# REPLY
# ANNUAL FINANCIAL REPORT 2020

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# BOARD OF DIRECTORS AND CONTROLLING BODIES

**Chairman and Chief Executive Officer**
Mario Rizzante

**Chief Executive Officer**
Tatiana Rizzante

**Executive Directors**
Filippo Rizzante
Daniele Angelucci
Claudio Bombonato
Elena Maria Previtera
Fausto Forti (1) (2) (3)
Secondina Giulia Ravera (1) (2)
Francesco Umile Chiappetta (1) (2)

## Board of Statutory Auditors

**President**
Giorgio Mosci

**Statutory Auditors**
Piergiorgio Re
Ada Alessandra Garzino Demo

**Auditing firm**
PwC S.p.A.

(1) Directors not invested with operational proxies
(2) Independent Directors according to the Corporate Governance code drawn up by the Committee for Corporate Governance
(3) Lead Independent Director

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

# THE GROUP'S FINANCIAL HIGHLIGHTS

| ECONOMIC FIGURES (THSD EUROS) | 2020 | % | 2019 | % | 2018 (*) | % |
|---|---|---|---|---|---|---|
| Revenue | 1,250,191 | 100.0 | 1,182,528 | 100.0 | 1,035,793 | 100.0 |
| Gross operating income | 207,936 | 16.6 | 191,307 | 16.2 | 144,836 | 14.0 |
| Operating income | 169,531 | 13.6 | 155,324 | 13.1 | 132,410 | 12.8 |
| Income before taxes | 162,054 | 13.0 | 161,419 | 13.7 | 139,217 | 13.4 |
| Group net income | 123,598 | 9.9 | 113,858 | 9.6 | 99,913 | 9.6 |

| FINANCIAL FIGURES (THSD EUROS) | 2020 | 2019 | 2018 (*) |
|---|---|---|---|
| Group shareholders' equity | 675,039 | 583,722 | 485,297 |
| Non-controlling interest | 918 | 3,339 | 1,315 |
| Total assets | 1,506,568 | 1,307,913 | 1,076,104 |
| Net working capital | (21,565) | 74,317 | 145,288 |
| Net invested capital | 517,296 | 482,030 | 420,060 |
| Cash flow | 229,028 | 202,793 | 119,835 |
| Net financial position | 158,661 | 105,031 | 66,552 |

| DATA PER SHARE (EUROS) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Number of shares | 37,411,428 | 37,411,428 | 37,411,428 |
| Operating income per share | 4.53 | 4.15 | 3.54 |
| Net income per share | 3.30 | 3.04 | 2.67 |
| Cash flow per share | 6.12 | 5.42 | 3.20 |
| Shareholders' equity per share | 18.04 | 15.60 | 12.97 |

| OTHER INFORMATION | 2020 | 2019 | 2018 |
|---|---|---|---|
| Number of employees | 9,059 | 8,157 | 7,606 |

(*) Reply applied the new Accounting Standard IFRS 16 prospectively from January 1, 2019 without restatement of 2018 comparative data.

# LETTER TO SHAREHOLDERS



Dear Shareholders,

2020 was a very difficult and, dare I say, dramatic year: in a few short weeks an unexpected and unique event completely revolutionised the world, triggering one of the most complex economic and social crises in contemporary history.

The rate of infection and the scale of the ongoing Covid-19 pandemic has taken away our freedom to move, to spend time with others, and to experience moments of shared social activity and interaction. Since last March, all our relationships have been mediated by digital screens, applications and platforms that allow us to work and live in isolation inside our homes.

Reply reacted to this moment of unimaginable discontinuity, for which no company was truly prepared, in an exemplary way. In less than two days we virtualised a group of over 8,000 people, with individual safety as our driving principle. Thanks to this achievement, we have been able to continue working with our customers, often supporting critical systems, by ensuring not only the continuity of their businesses, but also the survival of entire countries and economic chains. Just consider, for example, our involvement in banking and insurance services or our contributions to telco and media operators, without forgetting our critical support to health care services and the logistics chain.

In recent months we have been confronted with a crisis as unexpected as it is unpredictable, we find ourselves pursuing an epochal change in customs and lifestyles. All sectors, even the most traditional ones, have found it necessary to reconfigure their businesses, digitalising processes and sectors, and at times reinventing entire business models. This transformation is irreversible and, although dramatic for some, it opens up a myriad of new growth and development opportunities for companies such as ours: the cloud, artificial intelligence, 5G, e-commerce and connected products represent the foundations of the economy for the next few years.

Today, Reply is an extremely solid and healthy Group: in 2020, despite the various lockdowns, we made the conscious decision to invest in order to acquire additional market shares in Europe and North

America and we have been diligently working to enhance our core offerings with new expertise. Since the beginning of the year, we have further consolidated our leadership position in the latest technologies and in digital transformation; we have outstanding financial strength, which allows us to face the future with commitment and determination, as well as with peace of mind; we have a reduced risk of concentration as regards our customer portfolio, which consists primarily of large groups operating in leading sectors.

The future that awaits us is uncertain: the current emergency is still ongoing, with different trends seen in the countries in which we operate. In any case, the pandemic is leaving us with a different world from the one we were used to only twelve months ago and which perhaps, even superficially, we once considered to belong to us and to be immutable. The brutal acceleration experienced in recent months will, over the next few years, see us dealing with a new everyday reality in which the digital and the physical realms will interlink, with one becoming an extension of the other, but in which individuals and attention to the planet will acquire a renewed focus.

Technology will be key to supporting this change, yet an even more important aspect will be how this technology is introduced and used. Businesses will need to implement bold transformations, challenging and overturning the established models in order to remain competitive and to identify the needs of individuals and of the community, in an effective and timely manner.

Those who know how to act quickly, maintaining a long-term planning perspective, will be able to take advantage of the opportunities that this uncertain yet stimulating context will have to offer.

**Mario Rizzante**

# REPLY LIVING NETWORK

**Reply is a Group composed of a network of companies that specialises in consulting, system integration and digital services, with a focus on the conception, design and development of solutions based on new communication channels and digital media.**

**Reply partners with key industrial groups to define business models, enabled by new technological and communication paradigms such as Artificial Intelligence (AI), big data, cloud computing, digital communication and the Internet of Things.**

## 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 that specialise in specific areas of expertise
- **teams** composed of specialists recruited from the best universities
- a **highly experienced** management team
- continuous **investment** in research and development
- **long-term relationships** with its customers

## REPLY'S ORGANISATIONAL MODEL

With over 9000 employees (as of 31 December 2020), Reply operates through a network of companies that specialise in processes, applications and technologies and are centres of excellence in their respective fields of expertise.

- **Processes** – For Reply, the understanding and use of technology leads to the introduction of new enabling factors for business processes, thanks to an in-depth knowledge of both the market and the specific industrial contexts of implementation.
- **Applications** – Reply designs and implements software solutions intended to satisfy core business needs, in various industrial sectors.
- **Technologies** – Reply optimises the use of innovative technologies by implementing solutions capable of ensuring maximum efficiency and operational flexibility for its customers.

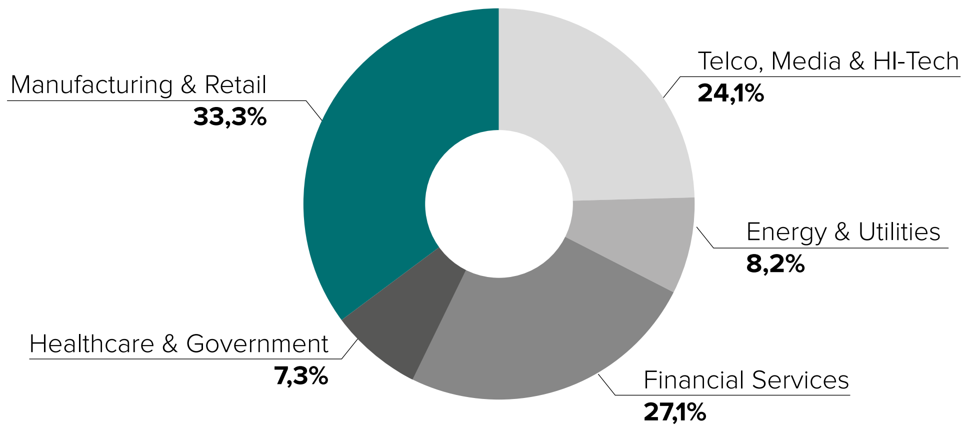
## REPLY'S SERVICES INCLUDE:

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

# MARKET FOCUS

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

**In 2020, the breakdown of the Group's sales in its various vertical sectors was as follows:**




## TELCO & MEDIA AND HI-TECH

The unbundling of networks, the separation between hardware and software, cloud and edge computing are becoming differentiating elements for operators, called upon to offer more flexible proprietary architectures and to promote greater fixed-mobile integration. Networks are becoming increasingly 'fluid' and digitisation is becoming a key element, not only to facilitate the automation of different processes, but also to improve customer experience, help generate new opportunities, reduce costs and adapt to new connectivity needs. The ever-greater diffusion of connected objects also requires a reconfiguration of the entire infrastructure that must transmit, in real time, huge volumes of data. This data is no longer generated by smartphones and other mobile devices alone, but by a myriad of other sources: a pervasive connectivity that goes by the name the 'Internet of Everything'.

Reply is playing an active role in this new era of 'smart connection'. The Group has defined an integrated offer of strategic and technological consulting services to support evolution related to the 5G network and to the design, definition and management of new generation networks. It helps leading players in the sector to implement digital transformation strategies, covering the three main processes that are profoundly transforming today's networks: unbundling, virtualisation and automation. Moreover, Reply supports operators in the management of the new cloud-native RAN architecture, capable of meeting even the challenges related to the creation of multi-vendor networks and offering a wide range of innovative services. These range from business and technology consulting, to the design and implementation of innovative use cases, through the adoption of 'disruptive' technologies such as drones, holograms and small cells.

## FINANCIAL SERVICES

The digital world, and more generally the new technologies, are also radically transforming the financial sector. Leading analysts expect the digital financial platforms market will experience enormous growth in the near future. This is partly due to the increase in the number of digital native retail customers, but also as a result of the inevitable technological evolution, increasingly more oriented towards highly scalable cloud platforms.

Reply's key skills enable customers to develop new decision-making models designed to help them analyse risks and optimise internal operational processes based on Robotic Process Automation (RPA) techniques. The diffusion of systems and solutions based on artificial intelligence is another key element of transformation, driven by the explosion of big data and the growing digitalisation of services and processes, both internal and external.

Reply is accompanying the European banking world in this transformation process: it helps financial institutions not only in the definition of multi-channel strategies and the implementation of open banking models, but also in allowing new architectures and new technologies to co-exist with legacy systems and architectures.

Reply operates in the most important European countries, with a consulting division focused on Governance, Risk and Control (GRC), offering solutions that help financial institutions in the implementation of European Banking Union regulations. Reply also boasts a strong presence in the Wealth Management domain, where it has developed specific solutions for the latest consulting models, including through advanced robo-advisory platforms.

The Group also operates in the mobile payment sector, in the mobile-commerce and e-commerce services realms and in related platforms, offering solutions, services and consultancy for the banking and insurance market, as well as for new, emerging players in the payments ecosystem. This is complemented by Reply's commitment on the innovation front, driven by cutting-edge projects such as those related to quantum computing and blockchain technology.

Reply also supports leading players in the Insurance sector, helping them in the design, execution and governance of major transformation programmes: including the turnaround and optimisation of operating models, thanks to the adoption of Intelligent Process Automation and Machine Learning models and techniques. The requirements imposed by the global Covid-19 pandemic have provided strong momentum to the development of hybrid distribution solutions through the 'remotisation' of relations between the company, intermediaries and customers, together with the design and activation of new, data-driven business models.

## MANUFACTURING

Today, digital innovation has inevitably made its way into factories and is revolutionising not only production, but also the entire supply chain, from procurement to logistics, sales and maintenance. Within the Industry 4.0 revolution, production plants are being transformed into open and flexible ecosystems which can also manage communication flows and the distribution chain better, thus generating a virtuous mechanism capable of minimising costs and maximising results.

Reply collaborates with some of the leading groups in the sector, accompanying them in this complex transformation process that covers a range of different areas including:

- supply and purchase management
- the design and implementation of control and planning systems based on the new generation of cloud-based ERP solutions
- the planning and control of production units
- the design and definition of logistics supply networks

Moreover, in 2020 Reply enhanced its portfolio of Industry 4.0 and Logistics 4.0 solutions, continuing its ‘re-platforming’ of the proprietary Lea Reply and Brick Reply solutions, focused on the Supply Chain Execution and Manufacturing Execution System, as well as launching Axulus Reply, a new solution aimed at the Industrial Internet of Things, to the market.

In 2020, Reply confirmed its leadership position in the IT solutions sector for logistics in support of the automotive industry, developing integrated projects involving the entire supply chain: from production, thanks to the focus on Industrial Internet of Things and the support of the edge computing technology, to the ability to ‘sensorise’ production and logistics lines, without ignoring the transport and after-sales distribution activities. This ‘holistic’ view enables car manufacturers to exploit all the data available within the company, with the aim of monitoring and increasing the efficiency of business processes, as well as developing new applications both for internal use and for customers.

