF (iv) against payment in kind pursuant to the regulations of the Stock Granting plans.

At the reporting date the company held 1.007 treasury shares.

It is to be noted that:

- The information requested by art.123-bis, first paragraph letter i) of TUF is disclosed in the Directors' report at the paragraph disclosing Director's remuneration;
- The information requested by art.123-bis, first paragraph letter l) of TUF is disclosed in the Directors' report at the paragraph disclosing information on the Board of Directors.

MANAGEMENT AND COORDINATION ACTIVITIES

Reply S.p.A. is not subject to management and coordination activities pursuant to Article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. in as much as it qualifies as a holding, lacking an autonomous organizational structure and consequently does not carry out management activities for Reply S.p.A.

All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately disclosed the control and coordination to which they are subject by Reply S.p.A. in accordance with art. 2497 – bis of the Italian Civil Code.

COMPLIANCE (EX ART. 123-BIS, PARA 2, LETTER A, TUF)

The Report herein reflects and illustrates the corporate governance structure that the Company has adopted in compliance to the requirements of the Code, available on Borsa Italiana's website http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2015.pdf and to which the Company has adhered.

The Board of Directors is always inclined at evaluating any new views and orientations that the Corporate Governance Code could consider and eventually integrate and amend the Company's Corporate Governance only if, and compatible with the company's reality, and that such integration enables the Company to further strengthen its reliability with investors.

Reply S.p.A. and its key strategic subsidiaries, to the Board of Directors knowledge, are not subject to foreign laws that have an influence on the corporate governance structure of the Issuer.

BOARD OF DIRECTORS

NOMINATION AND SUBSTITUTION OF DIRECTORS

The nomination and substitution of Directors is disciplined by art. 16 (Nomination of Directors) of the by-laws, and is available on the Company's website (www.reply.com under – Investors – Corporate Governance).

Art. 16 of the Company by-laws, regulates that:

- The list of candidates running for Director, shall be deposited at the company's registered office twenty-five days prior to the date of the first call for the Annual General Shareholders' meeting; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance with binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the Directors to be elected;
- The list presenting candidates equivalent or superior to three shall be composed by candidates from both genders, so as the number of candidates, in accordance to the regulations of the Report, belong also to the less represented genders (it shall be rounded up to the next number if in excess);
- The voting mechanism appoints the Directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one candidate has been voted by the minority list that has received the most number of votes and that is not connected in any way, not even indirectly, to the shareholders that presented or voted the list that reached the greatest number of votes;
- In the case where the minimum number of Independent Directors have not been nominated according to the procedure mentioned above, the last candidate elected from each list which has been nominated by at least one Director and who has received the most votes will be substituted by the candidate immediately following until the minimum number of Independent Directors have been elected.
- As to represent a balance in the genders, the last candidate elected from the section of the

list that obtained the most votes belonging to the most represented gender shall lapse and shall be replaced by the first candidate not elected from the same list and the same section belonging to the least represented gender. Otherwise, the Shareholders' Meeting shall make up the number of the Board of Statutory Auditors with the majorities required by law, ensuring that the requirement is complied with.
- The company by-laws regulate that Independent Directors not only must meet the requirements established for Statutory Auditors in accordance with art. 148, paragraph 3, of Legislative Decree 24 February 1998 no. 58, but must also meet requirements established by the Corporate governance code adopted by the Company.

Considering the current composition of the Board of Directors and the participation of various members, a succession plan for Executive Directors has not been adopted also in light of the fact that the business management is guaranteed through a prompt substitution of executives.

MEMBERS

The Company's Board of Directors is made up of a variable number of members from a minimum of 3 to a maximum of 11. The number of members is resolved by the Annual General Shareholders' meeting.
As required by the Corporate Governance Code, the Board of Directors is made up of Executive and Non-Executive Directors, the number, competence, authority and time availability of Non-Executive Directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.
At present the Board of Directors is made up of nine (9) Directors of which six (6) Executive:

- Mr. Mario Rizzante — Chairman and Chief Executive Officer
- Ms. Tatiana Rizzante — Chief Executive Officer
- Mr. Oscar Pepino — Executive Director
- Mr. Claudio Bombonato — Executive Director
- Mr. Daniele Angelucci — Executive Director
- Mr. Filippo Rizzante — Executive Director
- Dott. Filippo Rizzante — Executive Director

and three (3) Non-Executive and Independent Directors:

- Mr. Fausto Forti — (Lead Independent Director)
- Mrs. Maria Letizia Jaccheri
- Mr. Enrico Macii

The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the shareholders. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.
The members above were nominated through the Annual Shareholders' resolution on April 23, 2015 based on the list presented by the majority shareholder Alika S.r.l. Office for the above members terminated with the approval of the 2017 financial statements.
The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner with the exception of urgent and confidential matters.
The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.
With regard to the application of the criterion of apportionment in relation to the election of Directors, based on a criteria that satisfies an equal gender balance, pursuant to Art. 147 ter, paragraph 1 ter of the TUF, the Company has applied it as from the renewal of the corporate bodies that took place in 2015.

The table below discloses the main information related to the Board of Directors in compliance with Article 144-duodecies issued by Consob

Name	**Position held**	**Year of Birth**	**Date of first nomination**	**Board of Directors**								**Internal control and risks committee**		**Remuneration and Nomination committee**	
				In office	L (**)	E	N.E	I.code	I. TUF	%	Other offices	Attendance	%	Attendance	%
Mario Rizzante	Chairman and Chief Executive Officer	1948	10/07/2000	From 1/1/15 to 31/12/17(*)	M	X	-	-	-	100,00%	-	-	-	-	-
Tatiana Rizzante	Chief Executive Officer	1970	10/06/2003	From 1/1/15 to 31/12/17 (*)	M	X	-	-	-	100,00%	-	-	-	-	-
Oscar Pepino	Executive Director	1952	10/07/2000	From 1/1/15 to 31/12/17(*)	M	X	-	-	-	100,00%	-	-	-	-	-
Claudio Bombonato	Executive Director	1946	13/12/2007	From 1/1/15 to 31/12/17	M	X	-	-	-	75,00%	2	-	-	-	-
Daniele Angelucci	Executive Director	1956	27/04/2012	From 1/1/15 to 31/12/17(*)	M	X	-	-	-	100,00%	-	-	-	-	-
Filippo Rizzante	Executive Director	1972	27/04/2012	From 1/1/15 to 31/12/17(*)	M	X	-	-	-	75,00%	-	-	-	-	-
Fausto Forti	Lead Independent Director	1949	19/04/2004	From 1/1/15 to 31/12/17(*)	M		X	X	X	100,00%	-	X	100%	X	100%
Maria Letizia Jaccheri	Non-Executive independent Director	1965	23/04/2015	From 23/4/15 to 31/12/17(*)	M		X	X	X	100,00%	-	X	100%	X	100%
Enrico Macii	Non-Executive independent Director	1966	23/04/2015	From 23/4/15 to 31/12/17(*)	M		X	X	X	100,00%	-	X	100%	X	100%
Number of meetings held in 2016				Board meetings: 4								Meetings of the Risk and Control Committee: 4		Meetings of the Remuneration Committee: 1	

(*) in office until the Shareholders' meeting for the approval of 31 December 2017 Financial Statements
(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous with votes in favors amounting to 57.618% of share capital.
Legend
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: Non-Executive
I: independent
I TUF: independent pursuant to Art. 148 TUF

Following is a brief description of personal and professional qualities of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan. Under his leadership, Reply embarks on a path of internationalization, which sees it grow and expand in Europe, particularly in Germany and England, as well as in America, becoming a point of reference for companies that consider technological innovation one of the main competitive levers. Reply, today, is a multinational, over 6,000 employees and with offices in Germany, Italy, England, Benelux, United States and Brazil. In 2014 Mr. Rizzante was nominated "Cavaliere del Lavoro" (Historian of the Workforce) by the Premier of the Italian Republic, Mr. Giorgio Napolitano.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Degree in computer engineering from the Turin Polytechnic, married with a daughter, she has always been passionate about new technologies. After some research experiences at the Politecnico of Turin, in 1995 enters Cselt (today Tlab) where she carries out testing and research on technologies and Internet services to the public. In 1996 she becomes part of Reply's founders, an entrepreneurial challenge based on a new business model: exploit the opportunities that the internet technologies make available by creating a cluster of companies, each specialized in application expertise or technology. From the start, Tatiana Rizzante handles the creation and skills development in areas with high rate of innovation, such as value added services to telecommunications operators, new media and the new digital channels. Over the years, she covers ever-increasing responsibilities within the group, assuming direct responsibility for various lines of business, including architectures and technologies, Digital

Media and Mobile Networks and contributing to the emergence of Reply in important Italian and foreign clients. Since 2006, after several experiences in the field of Innovation Management, she takes on the role of Managing Director, with the direct responsibility of the Group's overall offer definition and development of Reply.

Oscar Pepino (Executive Director and founder of Reply S.p.A.)
Mr. Pepino graduated in Science Informatics at the University of Turin in 1977. In 1981 he founded Mesarteam S.p.A., a System Integration company fulfilling his management role from the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and fulfils the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group.
Mr. Pepino is currently in charge of the Reply Group Operations Office and Audit & Compliance which run the informatics system, quality management, the management of operational quarters, PM Academy and Cmmi; Safety at work and Privacy, supervision of the Internal Control System and tasks associated to this role in accordance with the Procedures for Operations with Related Parties.

Claudio Bombonato (Executive Director of Reply S.p.A.)
Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds a Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also a Masters degree in Business Administration from Università Commerciale Luigi Bocconi. After a 10 year professional experience in Fiat Aviation Division and IBM Italy, he started working at McKinsey (in 1981) where he was mainly involved in the banking sector and ICT. In 1986 he became Partner and leader in financial institutional practices and ICT in Italy. In 1990, he was appointed Director of the company by McKinsey and was a member of the European leadership group on Financial Institutions. Mr. Claudio Bombonato was the European Supervisor overseeing Commercial Banking practices for a number of years. In 2006 he left Mckinsey and was appointed European Senior Advisor for Morgan Stanley (Financial Institution sector in Italy). He has published many articles on strategic thematic, organization and technology both for the financial and public sectors. He was Member of the Board at SI Holding and Banca Fonspa S.p.A. until November 2013 At present he is a Member of the Board at Whysol S.p.A. a financial holding company active in the energy sector. Since March 2014 he is Chairman of Anima Holding S.p.A., a company which is listed on the Italian stock exchange.

Daniele Angelucci (Executive Director of Reply S.p.A.)

Daniele Angelucci worked from 1976 to 1986 at the Centre of Study & Laboratories of Telecommunications (CSELT, now Telecom Italy Lab) as a researcher; From 1986 to 1995 he worked in Mesarteam S.p.A. fulfilling various roles including Technical Director of the Rome office, Head of Technical Software and then Technical Director of Turin. He joined Reply as a Senior Partner in 1996. In 1996 he became President and founding member of Cluster Reply, a group company focused on e-business solutions using Microsoft technology. From 2000 to 2002 he was Director of operations in the Turin area. In 2003 he became CEO of Santer S.p.A., a company specialized in the health market and local government. From 2006 to 2010 he was Chief Financial Officer of Reply Deutschland AG. Since 2011 he has been Chief Financial Officer of Reply S.p.A.

Filippo Rizzante (Executive Director of Reply S.p.A.)

A computer engineering graduate from the Polytechnic University of Turin, whom has always been fascinated by new technologies. He began his career with Reply in 1999. In the early years, he worked within the Group mainly in consultancy and projects for the web division, focusing in particular on the development of B2B and B2C portals. In 2003 he held the position of Technical Manager of Technology Reply Rome, and then continued his career within YH Reply (now Whitehall Reply) as CEO. In 2006 he became Executive Partner of the Reply Group, overseeing the Group companies that deal with Oracle technologies, Safety, Information Lifecycle Management, Web 2.0 and Open Source. Over the years his responsibilities within the Group grew and he assumed direct responsibility for various business lines, including Architecture and Technologies, Digital and Mobile Media – in addition to contributing to the success of the Reply offer in the context of Cloud Computing, Digital Media and Social Media for significant Italian and foreign clients. Since 2012, in the capacity of Reply CTO, he has led the development of new offer elements associated with technological innovation and assumed Group responsibility for all partnerships.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.)

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. he held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he held until March 2013. From April 2013 to April 2015 he was the Chairman of DHL Express Italy S.r.l. From 2000 to 2006 he was Chairman of Assologistica (Associazione Italiana delle Aziende di Logistica). Since April 2010 he is Chairman of Confetra (Confederazione italiana delle Associazioni di Trasporto e Logistica).

Maria Letizia Jaccheri (Independent Director of Reply S.p.A.)
Norwegian nationality, holds a PhD in Computer Engineering at the Politecnico of Turin, achieved in 1994 and a degree in Computer Science from the University of Pisa in 1988. Since 2002,she is Professor at the Norwegian University of Science and Technology (NTNU) and since 2013 appointed Director of the Department of Computer and Information Science NTNU),managing a group of 210 employees (professors, administrators, graduates and researchers), more than 2,000 students and numerous research activities for the innovation of the department with several projects funded by the Norwegian Research Council and by the European community and industry.
Since 2014, she is an alternate member of the Sintef Council, a Norwegian research organization with about 2,000 employees. Since April 2015 Independent Director of Reply S.p.A.. She has published more than 100 scientific papers since 1989, for which she obtained over 1,700 mentions according to Google Scholar.

Enrico Macii (Independent Director of Reply S.p.A.)
Since 2001 Enrico Macii is a Full Professor of Computer Engineering at Politecnico di Torino. Prior to that, he was an Associate Professor (1998-2001) and an Assistant Professor (1993-1998) at the same institution. From 1991 to 1997 he was also an Adjunct Faculty at the University of Colorado at Boulder. He holds a Degree in Electrical Engineering from Politecnico di Torino (1990), a Degree in Computer Science from Università di Torino (1991) and a PhD degree in Computer Engineering from Politecnico di Torino (1995). Since 2007, he is the Vice Rector for Research at Politecnico di Torino; he was also the Rector's Delegate for Technology Transfer (2009-2015) and for International Affairs (2012-2015). His research interests are in the design of electronic circuits and systems, with particular emphasis on low-power consumption aspects. In the last few years, he has been growingly involved in projects focusing on the development of new technologies, methodologies and policies for achieving energy efficiency in buildings, districts and cities, therefore addressing multi-disciplinary activities regarding clean energy deployment, low-pollution mobility, sustainable urban development, pointing towards the actuation of the concept of smart city. In the fields above he has authored over 450 scientific publications.

electronic systems. The scientific results obtained in his career have given rise to a total of about 500 publications in journals, books and conferences internationally.

The criteria in evaluating the requisites of independence of the Board of Directors has not been integrated or modified.

The Board of Directors has verified, at the date of approval of the Report herein, the offices of Directors and Statutory Auditors, held by the Directors in other listed companies, finance, bank, and insurance companies or big enterprises.
The following arose:

- Mr. Claudio Bombonato is a Director of Whysol S.p.A., a financial holding company active in the energy sector and Chairman of Anima Holding S.p.A..

Although recommended by the Code, the Board of Directors has preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the Directors' role and this, beyond the limit of five appointments at Italian companies with shares listed on Italian regulated markets (excluding subsidiaries of the parent Company or the latter) indicated in art. 16 of the Statute the Board believes that such assessment firstly should be made by the shareholders when appointing the Directors and secondly by the individual Director when accepting the office.

In accordance to the Group's practices that have been adopted in relation to induction programmes, several initiatives are foreseen aimed at providing Directors and Top Management an adequate knowledge of the area in which the company operates, of the dynamics of the company and its evolution and of the regulatory framework. More specifically, it is provided that a full set of documents containing the principle regulations and laws regarding the Board of Directors, the various internal Committees within the Board and the main related corporate documents be made available.

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is the statutory managing body vested with the broadest powers for the ordinary and extraordinary management of the Company.

The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.¬

More specifically the Board of Directors, in compliance with the Code:

a) Examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads periodically monitoring its implementation; defines the corporate governance system and the structure of the group;

b) Defines the nature and level of risk compatible with the issuer's strategic objectives;

c) Evaluates the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing Directors, in particular with regard to the Internal Control System and risk management;

d) It shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;

e) Evaluates the general performance of the company, paying particular attention to the information received from the Executive committee (when established) and the managing Directors, and periodically comparing the results achieved with those planned;

f) Decides on operations carried out by the issuer and its subsidiaries when said operations have significant strategic, economic or financial relevance to such issuer; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;

g) At least once a year, it performs an evaluation of the work of the Board itself as well as of its committees including their size and composition, also taking into account elements such as the professional characteristics, (managerial) experience and general qualities of its members, including their length of time in office;

h) Taking account of the outcome of the evaluation under point g), before a new Board is appointed, it advises shareholders with regard to the types of professionals it deems advisable to have represented on the Board;

i) Provides information in the report on corporate governance: (1) on its composition of the board, indicating for each member the qualification (Executive, Non-Executive, or independent) the role within the Board, his or her main professional features and seniority as a member of the Board; (2) the methods of application of Art. 1 of the Code and, on the number of meetings of the board and of the Executive committee, if any, held during the fiscal year plus the related percentage of attendance of each Director; (3) on the modalities of the evaluation process referred to under point g);

j) In order to ensure the proper management of corporate information, adopted, on the proposal of the Chief Executive Officer or Chairman of the Board of Directors, a procedure for the internal management and external communication of documents and information concerning the issuer, with particular reference to privileged information.

The Board of Directors meets on a regular basis, at least every three months, as established by the Company by-laws, or when deemed necessary.
The Chairman, under the company's by-laws, has the power to convene the Board of Directors' meetings.
The Directors report to the Statutory Auditors on a quarterly basis with regards to the activities carried out during the year, the significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.
During 2016 the Board of Directors met four (4) times and the average duration was approximately one hour and half (1.5).
The Board of Directors is scheduled to meet at least four (4) times in 2017. The Board of Directors has held no meetings at the present date of this Report.

During 2016, the Chairman, in accordance to the Corporate Governance, provided documents containing information relevant to the discussion to directors and statutory auditors a few days preceding the meeting as to ensure the directors and statutory auditors timely and complete access to information in advance of the Board meeting. In particular, to simplify access and consultation of such documents, a synthesis of the most relevant items (new amendments, regulations) has been provided. The documentation shall be sent a few days prior to the established date of the meeting, except documentation which is not available or particularly urgent or unforeseen.

The Chairman of the Board of Directors ensured that each meeting was carried out appropriately, ensuring that each item on the minutes was treated accordingly, and that adequate time was spent to establish an advantageous comparison among the members of the board.

The participating members of the Board are also allowed to intervene through audiovisual connection.
In order to facilitate the participation of a greater number of Managers and Statutory Auditors, a calendar of the annual meetings scheduled is drafted.
The Director in charge of drawing up the financial statements, systematically takes part in the Board of Directors meetings; the main business functions are represented directly by members of the Board of directors who hold such functions in the Organization of the Company.

The Board of Directors, upon the approval of the annual and half-year financial report and considering the duties carried out by the Control and Risk Committee (which in turn is based on controls carried out by the Internal Audit), examine and evaluate periodically the adequacy of the organizational, administrative, and accounting structure and the general performance of the system of the internal control and risk management.
This point is fully detailed in "Internal Control and risks Committee".

In accordance with the Corporate Governance Code (art. 1.C.1, letter f), the company has granted the Board of Directors the examination and approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report in the section dedicated to the topic.
Coherent to the Code, the Board of Directors, on an annual basis, evaluate the activities performed by the Board and its Committees with particular emphasis on size, composition and functioning. The evaluation takes into account the relative mix of executive, non-executive and independent directors, as well as their specific technical abilities and professional background and experience and the length of time on the board.

During the meeting held on 2 August 2016, the Board of Directors deemed that the standing Board and its Committees, with particular emphasis on size, composition and functioning meet the requirements set forth by the Code.

The Board of Directors, pursuant to the Group's consolidated practices, has considered not to express its position with regards to the nominations of 2015, as this valuation is already carried out by the shareholders upon presentation of the mentioned lists.

The shareholders have relieved the Board of Directors from the obligations pursuant to art 2390 paragraph 1 of the Civil Code.

CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICERS AND EXECUTIVE DIRECTORS

The Board of Directors currently holding office comprises of two Chief Executive Officer, (who also fulfils the role of Chairman of the Board of Directors) four Executive Directors and has empowered the Chairman (who also fulfils the role of Chief Executive Officer) with the broadest operational delegations, in light of the resolutions passed on 23 April 2015.

Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties.*
The Chairman, is responsible for the management of the Company and is also major shareholder, as illustrated here within.

Mrs. Tatiana Rizzante, Chief Executive Officer, has the following main powers:

- Ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- Undersign rent and lease contracts for no longer than a nine year period establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- Carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;

- Request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- Hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
- Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments and can:
- Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- Confer or receive the related mandate in the event of a temporary group enterprise participation;
- Negotiate and undersign contracts following the awarding of the bid;
- Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- Represent the Company in relation to all such matters, issuing the relevant powers of attorney.