Electrification, increasingly connected vehicles and autonomous driving: these are the paradigms of the automotive world that are leading the way for a profound transformation, supported by continuous and significant investments.

Within this context, Reply has developed skills and worked on projects related to the introduction of new technologies such as AI applied to the development of autonomous driving and quality assurance (e.g. remote diagnostics, vehicle diagnostic repair), as well as to new types of services integrated with smart cities, such as the intelligent search for available parking spaces.

Moreover, on the connectivity front, Reply collaborates with the leading OEMs in the industry to create commercial versions of V2I (Vehicle to Infrastructure) connectivity platforms. It also studies solutions and service platforms for the connected vehicle, capable of integrating data from onboard systems with distributed network data, in order to calculate the optimal routes between the different charging stations available.

## RETAIL

The global Covid-19 pandemic has strongly called into question traditional retail models and has forced a significant acceleration of digitisation processes along the entire distribution chain. Commercial processes and logistics have been heavily affected by the many regulations and limitations imposed by countries around the world in order to contain the spread of infections. In particular, the closure of physical stores has also meant that goods are piling up in warehouses, calling into question the business continuity of the various sectors. Many businesses – even those who had not yet adopted e-commerce – found themselves forced to review their strategy and to make the conscious decision to accelerate the development and consolidation of new, hybrid sales methods such as Click and Collect – i.e. purchasing online and then picking up in-store.

During this delicate transition phase, Reply has supported numerous retailers operating in diverse product sectors, accompanying them as they expand the number of touchpoints served and introduce new payment systems. Thanks to our data-driven approach, it was not only possible to ensure that the sales methods became more flexible, adapting them to the ever-changing healthcare and regulatory environment, but also to leverage this contingent need, by initiating a series of strategic innovations to accompany the full digitalisation of sales processes. These results were made possible by the optimisation of IT, operational and logistical complexity associated with the different business models, based on a cross-channel approach.

## ENERGY & UTILITIES

The future of energy is increasingly more green, and progressive decarbonisation requires an evolution of processes and operating models that only digital technologies are able to support. The entire value chain is affected by this revolution: from production to sales, from consumption monitoring to enabling new interaction models, such as vehicle-to-grid or private micro-grids.

Nearly all major operators launched industrial-scale technological innovation projects in 2020, with the aim of becoming increasingly more flexible and resilient. Among the technologies and platforms available and adaptable in the energy sector, cloud computing is the most widespread solution among operators today, albeit at different levels. The Internet of Things, however, is fast becoming the hub of investments, representing an increasingly key element for enabling the development of monitoring processes, optimising operations and activating new interaction services and models with customers.
In this scenario, Reply is one of the reference partners for the sector, thanks to its knowledge of the market and ability to design, implement and manage innovative digital solutions and technological platforms suitable for the reference market, leveraging, above all, the adoption of cloud and Internet of Things solutions. These are all skills and expertise that Reply has relied on to implement international-scale Internet of Things projects for leading operators in the sector, ranging from energy and demand management to the management of electric car charging, smart metering, smart grid, asset management and renewable generation solutions.

## HEALTHCARE & GOVERNMENT

The public sector and healthcare have been the two sectors at the very centre of the social and market changes imposed by the global Covid-19 pandemic and the management of the health emergency. Globally, over the past year many governments have made significant investments in their healthcare sectors to deal with with various aspects of the pandemic. These include not only operational aspects related to hospitals and the management of Covid-19 patients, but also greater attention to cost optimisation, to the management of medical supplies and of the entire logistics process. In addition, there has been a focus on the digitalisation of a series of processes and solutions, such as contact tracking applications. Among several big projects in this area, Reply has made available to Bavarian healthcare institutions a solution capable of managing information on contacts and the chains of Covid-19 infections.

On the digitalisation front of the healthcare sector, another issue that is acquiring increasing importance during this ongoing pandemic phase is telemedicine, a service whose benefits have never been more apparent at a time when access to treatment is strongly conditioned by restrictive anti-contagion measures. This is, in fact, a pillar of the so-called 'connected care' ecosystem: an integrated approach between the real and virtual realms, thanks to which doctors and healthcare professionals can remotely visit patients, follow their rehabilitation and monitor their vital parameters. Activities such as diagnosis, reporting, payment of care services and observation of therapeutic progress can be carried out through videoconferencing systems, connected to secure and transparent digital health records, also thanks to artificial intelligence systems.

Within this context, Reply has supported healthcare companies and public institutions, on the one hand, in their reaction to the Covid-19 pandemic, and on the other, in the process of digitalisation of care, helping them to evolve their proprietary platforms in order to create solutions based on the Internet of Things, cloud computing and machine learning systems. Moreover, thanks to partnerships with vendors such as InterSystems, Oracle and Microsoft, Reply has been able to design and implement interoperable and optimised applications in terms of compliance and security.

# TECHNOLOGICAL INNOVATION

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

## ARTIFICIAL INTELLIGENCE

The role of artificial intelligence in business is growing significantly thanks to the wide range of application of algorithms and technologies in different industries. Its use varies from the optimization of business processes thanks to robotization techniques, to its use in customer relations thanks to assistance technologies that combine the ability to recognize natural language and conversational systems.

Machine learning integrates the potential of artificial intelligence, allowing algorithms to improve independently over time. The Reply solutions and platforms based on artificial intelligence and machine learning today serve markets such as healthcare, retail, logistics, financial institutions and telecommunications.

Several partnerships have been signed with the main players and the most innovative startups in areas such as intelligent process automation and computer vision.

In recent years Reply has specialized in the creation of new algorithms and in the comparison between algorithms to identify the most suitable solutions for each use case; in the development of technologies that analyze the results of artificial intelligence and transform them into insights and new services; in the optimization of the databases necessary for the functioning of the algorithms; in training artificial intelligence and machine learning algorithms.

## AUTONOMOUS ROBOT

Advances in Artificial Intelligence, combined with the power of the cloud and the data transmission speed guaranteed by 5G networks, have made it possible to develop new types of fully automated 'objects' such as autonomous vehicles, drones and a new class of increasingly more sophisticated robots. In this new scenario, defined by robotic automation, Reply supports its customers with an end-to-end model that integrates consulting services, software development, artificial intelligence services and the integration of expert systems of Perception, Cognition, Connection, Organisation and Interaction.

Through the application of Swarm Intelligence and Cognitive Computing, robots develop the capacity to operate in unstructured environments such as open spaces on land, water and air, and are increasingly better able to coordinate themselves, even independently of being directly connected to guidance systems. Reply supports companies in the integration of mobile robotics within their operational ecosystems and accompanies them in the development of innovative business models based on intelligent autonomy.

## BLOCKCHAIN

Blockchain technology is increasingly emerging as the key technological paradigm for the construction of new digital services based on distributed computational infrastructures. The shared and distributed nature of blockchain digital ledgers is becoming a major element and an opportunity for many sectors, from the financial sector to the supply chain and even the healthcare sector. This extends beyond an 'internal' advantage for a single company or organisation: the system of shared ledgers, on which the blockchain technology is based, facilitates the creation of secure integrations between intercompany systems and connected devices.

Thanks to an offer structured along consulting services, design and the implementation of solutions based on blockchain technology and Distributed Ledger Technology (DLT), Reply supports various customers in the creation of system platforms.
In particular, in 2020 Reply developed a healthcare credentials solution leveraging DLT secure distributed processing, to enable the safe return of people to the workplace or to other social contexts, such as cultural events or tourism. Moreover, Reply developed the first solution for digitising the sureties management process based on blockchain technology, with the aim of reducing the number of false sureties and facilitating the sharing of information between ecosystem players (guarantor, warrantee and contractor) and confirming the security of the end-to-end process.

## CLOUD COMPUTING

Cloud computing plays a decisive role in all major sectors today. More than ever, IT architectures are designed based on a 'hybrid' approach, one that mixes proprietary systems with a range of different remote Infrastructure-as-a-Service solutions and value-added services provided in Platform-as-a-Service mode. This is complemented by a significant number of applications used in Software-as-a-Service mode, both at the business level and by end consumers.

This scenario necessitates sophisticated orchestration methodologies and tools, to ensure the optimal and secure management of resources, regardless of their location. Moreover, the growing portfolio of edge computing solutions offered by major providers has opened up a number of new possibilities. Today, architectures can provide hybrid solutions, where the computing capacity is distributed between cloud computing and local systems, leading to a significant reduction in processing latency and enabling new use cases. The use of these technologies in connected vehicles is one of the most promising: local sensors collect and process critical information, guaranteeing security and performance, while periodically communicating with cloud systems for more complex processing.

Its longstanding experience, accumulated in sectors such as telco, the automotive industry, finance, utilities and healthcare, combined with its strong cybersecurity expertise, enable Reply to design architectures and solutions that fully exploit the potential of the cloud in areas such as artificial intelligence, machine learning, analytics and quantum computing. The integration of these services with solutions based on the Internet of Things, facilitated by the adoption of edge and mobile edge components, helps to further consolidate Reply's positioning.

Today, Reply is a dynamic leader in application and infrastructure projects, thanks to partnerships with leading global providers of platforms, application solutions and cloud and edge infrastructure services including Adobe, Amazon, Google, IBM, Microsoft, Oracle, SAP and Salesforce. Moreover, Reply is able to offer a cloud and hybrid infrastructure management service, available 24/7, to support customers, not only in the architectural component, but also at application level.

## CUSTOMER ENGAGEMENT

Today's customers are in search of an increasingly less 'mediated' relationship with brands and, at the same time, they are looking for a personalised experience, capable of evolving along with their changing needs and tastes. This is complemented by the need for an omnichannel-driven and real-time approach. A demanding challenge for brands, which find themselves needing to review their strategies and to rethink their communication based on an integrated approach. The roadmap is a data-driven approach that starts from the systematic collection of data relating to the customer, continues with the interpretation and sense-making of this data through the adoption of technologies such as AI and machine learning, and concludes with the implementation of a personalised customer journey, capable of addressing and anticipating the needs of each individual customer. This is an approach possible only through the synergy between the different Sales, Service and Marketing CRM components and data analysis platforms, as well as thanks to IT architectures and cloud-native microservices focused on customer engagement.

Reply has successfully completed several projects in this domain, implementing, for example, data-driven predictive algorithms capable of influencing the choice of the promotion to be offered. This is thanks to the analysis of navigation paths or the interaction with chatbots, orchestrating the sales, service and marketing components accordingly and thus transforming the contextual data into possible monetisable information.

However, this assumption alone is not enough to strengthen the customer-centric approach: indeed, it is necessary to rethink the tools available to brands, while also taking full advantage of the e-commerce channel, which is becoming more and more of a reference point for consumers, even during their in-store experience. Thanks to this approach, it is possible to ensure a truly integrated, multi-channel experience.

Through its competence centre on customer robotics and partnerships with leading CRM and e-commerce platforms, such as those offered by Microsoft, Oracle, SAP, Adobe and Salesforce, Reply collaborates with major brands, helping them to design increasingly direct and digital relationships with their customers, particularly in light of the acceleration in this direction imposed by the Covid-19 pandemic.

## CYBERSECURITY

The issue of Cyber Security is becomeing ever more pressing: over the past few years, the trend of cyber attacks has been constantly growing. There has not only been a growing number of malicious actions, but these are becoming increasingly more sophisticated, with a significant impact on the market, creating direct and indirect damage and undermining not only the business but also, in some cases, the reputation of the companies involved. The acceleration towards digital transformation imposed by the global Covid-19 pandemic and the new working methods designed to ensure business continuity for companies, even in full lockdown, have also led to a corresponding increase in cyber threats. Today, more than ever, Cyber Security and Data Protection represent two fundamental and essential pillars for any new digital innovation initiative.

To respond to this growing complexity, Reply has developed an offer capable of protecting the integrity of its customers' data, starting from the definition of the best IT security strategies, up to the identification and implementation of the most suitable technological solutions for mitigating the risk. Through its extensive partnership network, Reply is able to offer in-depth knowledge of the most innovative and popular security technologies on the market and to help customers with the scouting, selection and implementation process of some of the best protection solutions, with specific expertise in the risks associated with cloud services, to Internet of Things platforms and those related to Industry 4.0, AI and automation.

Reply supports companies in all stages of implementation of an integrated protection plan: from the identification of threats and vulnerabilities to the planning, design, implementation and management of appropriate technological, legal, organisational and risk transfer (cyber insurance) countermeasures. Moreover, thanks to its Cyber Security Command Centre, Reply is able to support large organisations through 'predictive' solutions aimed at identifying and managing threats, such as cyber security monitoring, incident management and response and threat intelligence services.

## DESIGN CONSULTING

At the core of Reply's design consulting strategy, there is a holistic view that examines all aspects: the analysis of people's needs, strategic business objectives and technological enablers to create a customer journey tailored to the client company.

Reply supports organisations in managing change, helping them to become more agile and receptive and, at the same time, speed up the timing with which new products and services are launched on the market. In 2020, Reply invested heavily in the Design & Innovation Consulting sector, through the acquisition of new differentiating talent and new expertise. It was thus able to further expand its two studios in Milan and Munich and to grow its customer base, composed of established organisations, as well as emerging startups that share a common goal: putting people at the very centre of their growth strategy.

## DIGITAL EXPERIENCE

The Covid-19 pandemic has pushed companies to fully rethink their relationships with end customers, but also with employees and business partners. It has also confirmed the need to adapt their offering to meet user expectations, increasingly more focused on customisation, practicality and ease of use.

Reply supports brands in translating these opportunities into new digital experiences and new customer interaction touchpoints, quickly and effectively. This is also thanks to research platforms based on the analysis and interpretation of data and on AI systems, designed to provide answers in real time and identify future trends.

Applications which, for example, utilise video solutions to create direct contact with customers, improve the consulting approach or even just become substitutes for a physical interaction severely limited by the pandemic, have become a central part of the user experience in many cases. Reply's offer fits precisely in this context, as it introduces innovative and scalable platforms that enable, on the one hand, an interaction with the individual user supported by conversational systems based on artificial intelligence, while on the other making it possible to implement new, fully digital solutions that leverage augmented reality features and are capable of handling millions of participants simultaneously.

Reply is thus able to create a widespread experience, thanks to individual applications capable of serving a specific purpose, while at the same time ensuring a consistent and unified user experience across all channels: from the web to mobile devices, wearables and other touchpoints. This is an approach made possible by a structured 'design to code' management – one which extends from design to implementation.

After aggregating the data to eliminate a compartmentalised approach and having created a unified vision of the customer, Reply is able to work at a cross-channel customisation level. In particular, thanks to predictive analytics systems, Reply can provide automated support for the best actions and content to enhance the user experience, with the aim of creating increasingly closer integration between real life and digital experiences.

Moreover, the key role of the digital experience, including within company environments, confirms the importance of a user experience designed with the individual at the centre, especially for the development of human-machine interfaces designed to carry out specific tasks, as in the case of virtual assistants for the workforce.

## DATA-DRIVEN MARKETING

A data-driven marketing approach is able to combine data science with business skills and creativity. With its expertise in this area, Reply helps companies to reduce the emotional component in marketing choices, leaving room for decisions based on data analysis: an approach that makes it possible to minimise non-essential aspects, in favour of a more efficient and effective process.

Reply's proprietary China Beats, Pulse and Sonar platforms are able to transform the collected data into stories, while its Data Creativity Score is the first data-driven system designed to quantify the level of creativity in a marketing campaign. Moreover, thanks to the application of models based on the principles of behavioural psychology and in comparison with the echo generated by social networks, Reply helps companies to monitor their Digital Brand Equity in real time.

These services, complemented by the proprietary Advanced Analytics system based on automatic and massive data extraction algorithms on social media, take advantage of artificial intelligence and natural language processing. Thanks to this system, Reply is able to offer real-time monitoring of the return on investment for a marketing campaign, thus enabling companies to achieve their goals, while optimising costs.

In 2020, Reply also applied its expertise in data-driven marketing to analyse the effects of the pandemic on the different product sectors and consumer habits.

## DIGITAL WORKPLACE

The first response of businesses to the pandemic was, where possible, the remotisation of work and the adoption of digital tools capable of guaranteeing the sharing of information among employees. In many cases, this was an emergency solution rather than the result of a structured planning process. However, this situation has confirmed to companies that there needs to be a change of vision: a new way of conceiving smart working that is focused on people and on the birth of a new Digital Workplace, an ecosystem in which tools and ways of working are rethought, in order to provide an experience similar to being in the office.

The management of data, projects and operations now requires collaborative, secure and controlled environments, capable of guaranteeing the traceability of activities while, at the same time, enabling collaboration without geographical constraints.

To respond to this scenario and to the growing integration of systems, Reply supports companies through the adoption of the best technologies to manage workflows and remote communication systematically. In 2020, and during the most challenging months of the pandemic in particular, Reply helped companies to reshape or rethink their activities from a Covid perspective, through the adoption of ad hoc tools: from the remote management and training of the sales force, to the organisation of virtual events, all the way to the creation of a shared ecosystem that enabled employees to team up, even remotely. Reply achieved this by leveraging its proprietary solutions like the TamTamy social enterprise platform, which is capable of providing different communication tools in a single space and enabling uninterrupted access to the database and to business applications. In this context, solutions designed to guarantee the safety of workers and companies also played a key role, such as Managed Desktop and Mobile Device Management, which facilitate the protection of company data and devices from unauthorised access.

The various anti-Covid innovations implemented by Reply in 2020 also include tools for the management of distancing. On the one hand these included a desk sharing solution for offices for the secure management of workstations, and, on the other, a more complex monitoring system for production sites, capable of managing – and possibly alerting – the social distancing of workers based on custom distance and exposure values at the time of interaction, using high-precision, Ultra Wide Band technology.

## E-COMMERCE

The global Covid-19 pandemic has put a considerable strain on the retail sector and has accelerated its digitalisation process. In many cases, e-commerce has become the only sales tool and the only channel accessible during the most difficult months of the lockdown. In this context, it was the major e-commerce players who found themselves to be at an advantage compared to the rest of the field, even though many other businesses tried to keep up, supported by ad hoc services and solutions. In sectors such as fashion and luxury, for example, technologies like 3D prototyping and virtual showrooms made it possible to bring customers closer to the shopping experience typically experienced in-store.

Shopping assistants played a key role in this process and facilitated a smoother 'transition' between the physical and the digital, thanks to the support of physical persons, available to interact via chat or video chat, and also virtual assistants controlled by AI and machine learning solutions. The B2B segment has also seen an increase in digital transactions.

During this phase of radical transformation, Reply was able to support retailers in the quick adoption of cross-channel sales models. This achievement was also made possible thanks to Reply's partnership with leading vendors of e-commerce solutions, its expertise in voice interaction and to its consolidated experience in the augmented reality and virtual reality segment.

The digitalisation of sales processes did not only impact the retail sector, but nearly all commercial areas, including sectors such as banking, insurance and telco. Players in these segments pursued several e-commerce projects, taking advantage of new channels such as instant messaging and social networks and using Reply as a strategic partner, thanks to its ability to govern operating models and advanced logistics systems, as well as to manage digital identities without neglecting cybersecurity needs.

## ENTERPRISE ARCHITECTURE & AGILE DEVELOPMENT

The Covid-19 pandemic has radically changed the way work is approached, managed and organised. The fact that, under the pressure of the health emergency, companies suddenly found themselves implementing agile and primarily remote models, clearly demonstrates this.

The ability to operate on an international scale based on shared models, leveraging cloud-based architectures and edge computing in particular, have become distinctive elements for businesses that were able to seize this opportunity to bring about a change, particularly where there was already a solid level of maturity in terms of distributed and agile architectures.

In 2020, Reply accompanied and supported companies in the implementation of distributed, agile and remote operating models, thanks to an offer of architectural frameworks and specific methods and models such as scalable Agile and SecDevOps. Moreover, it carried out several projects in this direction for major industrial, financial and media groups, and for companies operating in the services sector.

## GAME STUDIOS

The video game industry was not spared from the impact of the Covid-19 pandemic: like many others, this sector was also hit hard by major changes, yet it managed to adapt quickly to the new scenario. Indeed, the lockdown months led to a significant increase in digital entertainment. The use of video games in domestic environments experienced a strong growth, both on the mobile front and on consoles and PCs.

Reply is engaged in all facets of the gaming domain, both with products in its back-catalogue, and at the same time, working on the development of new titles designed for next generation PCs and consoles, like the latest PlayStation 5 and Xbox Series X/S recently released on the market. In the months and years ahead, the efforts of the sector will focus precisely on these new developments, as it is called upon to innovate constantly in order to satisfy the requirements of an ever-demanding public searching for new content.

## INDUSTRY 4.0

Data processing power, latest-generation mechanical automation, as well as machine learning systems and AI: these are the key aspects of the fourth industrial revolution. This is a revolution that is redefining production sites around the world, transforming factories into interconnected systems capable of communicating in real time with the entire supply chain. The new Industry 4.0 models make it possible to manage flows, diversify production, maintain a high level of system reliability and, at the same time, ensure greater efficiency and control.
Reply guides companies in this transformation path: from the new design with virtual reality tools, to the development of solutions capable of connecting production sites and products, all the way to the management of plant and machine maintenance, supported by latest generation tools such as digital twins. Moreover, Reply provides support in the processing of data collected by the interconnected systems, in order to generate information and develop algorithms aimed at automating production, distribution and collaborative processes, in an efficient and effective manner.
On this front, in 2020 Reply continued to grow its portfolio of solutions in the Industry 4.0 and Logistic 4.0 domain, introducing the new Axulus Reply solution to the market. This is designed to facilitate the adoption of solutions in the Industrial Internet realm, by making it possible to integrate new generation Internet of Things components into complex production contexts.
Reply is actively engaged in Industry 4.0 research, having established important partnerships with institutional actors. It is collaborating with the Polytechnic University of Turin on an application in

the Additive Manufacturing domain and, together with the same University, it is a founding partner of CIM 4.0 (Competence Industry Manufacturing 4.0), a competence centre specialised in additive manufacturing and technologies for the digital factory.

Also, with a focus on research, Reply is participating in MADE (multimedia application development environment), the competence centre led by the Polytechnic University of Milan, founded with the aim of disseminating knowledge relating to Industry 4.0 technologies, supporting companies in a path of growth and adoption and facilitating the understanding of how 4.0 solutions can be used to improve industrial competitiveness.

## MIXED REALITY

The exponential growth of video content and the increasingly high resolution of such content, the increased computing power of devices, networks' ability to deliver incredibly low latency levels and the evolutions of computer vision machine learning algorithms, have all contributed to changing the paradigms of immersive technologies.

Thanks to mixed reality, it is now possible to pass from a logic of 'experimentation' to a logic of actual adoption of these technologies in various business areas. This is due to the emergence of innovative software solutions such as pixel streaming and the evolution of increasingly compact and powerful viewers.

Reply has already introduced immersive technologies in projects aimed at supporting the communication and marketing of customer brands, but also as a tool for improving training processes, thanks to the creation of virtual environments where users can experiment and practice in complete safety.

Mixed reality has numerous fields of application, starting from the medical domain. Today, the sector that already demonstrates interesting prospects is the one related to cultural communication and virtual tours, which have already been exploiting the possibilities of virtual reality for some time and are now making them even more immersive using mixed reality.

Reply is also working on solutions that take advantage of mixed reality to support field maintenance operations, with support for both mobile devices and viewers. These solutions make it possible to view a series of Internet of Things data on the intervention area, together with instructions and useful documentation to speed up the technicians' work.

## MOBILE & APPS

Over the past few years, the exponential growth in the performance of mobile devices has facilitated the entry into the mobile world of AI systems, capable of enabling a range of different features and advanced services: from object recognition, to the processing of biometric data and augmented reality.

In this context, Reply is committed to supporting companies towards a 'mobile digital transformation', through the adoption of a multi-channel approach and an expanded offer that ranges from User

Experience to Data-Centric Design and Multi-modal Human Machine Interface. This approach allows users to access a series of services enabled by the terminal, but external to it, such as voice assistants, chatbots and infotainment systems in cars, thus creating a ‘liquid’ mobile experience.

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

## CONNECTED PRODUCTS AND PLATFORMS

The Internet of Things is an enabler of connected products and solutions that, combined with technologies such as edge computing and artificial intelligence, make it possible to design and market value-added services, which are gaining in popularity in various fields, from the industrial sphere to public services. During this phase (and also as a result of the global Covid-19 pandemic), sectors such as insurance and healthcare have seen the demand and use of connected platforms and solutions grow, thanks to the ability to monitor behaviour remotely, guaranteeing the privacy of users and, at the same time, reducing risks and improving the offer.
When it comes to widespread connectivity, one of the main areas of development is the smart home. Leading vendors are concentrating their efforts on creating and developing large ecosystems capable of offering interesting opportunities for both customers and companies. At the core of the smart home there are smart speakers and home automation elements, in addition to the application of intelligent sensors to major household appliances. Indeed, sensors enable not only a human-machine interaction, but also greater customisation of use, with a consequent energy optimisation.
In this context, Reply supports the design, implementation and evolution of connected products and platforms in various domains: from manufacturing (also thanks to the adoption of Industrial Internet of Things solutions) to insurance, from telco to home automation, all the way to consumer electronics and healthcare. It is precisely in this last domain that Reply concentrated its efforts in 2020, with the aim of ensuring an ever greater integration between proprietary platforms and devices in the field of medicine and wellness.

## QUANTUM COMPUTING

Real-time problem solving, the reconfiguration of complex processes and understanding the correlations between seemingly disparate data sets. These are all challenges out of reach from a ‘classic’ computational point of view, but which today can be supported by accelerated computing and quantum computing through the use of innovative hardware platforms.
The main aim of quantum computing is to perform computationally expensive operations in a very short period of time, thus enabling the acceleration of business performance. Quantum Computing makes it possible to encapsulate information within Quantum Bits (Qubits), taking advantage of the massive parallelisation of quantum algorithms, thus making it possible to solve problems that are typically beyond the reach of traditional technologies. Thanks to this enormous potential, Quantum Computing can

optimise business processes, by maximising the cost/benefit ratio, optimising operations, logistics, workforce management and delivering immediate financial benefits.