Mr. Oscar Pepino, Executive Officer, has the following main powers:

- Sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 10,000,000.00 Euros; and can:
  - Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - Confer or receive the related mandate in the event of a temporary group enterprise participation;

    - Negotiate and undersign contracts following the awarding of the bid;
    - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 10,000,000.00 Euros for each operation from an asset side and 500,000.00 Euros for operations from a liability side;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- Hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, Mr. Claudio Bombonato, with the scope of supporting the Company in the development of its activities, are the following:

- individual powers:
    a) Represent the Company Reply S.p.A. with external contacts and business negotiations and authorize the issuing of the related business offer with a limit of 5,000,000 Euros per transaction;
    b) Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation;
    c) Participate in any public or private bidding – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:

- › draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- › confer or receive the necessary mandate in the case of temporary joint ventures;
- › undersign contracts following the awarding of the bid;
- › subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;

d) To carry out in the interest of the Company whatever is necessary or convenient within his powers;

- joint powers, with another Director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Executive Director, Mr. Claudio Bombonato in capacity of Executive Director, has been assigned further powers related to activities under Network Finance & Security within the Reply Group. The main proxies empowered to the Executive Director, Mr. Daniele Angelucci:

- Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 10,000,000.00 Euros for each operation from an asset side with parties belonging to the Group and 1,000,000.00 Euros for operations from a liability side with parties not belonging to the Group;
- Sign rent and lease contracts for a maximum value of 1,000,000.00 Euros for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
  - › Grant guarantees, sureties in the limit of 5,000,000 Euros;
  - › To sign insurance policies covering risks pertaining to its premises, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts all subject to a maximum limit of 500,000.00 Euros;
- Request, accept and use bank credit in the short, medium and long term to a maximum of 10,000,000 Euros;
- Sign factoring contracts, negotiating conditions, carry out any operation connected including the sale of receivables, the provision of guarantees, warrants for collection, discount operations and advance payments with commitment of shares all in the limit of 10,000,000 Euros;

- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- To employ, appoint and dismiss employees with annual gross salaries (including any supplemental compensation) of up to 100,000.00 Euros; to grant salary supplements to employees as a result of which the beneficiaries do not exceed a gross annual salary (including any supplemental compensation) of 100,000.00 Euros;
- Within the maximum spending limit of 300,000 Euros, retract from contracts with middle and senior managers, compromise the related controversies, representing the Company before the labour unions;
- Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 10,000,000.00 Euros; and can:
  - Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - Confer or receive the related mandate in the event of a temporary group enterprise participation;
  - Negotiate and undersign contracts following the awarding of the bid;
  - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
  - Represent the Company in relation to all such matters, issuing the relevant powers of attorney.

The main proxies empowered to the Executive Director, Mr. Filippo Rizzante:
- Negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 3,000,000.00 Euros for each operation from an asset side and for operations from a liability side with Reply Group subjects and a value not greater than 150,000 Euros for each operation and from a liability side with parties outside the Reply Group;
- Participate in any public or private biddings – even in temporary groups of similar

enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 3,000,000.00 Euros; and has the power to:

- Draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- Confer or receive the related mandate in the event of a temporary group enterprise participation;
- Negotiate and undersign contracts following the awarding of the bid;
- Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- Undersign rent and lease contracts for no longer than a nine year period to a maximum of 150,000 Euros and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- Sign insurance policies covering risks pertaining to the premises where the company carries out its business, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts deemed to be necessary and expedient; all subject to a maximum limit of 50,000.00 Euros.
- Hire employees with annual salaries of up to 40,000 Euros, modify or retract from work contracts up to a maximum fee of 100,000 Euros and settle the related disputes, representing the Company in front of trades unions;

In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. and the Chairman have the possibility to attribute specific delegation powers to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.

INDEPENDENT DIRECTORS

As previously stated, the three Directors members of the Board of Directors qualifying as being independent are:

- Dott. Fausto Forti *(Lead Independent Director)*
- Prof. Maria Letizia Jaccheri
- Prof. Enrico Macii

The independent Directors constitute as a whole the Remuneration and Nomination Committee and the Internal Control and Risks Committee.
The same Independent Directors also qualify as, in the capacity of members of the Internal Control and Risks Committee, members of the Related party transaction committee established by the related procedure.

The Independent Non-Executive Directors have the same characteristics as the Independent Directors, in compliance with paragraph 3.C.1. of the 2015 edition of the Corporate Governance Code that provides that a Director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

a) If he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;

b) If he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;

c) If he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:

- › with the issuer, one of its subsidiaries, or any of its significant representatives;
- › with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or – in case of a company or an entity – with the relevant significant representatives;

or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;

d) If he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer and compensation for participation in committees recommended by the Code, a significant additional remuneration compared to the “fixed” remuneration of Non-Executive Director of the issuer, including the participation in incentive plans linked to the company’s performance, including stock option plans;

e) If he/she was a Director of the issuer for more than nine years in the last twelve years;

f) If he/she is vested with the Executive Director office in another company in which an Executive Director of the issuer holds the office of Director;

g) If he/she is shareholder or shareholder or Director of a legal entity belonging to the same network as the company appointed for the external audit of the issuer;

h) If he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held 23 April 2015, and in the following meetings called to approve the 2016 draft financial statements also being the first meeting following its renewal and subsequently on an annual basis, with positive results, the independence of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code, resolving not to apply the criteria stated in point e) in view of the Directors’ authority, reputation and moral statute. This was verified with regards to Mr. Fausto Forti from April 2013.

The Independent directors shall communicate in due time to the Board of directors any situation which may compromise independency and assume the necessary and/or consequent decisions.

The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.

During the periodic meetings held throughout the year, the Board of Statutory Auditors has not disclosed any situations which could compromise independency in accordance to the regulations in force.

In November there was a meeting of only independent directors, during which the independent directors discussed their roles within the administrative body of the company.

LEAD INDEPENDENT DIRECTOR

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a "Lead Independent Director", that represents a reference and coordination point of the motions of the Non-Executive Directors and more specifically the independent ones; and cooperate with the chairman of the Board of Directors in order to ensure that Directors receive adequate information in good time; for this scope, should these circumstances occur, in accordance with article 2.C.3 of the Code, the role of Lead Independent Director is head by the Non-Executive and Independent Director, Mr. Fausto Forti.

PROCESSING OF CONFIDENTIAL INFORMATION

The Chairman and Chief Executive Officer, Mr. Mario Rizzante and the *Investor Relator*, Mr. Riccardo Lodigiani, handle the *processing* of internal and external communication of confidential company information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.

More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws. Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the Chief Executive officer's directions are followed.

Following the introduction in Italy of the so-called "*market abuse*" directive enacted by Community Law 2004 (Law 18, April 2005 no. 62) and endorsed by the corresponding Consob regulation, a law was passed concerning the obligation to notify the public about any transactions carried out by "key persons" and people strictly associated to them in relation to financial instruments of the company.

Consequently, Reply S.p.A., who has already adopted since 2003 an Internal Conduct Code on Internal Dealing, adopted from 1 April 2006, following the resolution of the Board of Directors of 31 March 2006, a new Corporate Governance Code aimed at regulating, with binding force, information flows of "Relevant Persons" and "Related parties to them" with respect to the

Company and related obligations and information and communications in respect of Consob and the transactions carried out by such persons; code subsequently amended by resolution of November 13, 2014.
Finally, following the entry into force, on July 3, 2016 of Regulation (EU) no 596/2014 of April 16, 2014 said "market abuse Regulation" or "MAR", supplemented by implementing Regulation (EU) 2016/523 of March 10, 2016 and the delegated Regulation (EU) 2016/522, directly applicable, the company approved the updated text of the "Internal Dealing procedure" on August 2, 2016.

More specifically, the Procedure with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called “key persons”, disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by “Key Persons” and by “Closely related persons”, that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company’s or its subsidiaries financial-economic trends.
The code comprises ten paragraphs that define the conduct in terms of “internal dealing” and the ways of applying the same. The code disciplines more specifically, the identification of the “Key Parties” and “Closely related persons”, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the “Key persons”; all in accordance with the regulations included in “Market Abuse Regulations” and the delegated and implementing regulations.
Executive Director, Mr. Daniel Angelucci, is the person responsible for the handling of confidential information.
The complete version of the Corporate Governance Code is available on the Company’s website (www.reply.com – Investors – Corporate Governance).

Aside from the above, the Board of Directors of the Company has not, for the moment, adopted additional resolutions for the adoption of procedures concerning internal management and external communication of documents and information concerning the issuer.

COMMITTEES WITHIN THE BOARD OF DIRECTORS

The Board of Directors has set up consulting committees, The Internal Control and Risks Committee and the Remuneration and Nomination Committee.

The Board of Directors during the meeting held on 23 April 2015, decided not to set up an internal committee to propose candidates for appointment to the position of Director. Considering the current ownership structure, proven to be concentrated and the governance structure of Reply S.p.A. and considering the circumstances that this function is already carried out by the shareholders upon presentation of the lists for renewal of the governing bodies. Information concerning the meetings of the internal committee is given in the following Board of Directors meetings.

REMUNERATION COMMITTEE

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with Article 123-ter of TUF.
The Board of Directors has internally constituted a Remuneration Committee composed of Professor Maria Letizia Jaccheri and Prof. Enrico Macii, Non-Executive and Independent Directors and Mr. Fausto Forti, Lead Independent Director, who has gained adequate knowledge and experience in financial matters and of remuneration policies in view of his professional experience characterized by taking operational responsibilities in companies of significant size.

In 2016 the Remuneration Committee, in order to carry out its duties, met once (1) with the presence of all members.
In 2017 one (1) meeting has been planned and has already been held.
At present, the Committee has not utilized external consultants.
In consideration of the current composition of the Remuneration Committee, it has been deemed not necessary to proceed with the nomination of a President of the committee, also in light of the fact that the Lead Independent Director already carries out functions in coordinating and programming activities for the Committee and relating to the Board.
In accordance with art. 6.C.6 of the Corporate Governance Code, no Director shall participate in meetings of the Remuneration and Nomination Committee in which proposals are submitted

to the Board of Directors relating to his/her remuneration; meetings will be attended by the Chairman of the Board of Statutory Auditors.

REMUNERATION OF DIRECTORS

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with Article 123-ter of TUF.
Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' meeting of 27 April 2012, upon nomination, and equal to 30,000.00 Euros gross of any withholding amounts foreseen by law.
Remuneration of Directors invested with special roles, was established by the Board of Directors in line with the Remuneration and Nomination Committee, upon proposal of the Committee, authorized by the Board of Statutory Auditors.

In compliance with article 20 of the Company by-laws the total amount of remuneration to Directors, including those invested with strategic powers, can also be determined by the Annual General Shareholders' meeting.

In compliance with Article 6.C.1 of the Code of the March 2006 release, article 22 of the Company by-laws provides the possibility to attribute a variable fee to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, which is resolved by the Annual General Shareholders' meeting approving the annual Financial Statements.

Such a possibility, that has already been adopted ever since allocation of the 2004 net result (with the exception of 2009), considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to 31 December 2016.

CONTROL AND RISK COMMITTEE

Under the Article 7.P.4 of the Code, the Board of Directors has internally constituted a Control and Risk Committee composed by Prof. Maria Letizia Jaccheri and Enrico Macii, Non-Executive and Independent Directors and Mr. Fausto Forti, Non Executive Director and Lead Independent Director.
The Chairman of the Board of Statutory Auditors or another auditor appointed by the aforementioned and a Director in charge of the internal control system participate in the work of the Control and Risk Committee; a written report shall be prepared at the end of each meeting, which will include the Committee's proposals.
In order to carry out its duties, the Committee can request information and data from the head of the Internal Audit function, the Board of Statutory Auditors and the independent auditors.

During 2016 the Internal Control and Risks committee met four (4) times and twice (2) in 2017. All the members were present and examined the following:

- Revision of the Impairment Test policy – Impairment (IAS 36);
- The separate Financial Statements and the consolidated Financial Statements of 2015 and 2016, and half-year report of 2016;
- Update on activities in relation to Law no. 262/2005 (Legge sul Risparmio) and other related internal improvement projects;
- Update on the introduction of the Risk Management system;
- Internal audit's mandate and work;
- Updating of the Organizational Model ex Law Decree 231/2001 and the Code of Ethics;
- Updating of the Related Party transactions procedure.

With reference to the examination of issues related to the Financial Statements, the Committee requested the participation, further to that of the Head of Internal Audit, but also the presence of Mr. Conti on behalf of the audit firm EY S.p.A..

During 2016 the Committee reported three (3) times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the Internal Control and Risks System, while during 2017, at present the Committee has referred only once.

INTERNAL CONTROL AND RISK MANAGEMENT

The internal control and risk management system is a set of rules, procedures and organizational structures that contribute to safeguarding the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information, the identification and monitoring of the main risks, and the compliance with laws and regulations.
The Board of Directors is responsible for the system of internal control and risk management, that, after receiving the opinion of the Control and Risks Committee, establishes guidelines and a work plan, evaluating its adequacy.
In this regard, during the year, the Board of Directors and the Control and Risks Committee expressed a favorable judgment regarding the adequacy of the Internal Control System for monitoring the level of risk consistent with the objectives of the Group.

FOREWORD

Reply has put in place a system of internal control and risk management for financial reporting based on the "*COSO Framework*", defined as a set of rules, procedures and tools designed to provide, through an adequate process of identification, the measurement, management and monitoring, of the major risks related to the disclosure of financial data and reasonable assurance of the achievement of corporate objectives.
The objective of the internal control and risk management system is also to ensure that the financial reporting disclosed within the required timeframe provides a fair and correct representation of operations, in order to guarantee the reliability, accuracy, truthfulness and timeliness of the financial information.

In relation to the Company's objectives, whether business or compliance, as well as reporting, the Company has adopted the following key instruments:

INSTRUMENTS AND MONITORING BUSINESS OBJECTIVES

- **Planning and management control –** Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the Company's objectives/strategies and operational planning through a budget and monitoring them by means of a monthly review of performance.
- **Company operational procedure system -** Reply S.p.A. has implemented a group of procedures that regulate internal processes, in order to properly apply the Company directives and to limit the risks connected with the achievement of the Company's

objectives, regulating both the activities carried out within individual departments, as well as relations with other entities.

- **Risk Management System** - Reply S.p.A. has implemented a Risk Management system, based on the Control Risk Self-Assessment model, a self-assessment methodology recognized by sector standards.

The objective of such procedure is to develop a corporate culture in view of raising risk awareness, through a continuous and pervasive process, implemented by the Board of Directors and by top management, aimed at identifying any potential events that might involve the Company as well as pursuing a risk level that is consistent with achieving the Company's objectives.

The methodology used is articulated in the following phases:

- Identification of objectives, strategies, critical success factors and the specific related risks that conflict with the achievement of the objectives;
- Self-assessment process based on indicators associated with the different risk categories (named the Key Risk Indicators).

Such system thus enables the identification, measurement, management and control of the Company's level of exposure to the different risk factors, considering (i) the probability that the risk occurs, (ii) the impact of the risk on the Company's objectives, (iii) the overall scope of the risk, (iv) the Company's ability to reduce the impact of the risk on business operations, and (v) possible relationships among the different risk factors.
The procedure provides for monitoring the adequacy and effective functioning of the internal control and risk management system, as well as its review, to be completed annually, in order to consider the trend of business operations and the context of reference. Such process, coordinated by the Internal Audit department, provides for the use of questionnaires so that risk belonging to each profile can be assessed by Top Management and the Directors of the Company's various departments as well as by the Partners of the Italian subsidiaries.

INSTRUMENTS MONITORING COMPLIANCE OBJECTIVES

- **Law 262/2005 on financial and accounting reporting –** Consistently with what is provided by Law 262/2005 on the protection of savings, Reply S.p.A. implemented accounting and administrative processes relevant for purposes of the reliability of the financial-economic reporting disclosed to the market, that provide for:
  - Mapping of the main sub-processes within the administration and relevant accounting procedures;

- Assessment of the adequacy of the existing controls and ongoing implementation of further controls in view of *compliance* and increased reliability of the processes considered;
- Drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
- Creation of future control and monitoring instruments.

- **Legislative Decree 231/2001** – see the relevant paragraph.
- **Security, environment and quality –** Reply has implemented a system of procedures and an organizational structure dedicated to the management of data security (also in view of the laws on Privacy), environmental protection, the safety of equipment and personnel and the quality of the services carried out (ISO certification 9001:2008).
- **Other laws and regulations -** Monitoring the evolution of laws and regulations and that relative compliance is carried out internally.

INSTRUMENTS MONITORING REPORTING OBJECTIVES

- **Accounting disclosures -** the drafting of accounting disclosures and disclosures in the consolidated and separate Financial Statements is regulated by the procedures of an administrative-accounting system.
- **Confidential Information:** see the relevant paragraph.
- **Internal Communications –** Reply S.p.A. has implemented an internal communications system aimed at facilitating and promoting internal communications within the Company and the Group, including by means of a structured management and coordination Committee system.

CHARACTERISTICS OF THE CURRENT INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PERIOD

The approach adopted by Reply in relation to the assessment, monitoring and continuous updating of the internal control and risk management system is based on a process that is consistent with the "CoSO Framework" model, which allows making assessments focusing on areas of higher risk and/or materiality, that is, where there are risks of significant errors in elements of the Financial Statements and related documents.
The key components of the process are:

1. Identification and evaluation of the source and probability of significant errors in elements of financial reporting;
2. Identification of the key controls aimed at covering the risks;
3. Assessment of the adequacy of the above controls with respect to the above risks, enabling ex ante or ex post identification of potential misstatements in elements of financial-economic reporting;
4. Verification of the operating effectiveness of controls.

Identification of the risk of misstatements which could have material effects on *financial reporting* is carried out through an administrative-accounting *risk assessmen*t process, under the supervision of the Director in charge of drawing up the Financial Statements along with the Group Finance Director that identify the organizational entities, processes and the related accounting items that are generated, in addition to specific activities which could potentially generate significant errors. According to the methodology adopted by Reply, risks and related controls are associated with the accounting and business processes upon which accounting information is based.
Significant risks, identified through the *risk assessment* process, require definition and evaluation of specific controls ("key controls") that guarantee "coverage", thereby mitigating the risk that financial reporting will contain any material misstatements.

According to international *best practice*, there are two principal types of existing controls:

- controls that operate at Group or subsidiary level, such as: the delegation of authorities and responsibilities, separation of duties and assignment of privileges and rights for access to IT systems;
- controls that operate at process level, such as authorizations, reconciliations, verifications of consistency, etc. This category includes controls referring to operational processes and controls of accounting closure processes.

Such controls can be "*preventive*" aimed at preventing errors or fraud which could result in misstatements in financial reporting, or "*detective*", aimed at revealing errors or fraud which has already occurred. They may also be defined as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

The process of identifying the above risks and key controls has led to the elaboration of control matrixes (*RCM* – "*Risk Control Matrix*") that identify, for each significant process, the potential impact on financial reporting:

- Risks subsequent to not having fulfilled the "Financial Statement assertion" control objectives, (existence, occurrence, completeness, rights and obligations, evaluation and accounting, presentation and disclosures) and other control objectives (such as authorization, segregation of tasks, data security, documentation and traceability of operations, etc.);
- The related "*best practice*" (i.e. *CoSO Framework*);
- The standard control activities (key controls) over these processes/procedures, and their principal characteristics (preventive/detective manual/automatic) and the related process owners;
- The assessment of the aforesaid controls in relation to the adequacy of mitigating the risks identified;
- Suggestions to improve shortages identified in the assessment of control activities.

The control activities related to significant processes of financial reporting are fully detailed in the "Reply Group's Manual of administration and accounting procedures", recently updated/integrated pursuant to Law No. 262/2005, commented on below.
As Reply S.p.A.'s shares are listed and negotiated on the Italian stock market, it is mandatory for the Board of Directors to nominate a Director in charge of drawing up the Financial Statements (Nominated Director); The Director in charge of drawing up the Financial Statements is responsible for setting up adequate administrative and accounting procedures to prepare the financial information disclosed to the market, and to monitor the proper application of such procedures. The Administration and accounting procedures manual defines the guidelines that must be applied within Reply and more specifically with reference to obligations under art. 154-bis of legislative decree 58/1998 governing company's Financial Statements and related attestation obligations.
More specifically the Administrative Procedures Manual:

- Defines the roles and responsibilities of the Organizational Units involved in the general activities of drafting, communication and control of the financial reporting disclosed to the market;
- Defines the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- Introduces, in order to support the drafting of the legal attestations/statements required by law of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally attest, through the internal communication processes, the correct functioning of the Accounting Control System pursuant to Law 262/2005 related to the accounting processes/flows regulated by such law and which fall within their administrative responsibility, the completeness and reliability of the information flows, as well as the adequacy and effective application of the key controls summarized in the control matrixes.

The company processes, the administrative-accounting procedures and the related control matrixes, along with the list of persons in charge of the operational units enacting the control, are subject to periodic assessments and if the case are updated.
The administrative-accounting procedures and the related control matrixes are shared with the relative process-owners, who attest that the controls have been planned and are operational, Administrative Management, with the support of the Internal Audit department, agree upon the implementation of any corrective measures.

The Internal Audit department carries out periodic assessments of the adequacy and effective application of the key controls every six months at the time of the preparation of the Financial Statements and interim report through audit procedures performed on specific areas determined by the Director in charge of drawing up the Financial Statements.
The persons in charge of the relevant administrative and accounting processes pursuant to Law 265/2005 issue an attestation letter addressed to the Director in charge of drawing up the Financial Statements, confirming the effective application of the administrative-accounting procedures for which they are responsible.
The audit plan is aimed at identifying a number of processes to be tested in order to cover the major processes during the year. The audit is performed on several Group companies, selected according to quantative parameters, (material thresholds with respect to the consolidated Financial Statements) and qualitative ones.
In order to carry out the monitoring controls check lists are prepared according to the different

processes being controlled which summarize the ways of testing the key controls included in the Procedures Manual and in the RCM, the sample to be tested and the outcome of the test. Sample testing is the criteria used and the data and assessments included in the check lists are supported by the documentation gathered during the monitoring activities, that are an integral part of the same check lists.

The outcome of the tests performed and any suggestions made concerning the opportunity of implementing further controls where shortages were identified, are summarized by the Internal Audit Officer in a special report, object of an internal communications flow, and addressed to the Director in charge of drawing up the Financial Statements and to the Board of Directors.