Reply has created a competence centre dedicated to Quantum Computing, with the aim of delving deeper into the application of different types of quantum algorithms to areas of interest to customers, competencies that are already being integrated into innovative projects. Indeed, various solutions were developed during 2020 in different domains. These include optimisation of the management of trains and journeys within the transport sector; a solution capable of minimising interference along the entire network for telecommunications; maximising the number of maintenance interventions in the energy sector; and in finance, the implementation of an optimal model for managing costs associated with the performance of transactions on financial markets. These solutions are complemented by the design of Quantum Machine Learning solutions applied to classification algorithms.

In 2020, Reply was declared the winner of an international competition organised by Airbus, a leading company in the aerospace sector. This was achieved thanks to a quantum algorithm to find the optimal arrangement of cargo on an aeroplane, in order to maximise the transported mass. In 2021, Reply will work with Airbus to test their solution in the field.

## SOCIAL MEDIA

During the months of lockdown imposed by the pandemic, social media and instant messaging platforms proved to be a key tool for providing socialisation and communication on the one hand, while consolidating its position as a means of information and entertainment on the other. In the professional domain, social networking and remote communication platforms also reached remarkable levels of use, as a result of the increase in remote work.

Social media platforms have, for some time, seen an increased use by companies to communicate with their audience and to target advertising messages, while attempting to address the growing concerns of user privacy. Over the past few years, digital advertising sales have reached new records, even at the expense of traditional media, and 2020 saw the growth of these channels as tools integrated into the e-commerce experience, particularly in the fashion and hi-tech fields.

In this context, Reply supports large multinationals and companies from different sectors in building an active and responsible social media presence. Interaction on social media is managed as one of several touchpoints and is integrated with secure platforms for data collection and analysis. One of the most interesting consulting areas offered by Reply in this domain is support in the management of marketing automation and in the local presence on social media.

# REPLY SERVICES & PLATFORMS

# REPLY SERVICES

**Today, networks consist of distributed 'information systems' that provide real-time access to an ever-increasing quantity of complex data, information and content. This use of the internet is creating new competitive models, based on approaches to service that depend on three fundamental components: the software platforms involved, the understanding of and expertise in the relevant processes, and the management of the service.**

**Reply supports its customers in this quest for innovation, with services and platforms that are designed to exploit in full the new potential offered by networks and by communication technologies.**

## BUSINESS PROCESS OUTSOURCING

Reply provides specialist services in three fields of expertise:

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

## CFO SERVICES

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

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

## APPLICATION MANAGEMENT

Reply has defined an application management model characterised by:

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

# REPLY PLATFORMS

## AXULUS™

Axulus™ is the solution created by Reply as an accelerator for the Industrial Internet of Things. The platform offers an integrated tool chain which, thanks to a modular approach, enables the identification of possible use cases, configuring the most suitable solutions and implementing them through the adoption of scalable workflows. Axulus™ aims to digitalise the entire process: from the definition of use cases, to the introduction of Industrial Internet of Things solutions to the production environment. Axulus™ is designed as a library of cloud-based tools and is aimed at both industrial companies that use Industrial Internet of Things applications and developers of Industrial Internet of Things solutions.

## BRICK REPLY™

Brick Reply™ is Reply's manufacturing operations management platform for industry 4.0, designed to support the evolution of business processes in the manufacturing sector, by taking advantage of the opportunities offered by digital transformation. The platform makes functions and services available, in a mobile context, that enable the configuration and control of the entire production process, or certain parts of it, improving its efficiency and quality level. Indeed, thanks to a fully open microservice architecture and a set of vertical applications, the platform makes it possible to coordinate production activities and connect the machinery and sensors present in the factory, thus enabling the acquisition of huge amounts of data which, processed by artificial intelligence algorithms, facilitates the predictive management of the shop-floor.
The flexibility of cloud-native technology and the ability to take advantage of as-a-service solutions, also enable the integration of enterprise technologies and applications already present in the factory.

## CHINA BEATS

China Beats, co-developed in Berlin and Beijing, is Reply's cloud-based market intelligence and social listening solution, designed to provide access to China's vast data ecosystem. China is becoming the largest consumer market in the world, offering non-Chinese companies many opportunities to drive growth.

China Beats is able to connect to all major Chinese e-commerce platforms, search engines and social media platforms such as Alibaba, Baidu or Sina Weibo, as well as to news and information portals, to patent databases and to accessible legislative databases. It captures relevant data intelligently for the automotive sector, the fashion industry and, starting in 2020, data relating to football. Two additional sectors will be included in 2021: fast-moving consumer goods (FMCG) and technology.

The solution's advanced analytics engine, based on AI, translates large amounts of data into information that can be easily used by companies to gain a better understanding of the Chinese market and to help them make strategic decisions. Moreover, thanks to Machine Learning and Natural Language Processing algorithms, the system is also capable of understanding slang and the specific context, with the ability to translate the captured information correctly into English.

## DISCOVERY REPLY™

Discovery Reply™ is Reply's Enterprise Digital Asset Management platform, designed to securely manage the entire life cycle of digital content such as images, videos, audio and multimedia documents, through guided and controlled flows and offering consistent, quality information on a brand's products and content across all touchpoints. The platform is thus able to simplify business processes related to production and distribution across the various channels: e-commerce, advertising and communication.
Thanks to AI technologies, it is possible to ensure the advanced management of contents, distributing them based on an omnichannel logic and a multi-brand approach. Images and videos are analysed and edited directly on the platform and subsequently published on websites, e-commerce channels, Web TV platforms, catalogues, digital displays and social media networks, in compliance with the specific usage rights in the various business areas.

## HI CONNECT™

HI Connect™ is the Reply solution designed to enable communication between networked objects, based on a simple and standard approach. It enables the development of vertical applications dedicated to specific markets or use cases, such as infomobility, advanced logistics, environmental security, contactless payments, traceability and remote product diagnostics. In 2020, the platform evolved with the development of assets for the creation of value from customer relationship management channels, based on sophisticated contextual marketing dynamics and support for innovative interaction systems such as voice assistants.
HI Connect™ is a software-as-a-service platform, although it also includes vertical solutions delivered as-a-service: RMS (Recipe Management System), a connected recipe management system used in the world of home and professional appliances, VCP (Value Chain Portal), a system designed to transform an asset from product to service and SCS (Self Customer Support), a solution based on Machine Learning systems featuring a chatbot-based interface for the application of call-deviation techniques to support devices in the field.

## LEA REPLY™

LEA Reply™ is a digital platform designed to enable efficient, agile and connected supply chains. It offers a suite of microservices covering various business processes including the management of warehousing, inventory, distribution, delivery and store logistics.
LEA Reply™ solutions are highly configurable and customisable: it is possible to add new features or to remove those no longer needed by the user.
The platform enables companies to obtain an efficient and strongly connected digital supply chain, according to the driving principles of Industry 4.0: interoperability of systems and people, modularity of solutions, and real-time and decentralised decision-making processes. This is possible through the use of latest generation technologies such as artificial intelligence, robotics, wearables and the Internet

of Things. LEA Reply™ has been included in the Gartner Magic Quadrant for Warehouse Management Systems - WMS (Winning Business Model).

### PULSE REPLY

Pulse is Reply's data-driven insight solution that combines data science and marketing intelligence activities within an agile dashboard. The platform is able to respond to business requests based on KPIs updated in real time. It includes advanced visualisation and data modelling features and has been designed to enable users to understand what is happening, but also to enable forecasting.

Pulse Reply is a flexible platform that can be used in any context and integrates easily with any data source, including non-proprietary products and dashboards. Moreover, thanks to the integration of machine learning algorithms, Pulse is able to notify users automatically when changes in a KPI are detected, while also providing evidence of the reasons behind such changes and explaining their potential impact.

### SONAR REPLY

Sonar is Reply's solution for research on data-driven trends, developed in collaboration with the German Institute for Artificial Intelligence (DFKI). The platform was designed with the aim of offering a user experience similar to that of common search engines and is intended not only for data analysis professionals, but also for academics and journalists. The central element in Sonar's architecture is an ever-expanding database that today includes over 40 million indexed scientific publications, patents, expert blogs, online news articles and other documents.

Sonar is a data-as-a-service software and its operation is based on environmental scanning methodologies that exploit digital data and text extraction capabilities to add new documents on a daily basis, thus making it possible to optimise analysis trends. The signs and trends discovered can, in fact, be analysed and classified in order to support the identification and anticipation of future trends.

### TAMTAMY™

TamTamy™ Reply is the platform designed to help improve and derive value from the interaction between companies, brands and people. In addition to the creation of a digital workplace, the platform also enables users to build learning experience platforms, corporate social media networks and sales force digital communities. By leveraging social media dynamics and specific tools, the platform puts the employee at the centre, while at the same time providing companies with effective tools for sharing information, enabling collaboration between staff, managing digital events and carrying out various training activities.
TamTamy™ provides social media, content editing, digital event management and training functionalities, which can be extended and integrated within specific business contexts to help companies implement new participation and resource sharing models.
The platform features a customisable, flexible and responsive front-end that facilitates immediate access from any device and is available both in cloud and on-premise.

### TICURO REPLY™

Ticuro Reply™ is Reply's platform designed to enable processes supporting the prevention and continuity of care, including remotely. It does this according to the Connected Care model for digital healthcare and with a view to the dematerialisation and remotisation of care, aspects that have become a global necessity following the Covid-19 pandemic. Ticuro Reply is a cloud-based platform that relies on the 'Internet of Medical Things' technology and is capable of connecting to medical devices, wearable and environmental sensors. The solution thus enables an enhanced and ongoing remote collaboration between patients, caregivers and healthcare staff, both in the prevention phase and in the more critical phases of treatment and rehabilitation.



### X-RAIS REPLY™

X-Rais Reply™ is Reply's AI solution, designed to support radiological diagnosis processes by applying convolutional neural networks. The solution is a Deep Learning platform verticalised on different diagnostic methods and on specific anatomical areas, designed to support medical diagnosis processes through Medical Image Recognition techniques, identifying with high accuracy the areas of the images on which doctors must focus their attention.

# PARTNERSHIPS - RESEARCH AND DEVELOPMENT

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

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

## ADOBE

With Adobe technologies, Reply creates ad hoc solutions ranging from digital information management (such as web portals, e-commerce solutions and mobile apps), to digital asset management (with management of the end-to-end life cycle of documents and digital assets) and marketing automation, for the creation, planning, management and optimisation of multi-channel marketing campaigns. In these domains, Reply is able to develop customer-oriented applications that make it possible to optimise the targeting, personalisation and optimisation of content.

Today, Reply is a Gold Partner and an AEM Specialised Partner at Adobe's EMEA level, also thanks to its ability to design and implement digital transformation and multi-channel marketing solutions based on the different products included within the Adobe Experience Platform.

## AMAZON WEB SERVICES (AWS)

Reply is one of the leading partners of AWS, the cloud platform on which Amazon relies to carry out numerous projects in both the B2B and B2C fields, offering companies a native infrastructure, along with end-to-end support, ranging from the creation and integration of custom applications and platforms, to the activation of maintenance and management services based on pay-as-you-go cost models. For the seventh consecutive year in 2020, Amazon Web Services named Reply a 'Premier Consulting Partner', the highest level of partnership attributed only to a select group of partners worldwide. This recognition complements Reply's other certified AWS skills in the fields of Data & Analytics, DevOps, Oracle, Migration, Internet of Things, Industrial Software, SaaS and Machine Learning, in addition to those relating to the Managed Service Program.

## GOOGLE

Reply is a Google Premier Partner, the highest level of partnership for the Google Workspace and Google Cloud Platform, and supports its customers along the entire migration journey to the cloud, including the execution, planning, optimisation and support phases. As part of its partnership with Google, Reply has obtained various specialisations, including that of Managed Service Provider, Infrastructure Specialist and Machine Learning Specialist, in recognition of its in-depth understanding and numerous specialisations within these domains.

Reply has also won several Partner Expertise awards in the Data Lake Modernisation, Data Warehouse Modernisation and Conversational Design realms, confirming the presence of a strong team of experts and the implementation of substantial projects and solutions in these areas.

## MICROSOFT

Reply is a certified Microsoft Gold Partner in Brazil, Germany, Italy, the UK and the United States. It offers consulting, systems integration and digital services as part of the Azure portfolio, with the aim of creating a unified cloud platform enabling large-scale implementations and agile, high-performance environments. Indeed, Reply Group companies that work with Azure Professional Services are able to provide optimal management of the cloud lifecycle: from the cloud roadmap, to the data centre migration, all the way to Azure Automation & Operation Management and cloud governance capabilities.

In 2020, Reply successfully completed the audit for the Azure Expert MSP (Managed Service Provider) programme and achieved the advanced specialisation in Adoption and Change Management, complementing the Gold skills in which it is already certified. Reply was also named Partner of the Year by Microsoft in Italy and was added to the elite Inner Circle for Business Applications, reserved for selected partners specialised in this specific set of Microsoft solutions.

## ORACLE

In March 2020, Reply was included in the new Modern Oracle Partner Network (OPN) and is the first Oracle Partner to have obtained the 'Service Expertise' recognition for the Oracle ERP Financial Cloud, Oracle HCM Global Human Resources, Oracle Cloud Platform Integration, Oracle Cloud Platform Security, DevOps on Oracle Cloud and Oracle Cloud Platform Data Management services. Moreover, Reply is one of the very few Oracle Managed Service Partners in the world with a leading European Competence Centre capable of guaranteeing highly specialised expertise in the integration of the entire suite of Oracle Cloud products and, in particular, representing a point of reference for the Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) offer.