By sharing this document, two flows are activated:

- The attestation process addressed externally based on the declarations made by the Director in charge in compliance with art. 154-bis of legislative decree 58/1998, in occasion of the drafting of the annual Financial Statements or the half-year financial report, as described above.
- The internal process of sharing with the related *process owners* the outcome of the control assessments, any compensation controls, corrective measures or improvement plan proposals.

The Head of the Internal Audit department periodically refers to the Internal Control and Risk Management Committee, the Board of Statutory Auditors and to the Supervisory Body with reference to the activities carried out within the assessment process of the Internal Control System.

DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM

The Board of Directors, at its meeting of 23 April 2015, confirmed Mr. Oscar Pepino as the Director in charge of the Internal Control and Risk Management system, responsible for maintaining the internal control and risk management system in an efficient manner and in conformity with what is required by the Corporate Governance Code, and allows the Head of the Internal Audit department to carry out his role in accordance with the cited provisions of the Code.

HEAD OF THE INTERNAL AUDIT DEPARTMENT

The Board of Directors, at its meeting of 23 April 2015, appointed Mr. Edoardo Dezani as the Head of the Internal Audit department, upon a proposal of the Director responsible for the Internal Control System, with the favorable opinion of the Internal Control and Risk Management Committee and having heard the Board of Statutory Auditors, who is responsible for controlling that the internal control and risk management system is operational and adequate.

The Head of the Internal Audit department works on the basis of an audit plan approved by the Board of Directors, which provides for periodic reports on the assessment of the internal control and risk management system's adequacy and the reliability of the reporting systems, including the accounting reporting systems, advising the members of the Board of Directors, Top Management, the Internal Control and Risk Management Committee and the Board of Statutory Auditors of his activities.

ORGANIZATIONAL MODEL PURSUANT TO EX LEGISLATIVE DECREE 231/01

In November 2004 the Company's Board of Director's approved an "*Ethics Code*", which confirmed the ethical principles and transparency that guide the Company's internal and external activities, outlining all of the fundamental principles required to guarantee legality, loyalty, and correctness when conducting Reply's business.

In 2007 a project was initiated to adopt an updated organizational, management and control Model pursuant to the provisions of Article 6 of Legislative Decree 231/2001 (the "Model") in relation to the responsibilities of enterprises, in order to prevent the crimes provided by such Decree. The Model was approved by the Board of Directors at a meeting held 28 March 2008, and was subsequently updated periodically through resolutions on 1 August 2013 and on 31 July 2015 which was limited to the Ethic Code.

The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules

of conduct, control instruments and organizational procedures, formation and informational activities and disciplinary system finalized at assuring, the prevention of offences.
The types of crime contemplated by Legislative Decree No. 231/2001 and that have been considered at risk for the Group, as outlined in the annex to the Model, are the following:

(i) Relations with the Public Administration;
(ii) Enterprise obligations;
(iii) Privileged information;
(iv) Security, prevention, health and hygiene in the workplace;
(v) IT crimes and illegal use of personal data;
(vi) Laundering crimes;
(vii) Offences related to violation of copyright laws.
(viii) Employing citizens from foreign countries

The Model was adopted in 2008 and updated periodically and the latest version in 2015 by all the Italian Group companies.

The Organizational Model of Reply S.p.A is available on the company website (www.reply.com – Investors – Corporate Governance).
The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has appointed a Supervisory Body, which has the duty to verify the correct functioning of the Model and to update it accordingly. The Compliance Committee refers to the Board of Directors and to the Internal Control and Risk Management Committee. The Supervisory Body, which has its own internal Regulations, is comprised of an outsider (Eng. Franco Gianolio) as its President, the Lead Independent Director (Mr. Fausto Forti), and the Head of the Internal Audit department (Mr. Edoardo Dezani), who will remain in office until the approval of the Financial Statements as at 31 December 2017.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Supervisory Body of the Parent Company, on the basis of specific agreements.

In 2016 the Supervisory Body met four (4) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

INDEPENDENT AUDIT FIRM

The Shareholders' General Meeting held on 29 April 2010, approved the appointment of EY S.p.A. as the Company's independent auditors for the nine-year period 2010-2018 which includes the audit of the separate Financial Statements, the annual consolidated Financial Statements and the half-year condensed consolidated Financial Statements.

DIRECTOR IN CHARGE OF DRAWING UP THE FINANCIAL STATEMENTS AND LEGAL DOCUMENTS

The Board of Directors, at its meeting of 23 April 2015, in accordance with the provisions of Law 262/2005, confirmed as *the Director responsible for drawing up the Company's Financial Statements*, upon the proposal of the Chairman and Chief Executive Officer, and with the favorable opinion of the Board of Statutory Auditors, Mr. Giuseppe Veneziano, based on the experience matured in such department during the previous three years, as well as in the context of the Group's administrative and management control areas ever since it was listed; on 25 June 2015, the power of attorney was renewed for the same Director in order to enable him to carry out the powers attributed to him.

Pursuant to article 24 of the Company by-laws, the *Director* must set up adequate administration and accounting procedures for the drawing up of the statutory Financial Statements, the consolidated statements and any other financial communication.

The *Director*, together with the other Executive organs, must undersign an attestation, annexed to every Financial Statement and to any other financial communication in accordance with specific laws and regulations.

With reference to his tasks, the *Director responsible for drawing up the Financial Statements* and legal documents has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.

COORDINATION BETWEEN THOSE INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

At present, the company does not consider it necessary to set up formal procedures for coordination between the various parties involved in the Internal Control and Risk Management system, as they already work in a spirit of mutual cooperation.

DIRECTORS' INTEREST AND TRANSACTIONS WITH RELATED PARTIES

In compliance with the Corporate Governance Code transactions carried out with related parties are performed in a transparent manner and meet criteria of substantial and procedural fairness. Directors who have an interest, even if only potential or indirect with related parties shall:

- Promptly inform the board in detail of the existence of the interest and of the related circumstances;
- Abandon the board meeting when the issue is discussed.

The Board of Directors can however, under certain circumstances, allow the Directors to participate and/or vote.
In accordance with Consob regulation no. 17221 of 12 March 2010, the Company has adopted, effective 1 January 2011, procedures for transaction with related parties (the "Procedures") to ensure full transparency and substantial and procedural fairness in transactions with related parties and is available on the Company website (www.reply.com – Investors – Corporate Governance).
Recalling the definition of Consob Regulation no. 17221 of 12 March 2010, the Procedures establish "significant transactions" those requiring the prior approval of the Board of Directors, with the exception of those subject to law and/or the General Shareholders, "minor transactions" (unless pertaining to the residual category of non significant transactions) those that can be delegated to one or more members of the Board and "exempt transactions" those falling under the types disciplined by Consob regulations.
In the past the Company has exercised the option to apply the procedures related to minor transactions to significant transactions, as it is a smaller sized company; in the month of May 2015, as the Company no longer falls under a small sized company and therefore cannot exercise such faculty, the procedure was modified.
Under a procedural perspective, when a transaction with a related party is deemed probable,

the Designated Director (that is the Director in charge of supervising the Internal Control System) timely provides the Committee (identified within the Internal Control Committee) written communication with a brief description of the transaction.

If the transaction falls under the significant transaction category, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavorable opinion, the Board of Directors could choose to submit to the General Shareholders' meeting the decision concerning the transaction; in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

If the transaction falls under the minor transaction category, the Committee submits to the Director its non binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction prior to the presentation of the contractual proposal, or, in case the decision is taken by the Board of Directors of the Company, at least three days prior to the board's meeting.

If the transaction falls under the General Shareholders' competencies or must be authorized by the latter, in addition to what has been described above, depending on whether the transaction is significant or minor, the Committee must express a motivated opinion in relation to the Company's interest in carrying out the transaction along with the convenience and substantial correctness of the terms and conditions of the transaction when the Board of Directors is called to approve the motion to submit to the General Shareholders' meeting the decision.

If, in relation to a significant operation the motion to submit to the General Shareholders' meeting the decision is approved by the Board of Directors despite an unfavorable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary resolutions by the General Shareholders' meeting – cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

In case there is an urgency, the operation, as long it is not competence of the Shareholders and does not need their authorization, may be concluded in derogation of the procedures as long as all mandatory information has been provided to the public and under the condition that:

- Should the transaction fall under the Chief financial officer's powers, the Chairman of the Board of Directors must be informed the reasons of the urgency prior to the transaction being executed;

- The transactions are subsequently approved in a following Shareholders' meeting;
- The body convening the Shareholders' meeting must draw up a report with adequate motivations of the urgency and the Board of Statutory Auditors must refer to the Shareholders their opinion in relation to the reasonableness of the urgency;
- The report and valuation of the previous point must be made available to the public at least 21 days prior to the Annual Shareholders' meeting and in accordance with the means set out by Consob;
- Within one day following the Annual Shareholders' meeting, the Company must make available to the public the information regarding the results of the voting.

The Designated Director, on at least a quarterly basis, submits to the Committee, to the Board of Directors and to the Board of Statutory Auditors, a detailed report concerning transactions previously approved by the Board of Directors and/or carried out by the Chief Executive Officer. The Head of the Internal Control Function periodically carries out –on an annual basis – control activities over the fulfilment of obligations of the Procedures herein by the competent company departments and refers to the Committee and Board of Statutory Auditors.

In 2016 the Committee for transaction with related parties, identified within the Internal Control Committee (now called the Control and Risks Committee), did not meet.

APPOINTMENT OF STATUTORY AUDITORS

The appointment and substitution of Auditors is disciplined by Art. 23 (Board of Statutory Auditors) of the by-laws, and is available on the Company's *website* (www.reply.com under – Investors – Corporate Governance).

Art. 23 of the Company by-laws, regulates that:

- The lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least twenty-five days prior to the date set for the Shareholders' meeting on first call; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance with binding laws or regulations; should at the expiry date stated above, only one list be presented, or only lists presented by shareholders that are inter-related in accordance with the regulations in force, lists can be presented up to five days following such date. In this case the above threshold is reduced by half;
- Statutory Auditors and Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. The ratios will then be progressively assigned to the candidates on each list and ranked in descending order. The candidates with the highest ratio will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- The list which presents candidates equivalent to or superior to three shall be composed by candidates from both Statutory auditors and Alternative auditors, so as the number of candidates, in accordance to the regulations of the Report, belong also to the less representative genders (if in excess, it shall be rounded up to the next number);
- If candidates obtain the same percentage of votes, the candidate will be selected from the list which has not elected a Statutory Auditor, whereas if all the lists have elected the same number of candidates, the Statutory Auditor will be chosen from the list which obtained the most votes. If the result in percentage and vote is the same the Shareholders vote once more and the candidate with the highest percentage will be appointed;

- The office of President of the Board of Statutory Auditors is held by the Statutory Auditor which was elected from the minority list that obtained the highest number of votes;
- In the event of a Statutory Auditor and/or an Alternative being replaced, and considering the balance in genders, if the Statutory auditor shall be replaced in the majority list, the nomination is carried out without any binds to the list; if a Statutory Auditor shall be replaced from a minority list, the Board shall substitute with a majority vote and when counting such votes, the shareholders' with a majority shares and shareholders' connected to the previous shall not be considered.