Reply has also confirmed its leadership position at the application level, on the Oracle ERP Cloud technology. In 2020 it was recognised as 'Oracle HCM Cloud Partner of the year' for supporting major customers in the implementation of HR projects and having implemented the first project in the automotive sector based on the Oracle Cloud Transportation Management technology, besides having managed several strategic projects based on the Oracle Xstore Marketing Automation suite.

## SALESFORCE

Reply is a leader in Salesforce solutions in Europe, with an advanced, multi-cloud technical expertise in various sectors: sales, customer service and marketing with DMP, E-commerce for B2B and B2C, integration through MuleSoft and customer engagement on Salesforce with Heroku. Moreover, Reply specialists work with the various Salesforce extensions for CPQ, Pardot, Email Automation and Einstein AI, as well as being familiar with recently acquired products such as Datorama, Click Soft Field Service, Tableau and Velocity.

Thanks to its long-standing experience in Salesforce, Reply is able to supply various models and starter kits for different sectors and processes, such as those related to Facility Management, Healthcare and 'Return to Work' in the post-lockdown context.

## SAP

Reply develops proprietary solutions and packages based on the SAP technologies. Recognised as a Top Strategic Partner in EMEA for SAP Customer Experience (CX), Reply has expanded its CX portfolio to include the new SAP Upscale solution and became an EMEA partner for Qualtrics, a key solution in the field of Customer and Brand Experience, capable of stimulating creativity by exploiting the most innovative technologies.

Expertise on SAP S/4HANA projects has developed hand in hand with skills in the SAP Platform & Technologies, including AI/ML and the Internet of Things, Procurement and Digital Supply Chain solutions. Today, Reply is successfully pursuing two strategies and making them available on the market: on the one hand, accompanying businesses in the transition to SAP cloud solutions (approximately 90% of Reply's new projects are cloud-based) and on the other hand, leading a process of co-innovation, as is the case, for example, with the SAP Ariba accelerator.

In 2020, Reply received the 'SAP Quality Award' for the seventh consecutive year, in recognition of the quality and relevance of its activities. Reply has also extended its 'SAP Gold Partner' status to the UK, the third market after Italy and Germany to obtain this recognition.

# DEVELOPMENT AND EVOLUTION OF PROPRIETARY PLATFORMS

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



## BRICK REPLY™

In 2020, the Brick Reply™ platform developed new features that exploit big data and AI, introducing machine learning techniques and simulation models that made it possible to approach the Digital Twin technology, applied to the entire production process. The two Manufacturing Execution and Plant Maintenance platforms were also optimised at the same time. Reply's 2021 enhancements are even more ambitious. On the one hand, on the platform front, Digital Twin services will be consolidated and new business intelligence, natural language processing and digital connectivity technologies included. On the other hand, on the applications and services front, new features will be added in the Manufacturing Execution, Monitoring & Reporting apps and in the Shop-Floor Digital Twin application, while the Production Quality, Advanced Planning & Scheduling and Plant Maintenance applications will be equipped with new features, thus enhancing in their simulation and forecasting capabilities.

## DISCOVERY REPLY™

In 2020, the Discovery Reply™ platform developed new solutions and tools to respond to the changing needs of a market strongly affected by the pandemic, and to help companies embrace a new communication paradigm capable of guaranteeing a digital presence of the brand and a level of interaction equivalent to the 'live' one. A new, end-to-end live streaming and video-on-demand model was thus introduced, capable of managing all the pre, post and 'go live' phases of a virtual event, all with high levels of customisation and interactive opportunities. The live chat functionality and other conversational tools facilitate interaction with the public in real time, while the tracking system on views and interactions enables the constant analysis of performance data associated with communication initiatives, with the aim of optimising the service and, at the same time, the customer experience.
In the Enterprise domain, on the other hand, new integrations with the various business systems (CRM, PLM, CMS and ERP) were created and, thanks to the cloud, it was possible to aggregate and centralise information and increase the volumes of coded and managed content. The goal for 2021 is to enrich the platform, based on the specific needs of the various business areas. Some of the main implementations include the new Headless CMS capabilities, the development of Smart Image Delivery features, the development of Content Intelligence and Content Tracking models, and the automation of sales processes on marketplaces. On the video platform front, however, the implementation will concern new product presentation and video commerce models, in addition to the management of the shopping experience with the collection of insights for user profiling and predictive analysis on interests.

## HI CONNECT REPLY™

In 2020, HI Connect Reply™ introduced customer engagement systems designed to orchestrate event-driven communication campaigns, while for 2021 the investments will lead the platform to vertically extend its functional coverage, with the development of three modules focused on supporting specialised use cases relating to four key industries: insurance, telco, utilities and manufacturing.

## LEA REPLY™

In 2020, the development of the LEA Reply™ platform focused on extending the already supported supply chain business processes, both by introducing new modules and by enhancing existing ones. One of the most significant new developments is the LEA Reply™ Visibility solution, aimed at the real-time presentation of business information relevant for supporting decision-making processes, through the collection and interpretation of large amounts of data and events from heterogeneous sources. This is complemented by the new LEA Reply™ In-Store Picking module, a tool designed to support the preparation of e-commerce orders directly inside the store via a mobile application. Moreover, the new Smart Planning solution for optimising last mile transport was integrated into the platform to provide support for distribution processes.

The goal for 2021 is to enhance the platform through the introduction of new services designed to support the retail market, in particular the dark store and in-store operational processes that leverage artificial intelligence-based optimisation algorithms to improve supply chain efficiency. This is complemented by experimentation projects on new technologies such as advanced wearables and indoor localisation systems.

## TAMTAMY™

In 2020, Reply continued its development of the TamTamy™ version that integrates Microsoft's Office 365 productivity services. This integration will continue in 2021 with particular attention to Teams. Moreover, the 'TamTamy Learning Experience Platform' was also released. This is the new vertical version of the platform and it is entirely dedicated to training, leveraging a new user experience and a new user interface and combining learning logic with social dynamics. Further investments are planned in 2021, with the aim of both positioning TamTamy as an accelerator in the development of custom platforms through headless architecture, and also developing a 'white label' version intended for the sales force in the finance world.

## TICURO REPLY™

In 2020 Ticuro Reply™ renewed its 93/42/EEC certification as a 'stand-alone medical device software'. Moreover, it was selected by the Italian Minister for Technological Innovation and Digitisation as one of the top five medical tele-assistance technological solutions.

The modules for the management of the Televisit and Teleconsultation processes were also revamped. These tools facilitate an audio/video connection between the user and the professional (or several professionals), and have the ability to share documents and measurements of vital signs and to perform interactive tests. 2020 also saw the creation of the Internet of Medical Things HUB, a single access point for the automatic connection of medical devices to enable data collection. Finally, Ticuro Reply™ is now integrated with the Apple HealthKit and investments were made to revamp the user experience of the solution in order to improve is usability on mobile devices.

## X-RAIS REPLY™

In 2020 X-RAIS Reply™ enhanced its functionality in the mammography analysis domain, thanks to the implementation of specific algorithms capable of detecting the breast density level and describing its morphological characteristics, while at the same time highlighting the lesions present and any microcalcifications and radiopacity of a malignant nature. The goal for 2021 is to expand the analysis capabilities across different diagnostic methods and other anatomical areas. This is complemented by the new specialisation in the thoracic area, with the ability to analyse chest x-ray images, which is of particular benefit in the recent Covid-19 context.

# THE VALUE OF PEOPLE

**Since its inception, Reply has distinguished itself on the market as a network of professionals recruited from the best universities, whose potential is then matured together, based on strong shared values. Today, this approach has been applied on a global scale.**

In 2020, in an international market context marked by strong turbulence, Reply has vigorously pursued its plan for hiring resources with great potential. In each country in which it operates, Reply builds and grows a strong link with the academic world, gaining access to high-potential talent.

The selection criteria for young graduates is strict and concerns both the importance of the university of origin, as well as the distinctive nature of the candidate's curriculum. Together with professionals recruited in emerging markets in particular, they are asked to fully adhere to Reply's value system.

**Excellence** is the common thread of this system: the search for quality must be a daily and constant commitment, focused on the continuous improvement of one's work and the benefits brought to customers. Each year, a strong, merit-based evaluation system makes it possible to recognise and reward excellent results.

**The customer** is the protagonist of the Reply value system. Reply consultants take the customer's objectives and make them their own, striving to reach them with a collaborative spirit and with a sense of responsibility and high moral integrity. Each client is individually sent an annual survey to determine the level of satisfaction in relation to each project.

**Innovation** must be integrated into customers' projects on a daily basis, with a pragmatic approach that combines courage in the choices made and the ability to recognise the most suitable solutions to the context, from an IT point of view and beyond. Internal reward systems make it possible to recognise the most innovative ideas and projects.

Over time, **speed** has proven to be a distinctive feature of Reply's teams on the market. Capitalising on the experiences gained and collaborating with major vendors enables Reply to provide a quick response tailored to its customers' requirements. A strong, shared methodology accelerates design and implementation work.

**Teamwork** is the glue of Reply's approach. Younger professionals bring the skills gained in their academic career, contributing to teams led by individuals who have followed the same path and whose seniority, leadership and knowledge transfer capabilities have been progressively recognised.

These five value areas are transmitted to 'Replyers' from the moment they join the company. Indeed, each new employee must participate in a training programme, which includes an induction aimed at transmitting the key words that distinguish the Group's work in their daily activities, internally and above all in relation to customers: honesty, reliability, transparency and ethics.

Internal training initiatives aim to transfer knowledge and to identify new market areas, thanks to the in-depth knowledge of the partner offer and the needs of customers in all industrial sectors. The adoption of remote innovative collaboration technologies has made it possible for these activities to be continued in 2020, on an international scale.
The result of the integration of a strong, value-based system and constant attention to recognising the value of expertise and knowledge has always allowed Reply to continue to grow organically, with people as the protagonists of its offer in the technological, consulting and creative fields.

# ANNUAL FINANCIAL REPORT 2020

# 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 unfavourable 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.
The battle against the Covid-19 pandemic will continue to determine the evolution of the economy at least for the next months. The emergency, at the time of this annual report, is still ongoing, with different trends in the countries where Reply is present. Its evolution will depend, to a large extent, on the effectiveness and speed of the vaccination plans that the various countries have begun to activate.

### 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.

**RISKS ASSOCIATED WITH THE ONGOING PANDEMIC**

With regards to employees, for the purposes of managing the pandemic, task forces have been activated at Group and local levels with the aim of monitoring the evolution of the situation and ensuring coordinated actions on the measures to be implemented:

- Where possible and compatible to the types of activities, remote working was implemented and extended to all employees during the emergency phase;
- all events involving the aggregation of people were carried out virtually and digitally;
- rules and measures were established to access the company offices and to limit the risk of spreading the virus.

Managing the pandemic has impacted the normal execution of business processes, both internal and those managed through external suppliers. For the Covid-19 crisis, ad hoc measures have been put in place to ensure the continuity of operational processes. In particular, IT infrastructure has been adapted to support the massive use of remote work in a secure mode.

The extended use of remote working has also led to an intensification of cyber threats. For this reason, it is necessary to constantly monitor the evolutions of attacks and to adjust the existing controls in order to timely detect attacks and to manage the most appropriate and suitable responses.

## 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.

The Group's exposure to credit risk is the potential losses that could result from non-fulfilment of the obligations assumed by both commercial and financial counterparties. In order to measure this risk over time, as part of the impairment of its financial assets (including trade receivables), the Group has applied a model based on expected credit losses pursuant to IFRS.
This exposure is mainly due to general economic and financial items, the possibility of specific insolvency situations of some debtor counterparties and more strictly technical-commercial or administrative elements.
The maximum theoretical exposure to credit risk for the Group is the book value of financial assets and trade receivables. The risk related to trade receivables is managed through the application of specific policies aimed to ensure the solvency of customers.
Provisions to the allowance for doubtful accounts are made specifically on creditor positions with specific risk elements. On creditor positions which do not have such characteristics, provisions are made on the basis of the average default estimated on the basis of statistical indicators.

### LIQUIDITY RISK

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The cash flows, funding requirements and liquidity of the Group's companies are monitored or centrally managed under the control of the Group Treasury, with the objective of guaranteeing effective and efficient management of capital resources (maintaining an adequate level of liquid assets and funds obtainable via an appropriate committed credit line amount).
The difficult economic and financial context of the markets requires specific attention as regards the management of liquidity risk and in such a way that particular attention is given to shares tending to generate financial resources with operational management and to maintaining an adequate level of liquid assets.
The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

**EXCHANGE RATE AND INTEREST RATE RISK**

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

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

The interest rate risk to which the Group is exposed mainly 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 2020 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 2020 with a consolidated turnover of €1,250.2 million, an increase of 5.7% compared to €1,182.5 million in 2019.
All indicators are positive for the period. Consolidated EBITDA was €207.9 million, an increase of 8.7% compared to €191.3 million recorded at December 2019.
EBIT, from January to December, was at €169.5 million, which is an increase of 9.1% compared to €155.3 million at December 2019.
The Group net profit was at €123.6 million, an increase of 8.6% compared to the €113.9 million recorded in 2019.
As at 31 December 2020, the Group's net financial position has been positive, at €158.7 million. As at 30 September 2020, the net financial position was positive, at €135.6 million, and, as at 31 December 2019, was positive, at €105.0 million,

This year was a year marked by one of the most complex economic and social crises in contemporary history. Reply was able to react to this unimaginable moment of discontinuity by closing a financial year in growth. In recent months, despite the difficulties experienced in the various lockdowns, Reply has continued to invest, gaining additional market share in Europe, the UK and in North America, and has added new expertise to its core offers in cloud, artificial intelligence, 5g, robotics and connected vehicles.