With regard to the application of the criterion of allocation in connection with the election of auditors, under Art. 148, paragraph 1 bis of the TUF, Reply to S.p.A. applied the renewal of the corporate bodies on 23 April 2015.

STATUTORY AUDITORS

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

• Mr. Cristiano Antonelli	President
• Dott.ssa Ada Alessandra Garzino Demo	Statutory Auditor
• Mr. Paolo Claretta – Assandri	Statutory Auditor
• Dott.ssa Giuliana Monte	Alternate auditor
• Mr. Alessandro Pedretti	Alternate auditor

The Board of Statutory Auditors was appointed during the Shareholders' meeting on 23 April 2015 based on the list which was presented by the majority shareholders of Alika S.r.l..
The office expires on 31 December 2017 with the approval of the Financial Statements.

On an annual basis and upon nomination, the Committee, verifies the requisites of independence of its members in accordance to Article 144-novies of the Regolamento Emittenti and in compliance to the Code of Conduct.
During the periodic controls carried out in 2016 and in compliance to the Code, the Committee has not disclosed any situations which could compromise independence and it has been resolved not to apply the criteria stated in Article 3.C.1 letter f) of the Code, in view of member's authority, even in light of the resolutions made by the Board of Directors.

This was verified with regards to Mrs. Ada Alessandra Garzino Demo from June 2012.

Considering the professional experience of the members of the Statutory auditors, the Company deemed not necessary to proceed with training courses, finalized at providing an adequate knowledge of Reply S.p.A's business and norms and regulations.

Statutory auditors who have an interest, even if only potential or indirect in a given transaction shall promptly inform the members of the Board of Statutory Auditors and the Chairman of the Board of Directors of the interest and the related circumstances.

During the periodic controls carried out in 2015 by the main controlling committees, the Statutory Auditors coordinated its activities with the functions of the Internal Audit, the Internal Control committee and with the Supervisory Board.

The exchange of information is carried out on a quarterly basis during Statutory Auditors meetings and also through the participation of the President during the Internal Control and Risk Committee meetings.

The table below summarizes the Board of Statutory Auditors with the main information requested in accordance with Article 144-duodecies issued by Consob

Name	**Office**	**Year of birth**	**Date of first nomination**	**In office**	**List(*)**	**Independent from code**	**% of attendance in meetings of Board of Statutory Auditors**	**Other offices held (1)**
Cristiano Antonelli	President	1951	29/04/2009	From 1.1.15 to 31.12.17	M	X	100%	-
Ada Alessandra Garzino Demo	Statutory Auditor	1963	10/06/2003	From 1.1.15 to 31.12.17	M	X	88%	20
Paolo Claretta-Assandri	Statutory Auditor	1954	01/01/2003(**)	From 1.1.15 to 31.12.17	M	X	100%	32
Giuliana Monte	Alternative Auditor	1964	22/07/2013	From 1.1.15 to 31.12.17	M	X	NA	NA
Alessandro Pedretti	Alternative Auditor	1969	29/04/2009	From 1.1.15 to 31.12.17	M	X	NA	NA

Key:
M/m: M/majority list m/minority list
(1) Where applicable a list of all positions held has been annexed, according to Art. 144-quinquies decies of RE, as replaced by Resolution no. 17326 of 13 May 2010.
(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 59.199% of the share capital.
(**) office not held on a continuous basis

Following is a brief description of personal and professional qualities of the members of the Statutory Auditors of the Company:

Cristiano Antonelli president of the board of the statutory auditors

Cristian Antonelli is a professor of political economics, at the Economic Department Salvatore Cognetti de Martiis at the University of Turin; Director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine. In the past he was Director at the Economic Department Salvatore Cognetti de Martiis at the University of Turin (2004-2010) His education background includes a Master in Economics at ISTAO of Ancona. During 1978 and 1979 he was a junior economist of the Science and Technology department of the OCSE and Rockefeller Fellow in the Sloan School of Massachusetts Institute of Technology from 1983 to 1985. He has taught in the universities of Sassari, Calabria, the Polytechnic of Milan and in the universities of Manchester, Nice, Lyon, Lumiere, Aix-en-Provence, Paris XIII and Paris XII. During the academic year 1999-2000 he taught in the university of Dauphine Paris IX. He is President of Reply's Statutory Board of Auditors since 2009. In the past Mr. Antonelli was member of the Board of Directors of Telecom Italia in the two-year period 1998-99 and of Pirelli&C for the three-year period 2008-2011; Member of the Science Committee of Confindustria in 1999 and 2000; Techno-scientific Committee of ENEA from 2000-2004. Furthermore he held office as Chairman of ICER (International Centre for Economic Research from 2008 to 2011 and was Vice-president of the International Schumpeter Society from 1999 to 2004.

Ada Alessandra Garzino Demo Statutory Auditor

Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1991 and the Registry of Auditors ever since 1995. She works as a Charted accountant and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals. Mrs. Ada Alessandra Garzino Demo is specialized in Telecommunication tax matters and fiscal planning. She covers the role of both Statutory Auditor and president in other companies.

Paolo Claretta Assandri Statutory Auditor

Mr. Paolo Claretta Assandri received a graduate degree in Economics and Commerce at the University of Turin in 1978, has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1981 and the Registry of Auditors ever since 1983. She works as a Charted accountant in Turin and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2016 the Statutory Auditors met eight (8) times.

The compensations paid to the Statutory Auditors is disclosed in the Annual Report on Remuneration pursuant to Article 123-ter of TUF.

Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of the committee for control and risks and audits responsible for supervising: (i) the financial disclosure process, (ii) the effectiveness of the internal control, internal audit and risk management systems, (iii) the audit of the annual separate and consolidated accounts, (iv) the independence of the independent auditors and, starting from 2017, following the amendments made to the Decree 39/2010 by Legislative Decree No. 135/2016, as (i) inform the governing body of the outcome of the statutory audit; (ii) be responsible for the procedure aimed at selecting the auditor.

RELATIONS WITH SHAREHOLDERS

The Board of Directors ensures that a person in charge of relations with investors is identified and periodically assesses the need to constitute a structural function within the company.

With a resolution of the Board on 23 April 2015 Mr. Riccardo Lodigiani, in charge of relations with institutional investors and with shareholders (Investor relator) in order to create an ongoing dialogue with the market.
The abovementioned person must exclusively and periodically inform the Chairman and the designated member of the board of his activities.
On the Company's website (www.reply.com, Investors – Corporate Governance), the following documents are available:

- Company by-laws;
- Annual calendar for 2017 of company events;
- Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the Code of Ethics;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Annual Report on Remuneration;
- Procedures on Related party transactions

GENERAL SHAREHOLDERS' MEETING

The company encourages and facilitates the participation at the Annual General Meetings providing any necessary information or explanation in order to guarantee a smooth and conscientious participation of the Shareholders.

The Company, with the resolution by the Board of Directors on 26 October 2010 and by the Extraordinary Shareholders' meeting on 28 April 2011, has introduced the amendments to the Company's by-laws required by Legislative Decree no. 27 of 27 January 2010 enacting the Community Directive no. 2997/36/EC in relation to the shareholders' rights in listed companies. Art. 12 of the Company by-laws establishes that shareholders are entitled to intervene during the General Shareholders' meeting if they are shareholders at the end of the seventh accounting day of open markets preceding the General Shareholders' meeting and have

provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code.
The Company can designate for each general meeting one or two persons to whom confer the voting rights with specific instructions for one or more proposals on the agenda.

The designated persons, the means and terms of the conferred delegation are communicated on the notice calling the general meeting.
The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at regulating the running of the meetings), as the Company's by-laws provide adequate provisions concerning the matter.

At the Ordinary General Shareholders' meeting held on 21 April 2016, nine (9) Directors out of nine (9) spoke. On that occasion, the Board of Directors reported on its activities during the year 2015.

OTHER CORPORATE GOVERNANCE PRACTICES

System of the Company's operational procedures – in order to properly apply the Company's regulations and to reduce risks connected with achieving the Company's objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, governing both the activities carried out by the single departments as well as relations with other entities; Reference is made in this regard to what has been described in the paragraph on the Internal Control and Risk Management System.

CHANGES SUBSEQUENT TO THE YEAR END UNDER REVIEW

Following the year end close no significant changes have been made to the structure of the Corporate Governance, other than what has been disclosed above.

Turin, 15 March 2017
For the Board of Directors
The Chairman
Mr. Mario Rizzante

ANNUAL REPORT ON REMUNERATION

1. INTRODUCTION

This document ("The Annual Report on Remuneration", the "Report"), was prepared and approved by the Board of Directors on 15 March 2016 according to Article 123-ter of Legislative Decree No. 58/1998 ("TUF") and Article 6 of the Corporate Governance Code, the July 2015 version, approved by the Corporate Governance Committee established at Borsa Italiana S.p.A.. The Report describes the Remuneration policy adopted by Reply S.p.A (hereon "Reply") with reference to remuneration to (i) members of the Board of Directors and in particular to Executive Directors and Directors invested with special charges (ii) Directors with Strategic Responsibility.

2. SECTION I

2.1. DRAFTING, APPROVAL AND IMPLEMENTATION OF THE REMUNERATION POLICY

The corporate bodies and persons responsible for drafting, approving and implementing the remuneration Policy are the following:

- Shareholders' meeting;
- The Board of Directors;
- The Remuneration and Nominating Committee;
- Executive Directors;
- Statutory Auditors.

Shareholders' meeting

With regard to remuneration, the Shareholders' meeting:

- Determines the remuneration of each member of the Board of Directors and the Executive Committee, if appointed in accordance with Article 2364(1) (3) of the Italian Civil Code; and shall establish, a total amount to all the Board. This amount is established in a concrete manner as to attract, retain and motivate the staff invested with high professional skills necessary to manage the Company with success;
- Determines the participation in the profit of the present Company, dependent on the Gross consolidated margin, to Directors invested with special charges in accordance with the Company bylaw;
- Expresses its advisory, non-binding vote, on the first section of the Annual Report on

Remuneration approved by the Board of Directors, upon the proposal of the Remuneration and Nominating Committee;

- Receives adequate information with regards to the remuneration policy;
- Resolves on the Remuneration Plans based on shares or other financial instruments for Directors, employees and collaborators, including Managers with strategic responsibilities pursuant to Article 114-bis TUF.

Board of Directors

The Board of Directors:

- Establishes a Remuneration and Nominating Committee from among its members. One member must have adequate knowledge and experience with regards to financial and remuneration policy; the persons competence is evaluated by the Board when he/she is elected;
- Determines, upon a proposal of the Remuneration and Nominating Committee, the remuneration policy for members of the administrative bodies. The remuneration policy defines guidelines which all company members involved must follow as to determine the remuneration of Executive Directors, Directors invested with special charges and Directors with strategic responsibilities. Such guidelines are illustrated in the present document;
- Approves the Annual Report on Remuneration which shall be submitted to the General Shareholders' meeting;
- Upon the proposal or opinion of the Remuneration and Nominating Committee determines, based on the guidelines of the Remuneration Policy, and in any case upon consulting the Board of Statutory Auditors, the remuneration of the Executive Directors and other Directors with specific responsibilities; prepares, with the assistance of the Remuneration and Nominating Committee, the remuneration plans based on the allocation of shares or other financial instruments and submits them to the approval of the Shareholders' meeting in accordance with Article 114-bis TUF;
- Carries out the Remuneration plans based on shares or other financial instruments delegated by the Shareholders' meeting.