The future is still uncertain, the emergency is still ongoing, with different trends in the countries where Reply operates and, much depends on the effectiveness and speed of the vaccination plans.

The pandemic is, in any case, handing us back a profoundly changed world compared to the one we were used to just twelve months ago. All sectors, even the more traditional ones, have had to reconfigure themselves, digitalising processes and divisions and, at times, reinventing entire business models. This transformation is irreversible and, albeit dramatic for some, it opens up new opportunities for growth and development for companies like Reply. High-speed communication software infrastructure, e-commerce, new digital experiences and a strong boost in automation will be the key elements of the economy over the coming years.

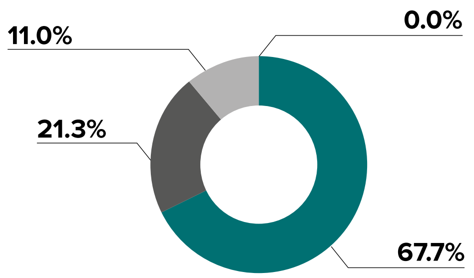
## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

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

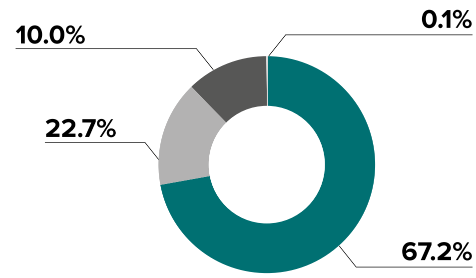
| (THOUSAND EUROS) | 2020 | % | 2019 | % |
|---|---|---|---|---|
| **Revenues** | **1,250,191** | **100.0** | **1,182,528** | **100.0** |
| Purchases | (21,510) | (1.7) | (21,250) | (1.8) |
| Personnel | (621,362) | (49.7) | (578,263) | (48.9) |
| Services and other costs | (399,830) | (32.0) | (390,918) | (33.1) |
| Other operating (costs)/income | 448 | - | (790) | (0.1) |
| **Operating costs** | **(1,042,255)** | **(83.4)** | **(991,221)** | **(83.8)** |
| **Gross operating income (EBITDA)** | **207,936** | **16.6** | **191,307** | **16.2** |
| Amortization, depreciation and write-downs | (42,441) | (3.4) | (37,239) | (3.1) |
| Other non-recurring (costs)/income | 4,036 | 0.3 | 1,256 | 0.1 |
| **Operating income (EBIT)** | **169,531** | **13.6** | **155,324** | **13.1** |
| (Loss)/gain on investments | 1,240 | 0.1 | 11,364 | 1.0 |
| Financial income/(expenses) | (8,717) | (0.7) | (5,268) | (0.4) |
| **Income before taxes** | **162,054** | **13.0** | **161,419** | **13.7** |
| Income taxes | (37,848) | (3.0) | (44,829) | (3.8) |
| **Net income** | **124,206** | **9.9** | **116,590** | **9.9** |
| Non-controlling interests | (608) | - | (2,732) | (0.2) |
| **Group net income** | **123,598** | **9.9** | **113,858** | **9.6** |

## REVENUES BY REGION(*)

### 2020




### 2019




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

**(*) Region 1:** ITA, USA, BRA, POL, ROU, CHN (Nanjing)

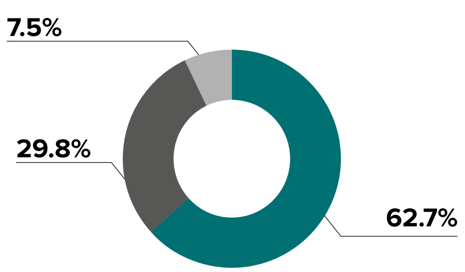
**Region 2:** DEU, CHE, CHN (Beijing), HRV

**Region 3:** GBR, LUX, BEL, NLD, FRA, BLR

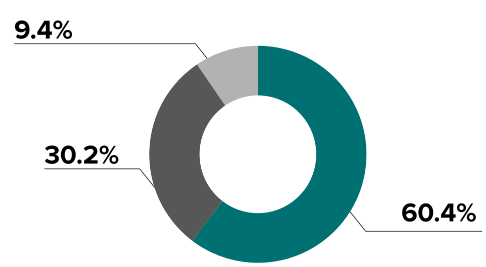
## REVENUES BY BUSINESS LINES

- **Technologies**
- **Applications**
- **Processes**

### 2020

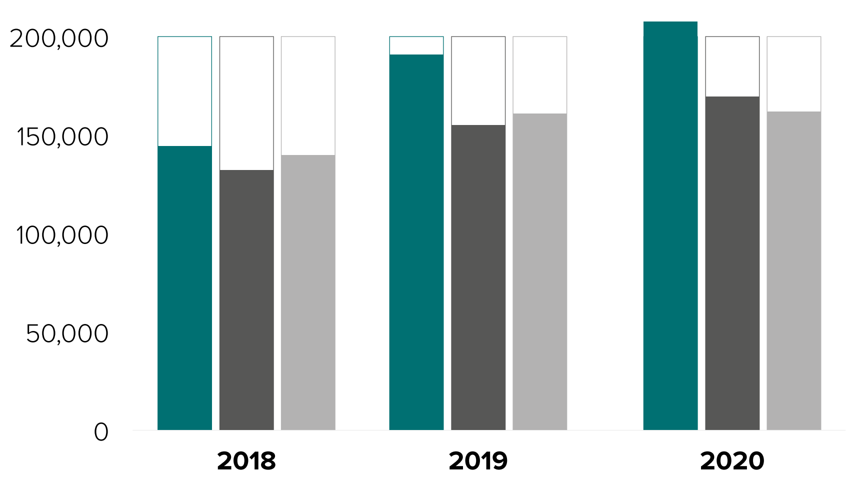



### 2019




## TREND IN KEY ECONOMIC INDICATORS
(THOUSAND EUROS)

- **EBITDA**
- **EBIT**
- **EBT**



## ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2020, compared to 31 December 2019:

| (THOUSAND EUROS) | 31/12/2020 | % | 31/12/2019 (*) | % | CHANGE |
|---|---|---|---|---|---|
| Current assets | 505,790 | | 547,134 | | (41,344) |
| Current liabilities | (527,354) | | (472,817) | | (54,537) |
| **Working capital, net (A)** | **(21,565)** | | **74,317** | | **(95,882)** |
| Non-current assets | 664,852 | | 518,170 | | 146,682 |
| Non-current liabilities | (125,991) | | (110,457) | | (15,534) |
| **Fixed capital (B)** | **538,860** | | **407,713** | | **131,148** |
| **Invested capital, net (A+B)** | **517,296** | **100.0** | **482,030** | **100.0** | **35,266** |
| Net equity (C) | 675,957 | 130.7 | 587,061 | 121.8 | 88,897 |
| **NET FINANCIAL POSITION (A+B-C)** | **(158,661)** | **(30.7)** | **(105,031)** | **(21.8)** | **(53,630)** |

(*) It is to be noted that the item Due to minority shareholders and Earn-out short-term has been reclassified in the net working capital.

Net invested capital on 31 December 2020, amounting to 517,296 thousand Euros, was funded by Shareholders' equity for 675,957 thousand Euros and by overall available funds of 158,661 thousand Euros.

It is to be noted that net invested capital includes the item Due to minority shareholders and Earn-out for a total of 71,381 thousand Euros (51,468 thousand Euros at 31 December 2019); this item is not included in the net financial position.

The following table provides a breakdown of net working capital:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 (*) | CHANGE |
|---|---|---|---|
| Work in progress | 79,784 | 75,328 | 4,455 |
| Trade receivables | 344,700 | 432,240 | (87,540) |
| Other current assets | 81,306 | 39,566 | 41,741 |
| **Current operating assets (A)** | **505,790** | **547,134** | **(41,344)** |
| Trade payables | 114,149 | 119,951 | (5,802) |
| Other current liabilities | 413,205 | 352,866 | 60,339 |
| **Current operating liabilities (B)** | **527,354** | **472,817** | **54,537** |
| **Working capital, net (A-B)** | **(21,565)** | **74,317** | **(95,882)** |
| *% return on investments* | *(1.7%)* | *6.3%* | |

(*) It is to be noted that the short-term portion of the item Due to minority shareholders and Earn-out has been reclassified in the net working capital.

## NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Cash and cash equivalents, net | 332,500 | 239,571 | 92,929 |
| Current financial assets | 2,108 | 1,666 | 442 |
| Due to banks | (10,815) | (16,648) | 5,833 |
| Due to other providers of finance | (1,495) | (537) | (957) |
| Financial liabilities IFRS 16 | (24,453) | (20,454) | (3,999) |
| **Short-term financial position** | **297,844** | **203,598** | **94,246** |
| Due to banks | (19,735) | (25,846) | 6,110 |
| Financial liabilities IFRS 16 | (119,448) | (72,722) | (46,726) |
| **M/L term financial position** | **(139,183)** | **(98,567)** | **(40,616)** |
| **Total net financial position** | **158,661** | **105,031** | **53,630** |

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

| (THOUSAND EUROS) | 2020 |
|---|---|
| Cash flows from operating activities (A) | 229,028 |
| Cash flows from investment activities (B) | (76,550) |
| Cash flows from financial activities (C) | (59,549) |
| **Change in cash and cash equivalents (D) = (A+B+C)** | **92,929** |
| Cash and cash equivalents at beginning of period (*) | 239,571 |
| Cash and cash equivalents at year end (*) | 332,500 |
| **Total change in cash and cash equivalents (D)** | **92,929** |

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

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

## ALTERNATIVE PERFORMANCE INDICATORS

In addition to conventional financial indicators required by IFRS, presented herein are some alternative performance measures, in order to allow a better understanding of the trend of economic and financial management.
These indicators, that are also presented in the periodical Interim management reports must not, however, be considered as replacements to the conventional indicators required by IFRS.

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

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

# SIGNIFICANT OPERATIONS IN 2020

## ACQUISITION OF SAGEPATH LLC

In August 2020 Reply Inc. acquired 70% of the share capital of Sagepath LLC, for an initial consideration amounting to 31 million dollars.
With headquarters in Atlanta (GE), Sagepath is a company specializing in Digital Transformation, Ecommerce and Digital Customer Experience and provides services to enterprise-class to blue-chip companies (Coca-Cola, Doosan, Georgia-Pacific, Hunter Fan, Krispy Kreme, MarineMax, NAPA AUTO PARTS). Sagepath's services portfolio includes the full-stack development of e-commerce and Digital Marketing solutions as well as mobile application on the main technology platforms on the market today. Sagepath has built reliable partnerships with leading market leaders including Adobe, Sitecore, Epi, Kentico, Salesforce, Marketo, and Hubspot.
In accordance to the commitments between Reply and the shareholders of Sagepath LLC regarding the future transfer of the shares, the accounting effects of the business aggregation have been defined in relation to an economic interest of 100% of the acquired company and in accordance to IFRS 3.

## ACQUISITION OF BRIGHTKNIGHT SA

In the month of September 2020 Reply Ltd. Acquired 100% of the share capital in Brightknight SA, a company incorporated under Belgium law, specializing in Robotic Process Automation, for an initial consideration amounting to 500.000 Euros.



## ACQUISITION OF AIRWALK HOLDINGS LTD. AND ITS SUBSIDIARIES

In the month of November 2020 Reply Ltd. acquired Airwalk Holdings Ltd. and its subsidiaries, for an initial consideration amounting to 15.9 million pounds. The company, incorporated under English law, is specialized in innovative services based on design and consulting models declined according to the paradigms of Cloud Computing.

## ACQUISITION OF MANSION HOUSE CONSULTING LTD. AND ITS SUBSIDIARIES

In the month of December 2020 Reply Ltd. acquired Mansion House Consulting Ltd. and its subsidiaries, for an initial consideration in the amount of 12 million pounds. The company, incorporated under English law, is specialized in digital transformation in the financial field.