Considering the current structure of the Board of Directors and the shares held in Reply S.p.A., by various members, no succession plan which regulates the substitution of Executive Directors or Directors with Strategic position or those who have ceased has been implemented. In particular, the substitution of an Executive is carried out in accordance to Article 2386 of the Italian Civil Code, in which the Board of Directors chooses the Executive. Whereas the substitution of Directors with strategic responsibility is agreed upon by top management of the company.

Remuneration committee

The remuneration committee:

- Makes proposals and advises the Board of Directors in relation to the remuneration to Executive Directors and other Directors with special charges, and furthermore advises on the identification and fixing of adequate performance objectives that enable the calculation of the variable components of the compensation;
- Makes proposals to the Board of Directors on the remuneration policy;
- Assists the Board of Directors in drawing up and implementing remuneration plans based on shares or other financial instruments;
- Periodically evaluates the adequacy and correct application of the remuneration policy, making use of information provided by the Executive Directors when the evaluation is referred to a Director with strategic responsibility;
- Provides the Board of Directors' opinions and proposals about remuneration;
- Monitors implementation of the decisions adopted by the Board of Directors regarding remuneration, evaluating that the performance target has been achieved;
- Refers to the Shareholders' the methods of the Committees functions; for such reason, the presence of the Chairman of the Remuneration and Nominating Committee or another member of the Committee is recommended at the annual Shareholders' meeting;
- If it is deemed necessary or appropriate an external consultant with expertise in remuneration policy can be utilized to carry out such task; the independent expert must not carry out any form of activity in favor of Reply Human resource department, shareholders', Executive Directors and Directors with strategic responsibilities. The independence of external consultants is verified by the Remuneration and Nominating Committee before they are appointed.

On 27 April 2012, Reply S.p.A.'s Board of Directors appointed the members of the Remuneration and Nominating Committee. As at the date of approval of this Report, the Remuneration and Nominating Committee was comprised as follows:
Fausto Forti, Chairman of the Committee and Lead Independent Director;
Maria Letizia Jaccheri, Independent Director;
Enrico Macii, Independent Director.

The Chairman of the Remuneration and Nominating Committee has gained adequate knowledge and experience on financial issues and remuneration policy given his professional experience characterized by operational responsibility in large companies.

In 2016 the Remuneration Committee did not rely on the support of independent remuneration policy experts to draw up the Remuneration Policy.

For further information regarding the operation and activities of the Remuneration and Nominating Committee for the financial year ended as at 31 December 2016, see the 2016 Report on Corporate Governance and Ownership Structure.

Executive Directors

Executive Directors:

- Provide the Remuneration Committee all useful information so to evaluate the adequacy and concrete application of the Remuneration Policy, with particular regard to the remuneration of Directors with strategic responsibilities;
- Establish the remuneration to Directors with Strategic Responsibilities based on the guidelines set out by the Remuneration Policy.

Statutory Auditors

The Board of Statutory Auditors has the task of providing opinion in relation to the Remuneration Policy; in particular the Board provides opinions on the remuneration of Executive Directors and Directors invested with special charges; in expressing their opinion the Board verifies the consistency of the proposals with the Remuneration Policy:

2.2. REMUNERATION POLICIES

The 2017 Remuneration Policy has undergone some changes with respect to 2016, in view of the assessments made by the Remuneration and Nominating Committee at the meeting of 15 March 2017 and subsequently, on the same date, by the Board of Directors.
In that regard, it should be noted that the Board of Directors at its meeting of March 15, 2017 has seen fit to make changes to the remuneration policy adopted in the previous year, confirming the General principles contained in it and introducing a greater articulation of the variable remuneration component.
The Remuneration Policy is intended to ensure the Company has the ability to attract, retain and

motivate individuals who have professional skills and experience to pursue the achievement of the Company's objectives. The Policy is also instrumental in aligning the interests of the Company's *management* with those of the shareholders, pursuing the primary objective of the creation of value over a medium-long term period, through the creation of a strong link between remuneration and individual *performance*.

2.3. REMUNERATION OF DIRECTORS

With reference to 2016 the Directors were as follows:

Mario Rizzante	Chairman and Chief Executive Officer
Tatiana Rizzante	Chief Executive Officer
Oscar Pepino	Executive Director
Claudio Bombonato	Executive Director
Daniele Angelucci	Executive Director
Filippo Rizzante	Executive Director
Fausto Forti	Non-Executive Director, Independent and Lead Independent Director
Maria Letizia Jaccheri	Non-Executive Director and Independent
Enrico Macii	Non-Executive Director and Independent

In 2016 remuneration of Directors not invested with operational proxies is as follows:

- 30,000 Euros annually for each member of the Board, as resolved by the Shareholders' meeting of 23 April 2015.

In 2016 the remuneration of Board members of the Supervisory Body – with reference to Mr. Fausto Forti – was determined as follows:

- 1,000 Euros for each participation in the Supervisory Body meeting.

A specific remuneration component in relation to the participation in the Committee meetings or to the execution of specific engagements not related to operational proxies is not foreseen, being the beneficiaries of the compensation only the Executive Directors that are also members of the Committee, the compensation to the Directors already takes into consideration the commitment deriving from the participation in the Committee meetings.
In line with *best practices*, Non-Executive Directors are not eligible for any variable form of compensation linked to the achievement of financial targets.

In line with best practice, the Company has an insurance policy on third party liability for damage inflicted by the Board of Directors (apart from the General Manager, but also Directors with Strategic Responsibilities) in performing their duties, with the aim of safeguarding the beneficiaries and the Company from any connected indemnity, excluding cases of malice or gross negligence.

2.4. REMUNERATION OF EXECUTIVE DIRECTORS

Under a legal and statutory perspective, remuneration of the Company's Executive Directors are established in accordance with:

- Article 2389(3) of the Italian Civil Code – "The remuneration of Directors invested with special responsibilities in conformity with the by-laws is determined by the Board of Directors after consultation with the Board of Statutory Auditors";
- Article 22(2) of the by-laws –"Directors invested with special responsibilities are entitled to share in the profits of the Company, dependent on the Consolidated Gross Operating Margin, whose quantification is established annually by the Shareholders' meeting at the time the Financial Statements are approved".

From the perspective of the Remuneration Policy, the remuneration of the Executive Directors is generally comprised of the following elements:

- **A gross annual fixed component;**
- **A variable component linked to general predetermined**, measurable objectives connected to the creation of value over a medium period of time.

The Board of Directors keeps in mind two factors when determining remuneration and its single components: (i) the specific proxy that each Executive Directors holds and/or (ii) the function and the role actually carried out by each Executive Director within the Company, thus ensuring that the variable component is coherent with the tasks assigned.

Under an accounting perspective, the remuneration of the Executive Directors is recorded in the Financial Statements in the year in which the services are rendered both for the fixed gross annual component and the variable component, even though payment is made through profit sharing in accordance with Article 22 of the Company By-laws; This is consistent with the International Financial Reporting Standards IAS/IFRS in as much as profit-sharing is considered to all effects as part of the remuneration and therefore the relative al location is recorded in the Financial Statements in the year in which the Executive Directors' services are rendered; for such reason, the proposal to attribute profit-sharing is the object of resolution by the Board of Directors at the same time as approval of the draft annual Financial Statements.

With reference to 2016,

- during the meeting of 15 March 2016 the Board of Directors approved resolutions on the Remuneration Policy for 2016, upon the proposal of the Remuneration Committee;
- the Board of Directors, upon proposal of the Remuneration Committee, at its meeting on 15 March 2016, adopted the resolutions granting the fixed component of the Executive Directors and established the methods for determining the variable component of the remuneration of Executive Directors for 2016 through the recognition of a profit sharing pursuant to art. 22 of the Bylaws;
- the Shareholders' meeting of 21 April 2016 approved, with a non-binding resolution, the Remuneration Report containing the Remuneration Policy;
- the Board of Directors, during the meeting of 15 March 2017, at the proposal of the Remuneration Committee, carried out a performance audit and has made proposals for profit sharing to be submitted to the General Shareholders' meeting, together with the relevant breakdown;
- On 21 April 2017 the Shareholders' meeting shall be called to approve the proposal regarding the variable component of remuneration as described.

With reference to 2017, remuneration is based on the following criteria:

- The consistency between the elements as to determine remuneration and the objectives;
- The correct balance between the fixed and variable component of short and long term based on the strategic objectives and risk management policy of the Company, keeping in mind the field in which it operates and the characteristics of the activities concretely carried out;
- The weight of the variable component is approximately 2/3 of the whole remuneration package, being understood that the fixed component must be sufficient to compensate the performance of Executive Directors in case the variable component is not paid out when performance objectives established by the Board of Directors are not achieved;
- Pre-established performance targets, i.e. financial results or other specific objectives linked to the payment of the variable component, are measurable and linked to the creation of value for shareholders over the medium to long term;

- The relationship between the variance of the results achieved and the variance of the short-term remuneration is guaranteed through scaling of the variable compensation up to a maximum limit related to a scale of objectives;
- Deferral of payment of the variable components with respect to when the compensation matures in order to verify the fulfillment of the objectives and moreover enable a proper risk management of the company within the Remuneration Policy requirements.

With reference to the variable components of the remuneration for the Executive Directors, the Remuneration Committee proposes objectives and, during the subsequent year, *performance* checks in order to verify whether the objectives established the previous year were achieved.

The criteria utilized in defining remuneration for Executive Directors for 2017 was established by the Board of Directors and is as follows:

- Accrual is subordinated to the achievement of one of the accessible terms represented by the capacity of the profits of the Company;
- With reference to short term variable components:
  - Fixing of the annual margin objective represented by the Consolidated Gross Operating Margin (EBITDA) as shown in the consolidated Financial Statements, with the identification of a minimum threshold and maximum threshold;
  - Fixing of further objectives for the Executive Directors invested with special charges in the Company;
  - Quantification of the bonus up to a pre-established maximum amount linked to the achievement of assigned objectives;
  - Allocation, in general, of the variable short-term profit-sharing component by dividing it among those entitled to receive it, related to the Consolidated Gross Operating Margin to which Directors invested with special responsibilities are entitled pursuant to Article 22 of the Company By-laws;
  - In oder to verifiy the fullfilment of the objectives, payment of the variable component is deferred by severeal months with respect to when it comes to maturity
- With reference to the long term variable components:
  - setting the goal of medium-long term profitability, on a time horizon of 3 exercises, represented (i) in the first exercise, the annual profitability objective represented by a positive consolidated EBITDA similar to that foreseen for the short term, and (ii) in the following 2 years by the consolidation of this result by achieving a level of Consolidated gross operating margin (EBITDA) percentage in the third year to an extent not less than

that achieved by competitors of the market, identified in a panel of previously identified competitors;
- quantification of the bonus in a predetermined measure, equal to 25% of the short-term variable component and entitlement subject to fulfillment of the objective and still in Office at the end of the three year period;
- entitlement to the variable component shall, as a general rule, be resolved by the board, in accordance with the law and the articles of incorporation, including the profit distribution related to the Consolidated Operating Margin to the directors being entitled who hold specific Offices within the Company pursuant to art. 22 of the Articles of Incorporation;
- deferment of payment of the variable remuneration of two years since the occurrence of the first step (goal of profitability in the first year) of some months compared to the time of the occurrence of the second step and in order to allow the verification of the achievement of the objectives

The Executive Directors can also be granted other types of benefits typical of the office held and recognized within the Group to Directors having strategic responsibilities and/or managers (i.e. company car).