# REPLY ON THE STOCK MARKET

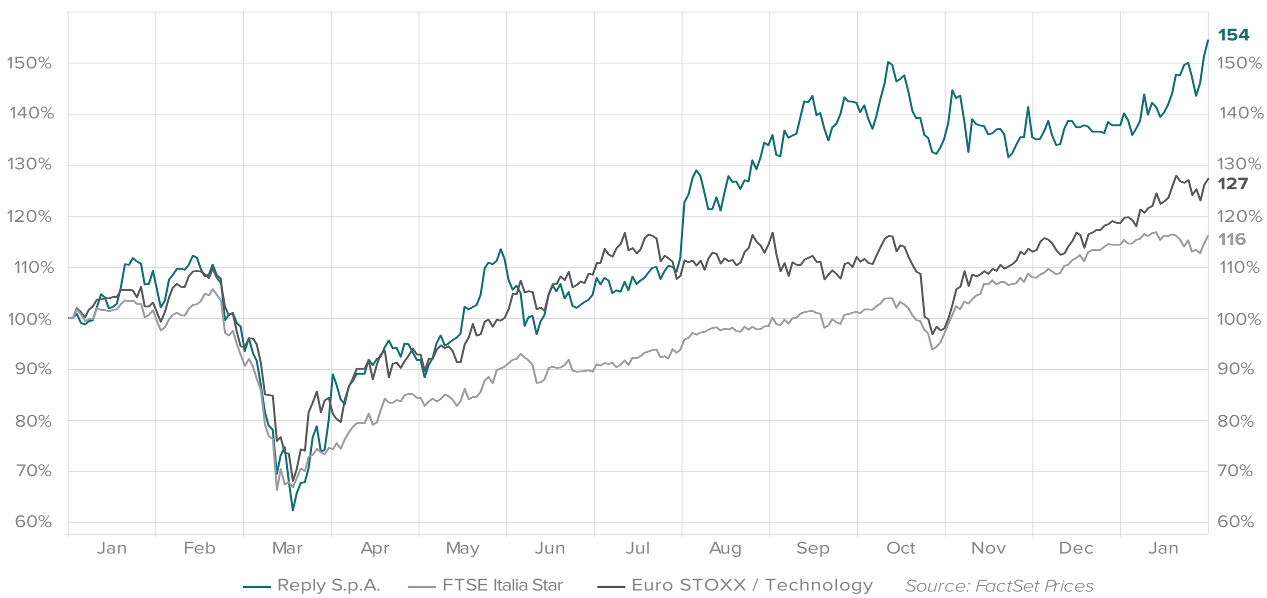
## REPLY SHARE PERFORMANCE

There are stock years like 1929, 1987, 2000 and 2008/2009 that stick in investors' memories for a long time. With 2020 comes another such year. The force with which the Corona pandemic and the economic shock it triggered hit the world also shook up the financial markets, causing extreme volatility and movements. The crash in March was followed by a no less surprising bull market, which took many stock indices to record levels at the end of the year. 2020 will also be remembered as the year of technology stocks. This had a lot to do with the economic consequences of the virus outbreak, which ensured accelerated digitization of the economy and boosted demand for the products and services of technology companies.
At the same time, there has rarely been a year in which the gap between the economic development and the development on the stock markets has been as wide as in 2020. While the OECD, for example, expects a decline in the global gross domestic product of around four percent due to the coronavirus crisis, share prices rose globally by more than five percent in euro terms. For a dollar investor, even more than 14 percent. But there are also big differences on the stock markets themselves. While US technology stocks rose by 30 percent in euro terms, European stocks recorded average losses of five percent. Value or dividend stocks lost an average of 8.5 percent, while growth stocks gained 22 percent worldwide.

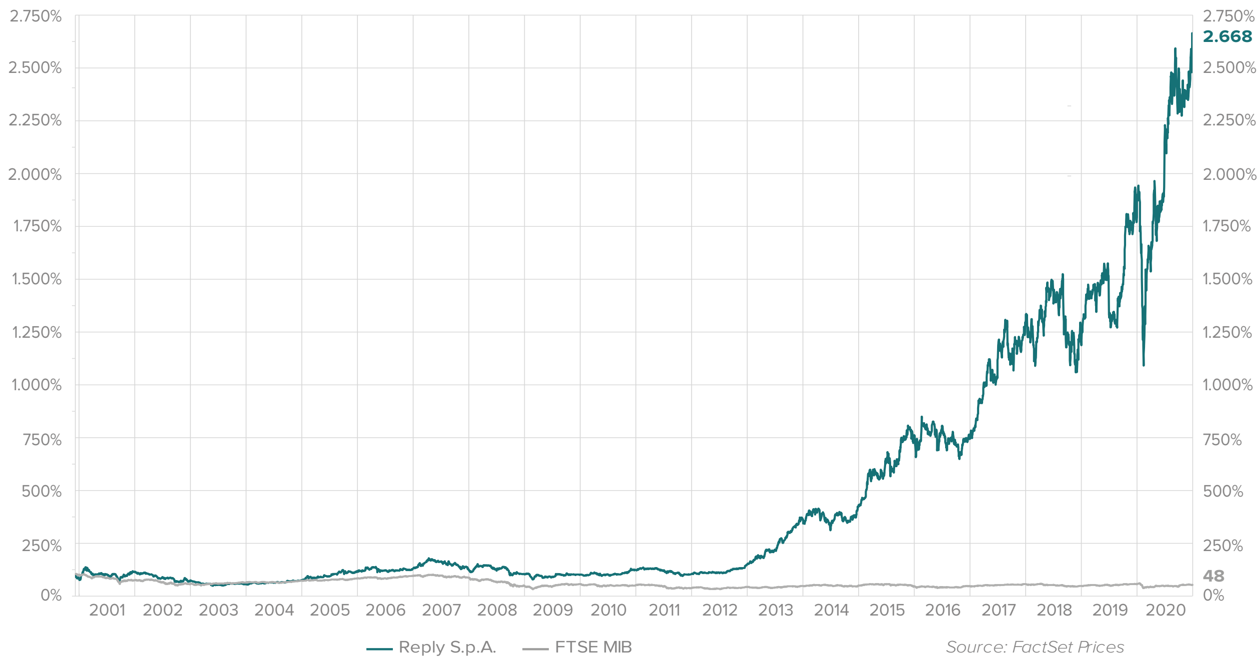
The resulting disconnect between share price performance and economic reality is only a perceived contradiction. For through the massive purchases of government and corporate bonds, the important central banks have not only paved the way for extensive government aid, but also abolished interest rates. And the zero interest rate policy will not remain a temporary phenomenon thanks to the exploding national debt. As a result, the lack of alternatives for investing in equities compared to bonds is becoming overwhelming. Since waiting for an upswing is not rewarded by interest rates on the bond markets, it is rational to shift investment capital into shares as early as possible, as long as one can bear the risk of short-term fluctuations - currently triggered by the mutation of the coronavirus. The record increase in money holdings in deposit accounts shows that there is still more than enough investment capital available thanks to the liquidity provided by the central banks.

For Reply 2020 was another excellent stock exchange year. While the year started well for the Reply share, the emergence of the Covid crisis caused a sharp decline – in parallel to all relevant indices – to EUR 43.30, a level of 62% of the initial 2020 share value. Since the end of March the Reply share moved inwards a steady upward corridor whose trend even accelerated on the communication of the Q1 2020 and H1 2020 results. In October the share reached its maximum value, a new record share price of EUR 105.50. In November the share entered into a sidewards movement that continued until the end of the year – reflecting new concerns about the course of the pandemic posing new risk for the economies. The year 2020 ended for the Reply share at EUR 95.20, an increase of 37%, adding another billion to the market capitalization that reached a new record value of EUR 3.6 billion.

In the first month of 2021 the development continued, bringing the Reply performance to + 54% (02/02/2021) and the market capitalization to EUR 4.0 billion.



As good was the relative performance of the Reply share. Throughout the year Reply outperformed all Italian indices (MIB: -19%, FTSE Italy STAR: +16%) and the EuroSTOXX Technology (+18%). Only the S&P 500/IT developed slightly stronger with an increase of +48%.




Taking December 6, 2000, the date of the Reply IPO, as a reference, the Italian main index MIB continued to perform unsatisfactorily. It lost 52% 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 nearly 2,700%. In 2020 Reply further increased the value creation adding 930 percentage points to the outperformance versus the MIB.

## SHARE LIQUIDITY

2020 marked new records for the trading of the Reply share, regarding the number of traded shares as well as the counter value of all traded shares. The trading volume in the Reply share amounted to EUR 1.2 billion, an increase of 80% compared to the year before. The increased share price accelerated the impact of the number of shares traded, which increased by 37%. In 2020 15.7 million shares were traded versus 11.5 million shares in 2019. Due to the strong upside development, the Reply share is traded at a valuation premium, compared to the participants of the peer group, when profitability measures are taken into account. Enterprise to EBITDA and enterprise value to EBIT at the end of 2020 were 19% and 16% higher than the average value of the peer group constituents. Measured upon revenue, Reply now roughly trades at the valuation levels of its peer group (+3%).

## 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 to fund the investments of Reply (in new start-up companies, new technologies and potential acquisitions to further elaborate the Reply offering portfolio in Germany, UK, US, France, and – newly - Belgium). In 2020 Reply achieved earnings per share of EUR 3.3, an increase of 8.6% compared to 2019. For the financial year 2020 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 0.56 (dividend 2019: EUR 0.52). Referred to the share price of Reply at the end of 2020 this corresponds to a dividend yield of 0.59%. Assuming the approval of the shareholders' meeting, Reply will pay to its shareholders a dividend sum of EUR 21 million. In 2019 EUR 19.5 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.

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Share price** | | | | | | |
| Year-end | Euro | 95.30 | 69.45 | 44.08 | 46.17 | 29.50 |
| High for the year | Euro | 105.50 | 74.80 | 61.30 | 53.50 | 34.08 |
| Low for the year | Euro | 43.30 | 42.20 | 42.00 | 28.93 | 25.03 |
| **Trading** | | | | | | |
| Number of shares traded (year) | # thousand | 15,339.1 | 11,360.1 | 12,587.7 | 14,894.2 | 9,419.3 |
| Number of shares traded (day) | # thousand | 59.9 | 44.9 | 48.2 | 57.1 | 36.1 |
| Trading volume (year) | Euro million | 797.1 | 668.9 | 591.0 | 590.6 | 282.6 |
| Trading volume (day) | Euro million | 3.054 | 2.623 | 2.548 | 2.492 | 1.095 |
| **Capital structure** | | | | | | |
| Number of shares | # thousand | 37,411.4 | 37,411.4 | 37,411.4 | 37,411.4 | 9,352.9 |
| Share capital | Euro million | 4.864 | 4.864 | 4.864 | 4.864 | 4.864 |
| Free Float | % | 53.4 | 53.4 | 53.4 | 52.8 | 42.0 |
| Market capitalization | Euro million | 3,565.3 | 2,598.2 | 1,650.0 | 1,727.3 | 1,103.6 |
| **Allocation of net income** | | | | | | |
| Earnings per share | Euro | 3.30 | 3.04 | 2.38 | 2.05 | 1.81 |
| Dividend [1] | Euro | 0.5600 | 0.5200 | 0.4000 | 0.3280 | 0.2875 |
| Dividend payment | Euro million | 20.950 | 19.454 | 16.835 | 12.271 | 10.756 |
| Dividend yield [2] | % | 0.59 | 0.75 | 1.0 | 0.8 | 1.0 |

1) Amount proposed for shareholder approval for 2020
2) Related to year-end closing price

## THE SHAREHOLDERS BASE

Following the placement of 2 million Reply shares via an accelerated book building procedure in June 2020, today 39.8% of the Reply shares are owned by the founders of Reply. Institutional shareholders owned 43% at the end of 2020 while retail shareholders owned 13% of the shares. The institutional shareholders' base of Reply saw some significant changes. US investors, the most important investor country in Reply, slightly reduced their ownership in Reply to 23% of institutional holdings versus 24% in the previous year. Italian investors increased and now rank number 2, owning around 16% (2019: 15%). French investors reduced their positions in Reply to 16% of the institutional shareholdings after 21% in 2019. The Nordics increased their position to 12% of the shares, coming from 10% in 2019.

## ANALYSTS

2020 saw a stable analyst coverage situation for the Reply share. 9 European analysts are currently commenting the Reply share.



## DIALOG WITH THE CAPITAL MARKETS

An active and open communication policy ensuring prompt and continuous information dissemination is a major component of the Reply IR strategy. In 2020 Reply maintained its high level of activities with the capital markets while the pandemic totally changed the communication channels. During 25 conferences and 4 roadshows Reply actively explained its equity story. Strong emphasis was laid on the US, UK, and Italian markets where Reply increased its investor contacts by 46%, 45% and 32% respectively. Newly, 87% of the investor meetings were held virtually, significantly reducing the road days of Investor Relations in Reply. The number of brokers who were involved in the IR activities of Reply reduced by 1 to 10 brokers in 2020. Our specialist and 2 other brokers (France, UK) were most active in working with Reply on investor targeting and communicating the value of the Reply story for shareholders.

# THE PARENT COMPANY REPLY S.P.A.

## INTRODUCTION

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2020 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 2020 the Parent Company had 93 employees (88 employees in 2019).
Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group's overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Pass-through revenues of the Income Statement set forth below.