At present, Directors' severance indemnity (TFM) has been allocated for Executive Directors and Managers with strategic responsibilities having analogous characteristics to employee severance indemnity (TFR) pursuant to Article 2120 of the Italian Civil Code to which the Group's Italian managers are legally entitled.
The Board of Directors can propose to the Shareholders the adoption of the incentive mechanisms through the attribution of financial options. At present no incentive plans of this kind have been established.

The Company deems that the Remuneration Policy is consistent with the pursuit of the long-term interests of the company and its risk management.

2.5. GENERAL MANAGERS AND DIRECTORS WITH STRATEGIC RESPONSIBILITY

As at 15 March 2017 the role of General Manager is non existent in the Company's organization.
Four Directors have Strategic Responsibility at 15 March 2017.

Remuneration to Directors with Strategic Responsibilities is composed by a fixed and variable component and established with the same principles and criteria described above for the Executive Directors. For further information see point 2.4 Remuneration to Executive Directors. Directors with Strategic Responsibilities have the right to severance indemnity (TFR) ex Art. 2120 of the Italian Civil Code. Furthermore some Directors who cover strategic positions in subsidiaries have also been assigned post termination treatment determined in the same manner as severance indemnity.
The remuneration to the Director in charge of drawing up the Financial Statements and the Internal Audit manager are in line with the tasks assigned.

2.6. CESSATION OF OFFICE OR TERMINATION OF EMPLOYMENT

At the date of the present Report no allowance has been set in event of cessation of office or termination of employment on behalf of Executives and Directors with Strategic Responsibilities apart from what is provided by the ex law and/or the Collective labor agreement in case the persons have a dependent work contract.

Considering the current structure and how the variable component of remuneration is determined, of the Directors and Directors with strategic responsibility, in the case of cessation of office due to inadequate results achieved, and if remuneration has been paid, no return mechanisms have been defined.

3. SECTION TWO

3.1. REMUNERATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Remuneration paid in 2016 to members of the Board of Directors, Statutory Auditors, General Managers with Strategic Responsibilities (figures in thousands of Euros)

Name Surname	Office held Reply S.p.A.	Period of office	Term of office	Fixed Remuneration	Remuneration for the participation in internal committees
Mario Rizzante	Chairman and Chief Executive Officer	1/01/2015-31/12/2016	31/12/2017	460 [1]	-
			Remuneration paid by subsidiaries	270 [2]	-
			Total	**730**	
Tatiana Rizzante	Chief Executive Officer	1/01/2015-31/12/2016	31/12/2017	210 [3]	-
			Remuneration paid by subsidiaries	348 [4]	-
			Total	**558**	**-**
Oscar Pepino	Executive Director	1/01/2015-31/12/2016	31/12/2017	300	-
Claudio Bombonato	Executive Director	1/01/2015-31/12/2016	31/12/2017	400	-
Filippo Rizzante	Executive Director	1/01/2015-31/12/2016	31/12/2017	100	-
			Remuneration paid by subsidiaries	345	-
			Total	**445**	**-**
Daniele Angelucci	Executive Director	1/01/2015-31/12/2016	31/12/2017	220	-
			Remuneration paid by subsidiaries	147 [5]	-
			Total	**367**	**-**
Fausto Forti	Non-Executive Director and Independent	1/01/2015-31/12/2016	31/12/2017	34 [7]	-
Maria Letizia Jaccheri	Non-Executive Director and Independent	23/4/2015-31/12/2016	31/12/2017	30	-
Enrico Macii	Non-Executive Director and Independent	23/4/2015-31/12/2016	31/12/2017	30	-
Cristiano Antonelli	Chairman of the Board of Statutory Auditors	1/01/2015-31/12/2016	31/12/2017	48	-
Ada Alessandra Garzino Demo	Statutory Auditor	1/01/2015-31/12/2016	31/12/2017	32	-
			Remuneration paid by subsidiaries	10 [8]	-
			Total	**42**	**-**
Paolo Claretta-Assandri	Statutory Auditor	1/01/2015-31/12/2016	31/12/2017	32	-
Directors with Strategic Responsibility			Remuneration paid by Reply S.p.A.	82	-
			Remuneration paid by subsidiaries	936	-
			Total	**1.018**	**-**

(*) Office expires upon approval of the financial statements.
To be noted that where no indication has been made, no compensation has been given to Reply S.p.A. subsidiaries.
Remuneration to Directors is as follows:
(1) Gross emolument for the office of Chairman and Chief Executive Officer of the Board of Directors in Reply S.p.A.;
(2) Gross emolument for the office of Chief Executive Officer in subsidiaries;
(3) Gross emolument for the office of Chief Executive Officer in Reply S.p.A.;

non equity variable remuneration						
Bonus and other incentives	Profit Sharing	Non monetary benefits	Other remuneration	Total	Fair value of the equity remuneration	Post mandate indemnity
-	450	-	-	910	-	-
-	-	-	-	270	-	-
	450		**-**	**1.180**	**-**	**-**
-	450	-	-	660	-	-
-	-	-	-	348	-	-
-	**450**	**-**	**-**	**1.008**	**-**	**-**
-	200	-	-	500	-	-
-	300	-	-	700	-	-
-	450	-	-	550	-	-
-	-	-	-	345		
-	**450**	**-**	**-**	**895**		
-	450	-	-	670	-	-
-	-	-	30 (6)	177		
-	**450**	**-**	**30**	**847**		
-	-	-	-	34	-	-
-	-	-	-	30	-	-
-	-	-	-	30	-	-
-	-	-	-	48	-	-
-	-	-	-	32	-	-
-	-	-	-	10		
-	**-**	**-**	**-**	**42**		
-	-	-	-	32	-	-
-	-	-	-	82	-	-
-	543	-	65 (6)	1.544	-	-
-	**543**	**-**	**65**	**1.626**	**-**	**-**

(4) Gross emolument for the office of Chief Executive Officer in subsidiaries equal to 60,000 Euros. The remaining amount refers to the gross salary received as an employee,
(5) Gross emolument for the office of Chief Executive Officer in subsidiaries equal to 60,000 Euros. The remaining amount refers to the gross salary received as an employee,
(6) Post termination treatment.
(7) Gross emolument for the office of Independent Directors in 2016 equal to 30,000 Euros. The residual amount is referred to the presence tokens in 2016 for the participation in the Internal control Committee meetings;
(8) Gross emolument for the office of Chairman of the Board of Statutory Auditors in 2016 in subsidiaries

3.2. Stock-option granted to members of the Board of Directors and Executives with Strategic Responsibility (in Euros)

At present no stock options are held, have been assigned, exercised or have expired in 2016.

3.3. Shares held by the members of the Board of Directors and Executives with Strategic Responsibility in companies with listed shares and its subsidiaries

Shares held by the members of the Board of Directors

FIRST NAME AND SURNAME	OFFICE	SHARES HELD	NO. OF SHARES HELD AT AT 31/12/2015	NO. OF SHARES BOUGHT	NO. OF SHARES SOLD	NO. OF SHARES 31/12/2016
Mario Rizzante	Chairman and Chief Executive Officer	Reply S.p.A. [1]	11,381	-	-	11,381
Tatiana Rizzante	Chief Executive Officer	Reply S.p.A. [2]	15,734	-	-	15,734
Oscar Pepino	Executive Director	Reply S.p.A. [3]	12,252	-	-	12,252
Claudio Bombonato	Executive Director	Reply S.p.A.	17,500	-	5,120	12,380
Filippo Rizzante	Executive Director	Reply S.p.A.	3,400	-	-	3,400
Daniele Angelucci	Executive Director	Reply S.p.A. [4]	139,090	-	-	139,090
Fausto Forti	Non- Executive Director and Independent	Reply S.p.A.	-	-	-	-
Maria Letizia Jaccheri	Non- Executive Director and Independent	Reply S.p.A.	-	-	-	-
Enrico Macii	Non- Executive Director and Independent	Reply S.p.A.	-	-	-	-
Cristiano Antonelli	President of the Board of Statutory Auditors	Reply S.p.A.	-	-	-	-
Ada Alessandra Garzino Demo	Statutory Auditor	Reply S.p.A.	-	-	-	-
Paolo Claretta Assandri	Statutory Auditor	Reply S.p.A.	-	-	-	-

[1] of which 10,101 shares held personally;
[2] of which 12,170 shares held personally;
[3] di cui 12,252 shares held personally;
[4] of which 96,990 shares held personally and 38,400 shares held in usufruct

At 31/12/2016 the following members of the Board of Directors hold shares in the Company:

- Mario Rizzante and Oscar Pepino hold 51% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin.
- Alika S.r.l. holds no. 4,936,204 Reply S.p.A. shares, equivalent to 52.7775% of the Company's share capital.

Shareholdings of Directors with strategic responsibility

NUMBER OF DIRECTORS HAVING STRATEGIC RESPONSIBILITY	SHARES IN	NO. OF SHARES HELD AT 31/12/2015	NO. OF SHARES BOUGHT	NO. OF SHARES SOLD	NO. OF SHARES HELD AT 31/12/2016
4	Reply S.p.A.	316,358	-	13,300	303,058

Definitions

In the present document the definitions of the words in upper case is as follows:

"Board": means all the Board members of Reply, whether Executive, Non- Executive, Independent, etc.;

"Executive Directors": means, in accordance with the criteria of the Corporate governance Code for Listed Companies:

- Directors of Reply who have been nominated as Chief Executive Directors of the Company or subsidiaries which has strategic importance;
- Members of the Reply Board of Directors with management duties in the Company or subsidiaries which has strategic importance;
- The Directors of Reply, who may also be the Chairman of the Company, holder of specific individual proxies or having a specific role in the development of the company strategies;

"Other Directors invested with special charges" means Directors who are assigned special charges (i.e. Chairman, Vice- Chairman), different from the Executive Directors;

"Executives with Strategic responsibilities" means those who have power and responsibility in – directly or indirectly- planning, managing and controlling the activities of the Company, in accordance with the Market Abuse Regulation (Regolamento UE n. 596/2014), pursuant to art. 3, paragraph 1, point 25, let. b).

CORPORATE INFORMATION

HEADQUARTERS

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CORPORATE DATA

Share capital: Euro 4,863,485.64 i.v.
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