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

| (THOUSAND EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Revenues from operating activities | 85,627 | 83,772 | 1,855 |
| Pass-through revenues | 458,481 | 464,569 | (6,088) |
| Purchases, services and other expenses | (508,829) | (513,660) | 4,830 |
| Personnel and related expenses | (25,956) | (22,681) | (3,275) |
| Other unusual operating (expenses)/income | 55 | (2,102) | 2,157 |
| Amortization, depreciation and write-downs | (1,978) | (1,379) | (599) |
| **Operating income** | **7,400** | **8,519** | **(1,119)** |
| Financial income/(expenses) | (7,278) | 9,709 | (16,986) |
| Gain on equity investments | 78,246 | 81,145 | (2,899) |
| Loss on equity investments | (4,540) | (8,583) | 4,043 |
| **Income before taxes** | **73,829** | **90,790** | **(16,961)** |
| Income taxes | (421) | (1,541) | 1,119 |
| **NET INCOME** | **73,407** | **89,249** | **(15,842)** |

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 35,433 thousand Euros (34,343 thousand Euros in the financial year 2019);
- shared service activities in favour of its subsidiaries for 33,777 thousand Euros (36,039 thousand Euros in the financial year 2019);
- management services for 11,656 thousand Euros (9,940 thousand Euros in the financial year 2019).

Operating income 2020 marked a positive result of 7,400 thousand Euros after having deducted amortization expenses of 1,978 thousand Euros (of which 176 thousand Euros referred to tangible assets, 1,368 thousand Euros to intangible assets and 434 thousand Euros related to RoU assets arising from the adoption of IFRS 16).
Financial expenses amounted to 7,278 thousand Euros and included interest income for 6,344 thousand Euros and interest expenses for 3,016 thousand Euros mainly relating to financing for the M&A operations and to the non-effective portion of the IRS. Such result also includes net negative exchange rate differences amounting to 10,506 thousand Euros.
Income from equity investments which amounted to 78,246 thousand Euros refers to dividends received from subsidiary companies in 2020.
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 2020, amounted to 73,407 thousand Euros after income taxes of 421 thousand Euros.

## FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2020, compared to that as at 31 December 2019, is provided below:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Tangible assets | 333 | 209 | 125 |
| Intangible assets | 6,733 | 4,749 | 1,985 |
| RoU assets | 755 | 722 | 33 |
| Equity investments | 144,528 | 142,119 | 2,409 |
| Other fixed assets | 6,576 | 5,893 | 683 |
| Non-current liabilities | (7,651) | (10,644) | 2,993 |
| **Fixed capital** | **151,274** | **143,048** | **8,227** |
| **Net working capital** | **31,845** | **6,471** | **25,374** |
| **INVESTED CAPITAL** | **183,119** | **149,519** | **33,600** |
| Shareholders' equity | 467,514 | 412,493 | 55,021 |
| Net financial position | (284,395) | (262,975) | (21,420) |
| **TOTAL SOURCES** | **183,119** | **149,519** | **33,600** |

The net invested capital on 31 December 2020, amounting to 183,119 thousand Euros, was funded by Shareholders' equity in the amount of 467,514 thousand Euros from Shareholders' equity and available overall funds of 284,395 thousand Euros.
Changes in balance sheet items are fully analysed and detailed in the explanatory notes to the financial statements.

## NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2020, compared to 31 December 2019, is detailed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Cash and cash equivalents, net | 184,012 | 161,331 | 22,682 |
| Financial assets to subsidiaries | 27,066 | 47,494 | (20,428) |
| Loans to third party | 283 | - | 283 |
| Due to banks | (10,552) | (16,327) | 5,775 |
| Due to subsidiaries | (145,699) | (79,449) | (66,251) |
| Financial liabilities IFRS 16 | (374) | (325) | (49) |
| **Net financial position short term** | **54,736** | **112,724** | **(57,988)** |
| Long term financial assets to subsidiaries | 248,067 | 174,517 | 73,550 |
| Due to banks | (18,024) | (23,871) | 5,847 |
| Financial liabilities IFRS 16 | (384) | (395) | 11 |
| **Net financial position long term** | **229,659** | **150,251** | **79,408** |
| **Total net financial position** | **284,395** | **262,975** | **21,420** |

Change in the net financial position is analysed 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.

| | 31/12/2020 | | 31/12/2019 | |
|---|---|---|---|---|
| **(THOUSAND EUROS)** | **NET EQUITY** | **NET INCOME** | **NET EQUITY** | **NET INCOME** |
| **Reply S.p.A.'s separate financial statements** | **467,514** | **73,407** | **412,493** | **89,249** |
| Results of the subsidiary companies, net of minority interest | 314,186 | 133,828 | 262,662 | 117,582 |
| Cancellation of the carrying value of investments in consolidated companies net of any write-offs | (85,668) | - | (75,864) | - |
| Cancellation of dividends from subsidiary companies | - | (87,749) | - | (81,145) |
| Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect | (19,156) | 4,720 | (8,892) | (9,096) |
| Non-controlling interests | (918) | (608) | (3,339) | (2,732) |
| **Net Group consolidated financial statement** | **675,957** | **123,598** | **587,061** | **113,858** |

# 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 July 2018 version, with the additions and amendments related to the specific characteristics of the Group. As of 2021, the new version of the Code to which the Company adheres as a STAR issuer is in force.

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, 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, related to 2020, is available on the Corporate Governance section of the website www.reply.com - Investors – Corporate Governance.
The Corporate Governance Code, both in July 2018 version and January 2020 one, is available on the website of Borsa Italiana S.p.A. www.borsaitaliana.it.

The Board of Directors, 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.
Pursuant to the law, the Remuneration Policy ad compensation adopted for the period 2020-2022, approved by the Board of Directors' meeting on March 13, 2020, is contained in the First Section of the Report on Remuneration and has been examined by the Shareholders meeting that approved the 2019 financial statements.

# DECLARATION OF NON-FINANCIAL DATA

The company, in accordance with the provisions of article 5 (3) (b) of Legislative Decree No 254/2016, has prepared the consolidated declaration of a non-financial nature which constitutes a separate report. The consolidated declaration of non-financial data 2020, drafted in accordance with the "GRI Standards" reporting standard, is available on the Group website www.reply.com.

# OTHER INFORMATION

## RESEARCH AND DEVELOPMENT ACTIVITIES

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

Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.
Reply dedicates resources to Research and Development activities in order to project and define highly innovative products and services as well as possible applications of evolving technologies. In this context, Reply has developed of its own platforms.
Reply has important partnerships with major global vendors so as to offer the most suitable solutions to different company needs. Specifically, Reply boasts the highest level of certification amongst the technology leaders in the Enterprise sector.

## HUMAN RESOURCES

Human resources constitute a primary asset for Reply which bases its strategy on the quality of products and services and places continuous attention on the growth of personnel and in-depth examination of professional necessities with consequent definitions of needs and training courses.
The Reply Group is comprised of professionals originating from the best universities and polytechnics. The Group intends to continue investing in human resources by bonding special relations and collaboration with major universities with the scope of attracting highly qualified personnel.
The people who work at Reply are characterized by enthusiasm, expertise, methodology, team spirit, initiative, the capability of understanding the context they work in and of clearly communicating the solutions proposed. The capability of imagining, experimenting and studying new solutions enables more rapid and efficient innovation.
The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.
At the end of 2020 the Group had 9,059 employees compared to 8,157 in 2019.

## GENERAL DATA PROTECTION REGULATION (GDPR)

The governance model of the Group privacy policy reflects what is required by the existing code for the protection of personal data and the European Regulation 679/16 (GDPR).
Privacy fulfilments are managed uniformly at the Reply Group level in order to maintain adequate levels of internal coherence and to facilitate external relations, in particular with authorities, customers and suppliers.
To ensure compliance the Group has adopted a GDPR program which provides several activities including:

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



## TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

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

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

## TREASURY SHARES

At the balance sheet date, the Parent Company holds 4,028 treasury shares amounting to 24,502 Euros, nominal value equal to 524 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount.
At the balance sheet date, the Company does not hold shares of other holding companies.

## FINANCIAL INSTRUMENTS

In relation to the use of financial instruments, the company has adopted a policy for risk management through the use of financial derivatives, with the scope of reducing the exposure to interest rate risks on financial loans.
Such financial instruments are considered as hedging instruments as they can be traced to the object being hedged (in terms of amount and expiry date).

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

# EVENTS SUBSEQUENT TO 31 DECEMBER 2020

The first months of 2021 were characterized by a resurgence of the pandemic that is still putting a strain on the economy, on society and on the very resilience of people. Despite the complexity of the situation, since the beginning of the year Reply has further consolidated its leadership on new technologies and digital transformation by investing in new skills and extending its geographical presence.

In this regard, it should be emphasized that the organizational structure (including the supplier ecosystem), the financial solidity of the Group, the diversification of the business in various countries, markets and industrial sectors, has allowed to act /react quickly, implementing locally all the actions necessary to minimize the impacts of the pandemic on operational activities.

# OUTLOOK ON OPERATIONS



The current scenario is constantly evolving and it is very difficult to make predictions about the future in the short and medium term. Reply's structure, due to its network characteristics, which give granularity, flexibility and territorial distribution, together with the widespread use of the most innovative communication technologies, guarantee the capability for reaction and rapid adaptation to minimize the impacts of the pandemic on the Group's business.

The past few months have, in any case, definitively changed the perception of technology by all companies. Today even the most traditional and conservative have realized that the digitization of processes, the cloud and artificial intelligence are indispensable to restart and be competitive in an increasingly connected and digital world.

This transformation is irreversible and, while dramatic for some, opens up new potential opportunities for companies like Reply. High-speed communication software infrastructure, e-commerce, new digital experiences and a strong push towards automation are, in fact, the founding elements of the economy in the coming years.

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

The financial statements at year end 2020 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 73,407,227 Euros and net shareholders' equity on 31 December 2020 amounted to 467,513,909 Euros thus formed:

| (IN EUROS) | 31/12/2020 |
|---|---|
| Share Capital | 4,863,486 |
| Legal reserve | 972,697 |
| Reserve for treasury shares on hand | 24,502 |
| Other reserves | 388,245,997 |
| **Total share capital and reserves** | **394,106,682** |
| Net income | 73,407,227 |
| **Total** | **467,513,909** |

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2020 showing a net result of 73,407,227 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 73,407,227 Euros;
- to approve the motion to allocate the net result of 73,407,227 as follows:
  - a unit dividend to shareholders amounting to 0,56 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 5 May 2021, coupon cut-off date 3 May 2021 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 4 May 2021;
  - having the Legal reserve reached the limit of one fifth of the share capital pursuant to article 2430 of the Italian Civil Code, the residual amount to be allocated to the Retained earnings reserve;

- to approve, pursuant to Article 22 of the Articles of association, the proposal of the Remuneration Committee to distribute to Directors entrusted with operational powers, a shareholding of the profits of the Parent Company, to be established in the amount of 3,150,000.00 Euros.

Turin, 15 March 2021
/s/ Mario Rizzante
For the Board of Directors
The Chairman
**Mario Rizzante**

# CONSOLIDATED FINANCIAL STATEMENT AS AT 31 DECEMBER 2020

# CONSOLIDATED INCOME STATEMENT (*)

| (THOUSAND EUROS) | NOTE | 2020 | 2019 |
|---|---|---|---|
| Revenues | 5 | 1,250,191 | 1,182,528 |
| Other income | 6 | 19,405 | 23,159 |
| Purchases | 7 | (21,510) | (21,250) |
| Personnel | 8 | (621,362) | (578,263) |
| Service costs | 9 | (419,235) | (414,077) |
| Amortization, depreciation and write-downs | 10 | (42,441) | (37,239) |
| Other operating and non-recurring (cost)/ income | 11 | 4,484 | 466 |
| **Operating income** | | **169,531** | **155,324** |
| (Loss)/gain on investments | 12 | 1,240 | 11,364 |
| Financial income/(expenses) | 13 | (8,717) | (5,268) |
| **Income before taxes** | | **162,054** | **161,419** |
| Income taxes | 14 | (37,848) | (44,829) |
| **Net income** | | **124,206** | **116,590** |
| Non-controlling interest | | (608) | (2,732) |
| **Group net result** | | **123,598** | **113,858** |
| *Earnings per share and diluted* | *15* | *3.30* | *3.04* |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (THOUSAND EUROS) | NOTE | 2020 | 2019 |
|---|---|---|---|
| **Profit of the period (A)** | | **124,206** | **116,590** |
| Other comprehensive income that will not be reclassified subsequently to profit or loss: | | | |
| Actuarial gains/(losses) from employee benefit plans | | (887) | (3,043) |
| **Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):** | **28** | **(887)** | **(3,043)** |
| Other comprehensive income that may be reclassified subsequently to profit or loss: | | | |
| Gains/(losses) on cash flow hedges | | 1,089 | (1,157) |
| Gains/(losses) on exchange differences on translating foreign operations | | (14,254) | 4,347 |
| **Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):** | | **(13,165)** | **3,190** |
| **Total other comprehensive income, net of tax (B) = (B1) + (B2):** | **28** | **(14,052)** | **147** |
| **Total comprehensive income (A)+(B)** | | **110,154** | **116,737** |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 109,546 | 114,005 |
| Non-controlling interests | | 608 | 2,732 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

| (THOUSAND EUROS) | NOTE | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| Tangible assets | 17 | 51,782 | 48,298 |
| Goodwill | 18 | 330,749 | 267,541 |
| Intangible assets | 19 | 25,758 | 13,676 |
| RoU Assets | 20 | 137,645 | 90,569 |
| Equity investments | 21 | 56,421 | 56,991 |
| Other financial assets | 22 | 9,577 | 7,567 |
| Deferred tax assets | 23 | 52,921 | 33,527 |
| **Non-current assets** | | **664,852** | **518,170** |
| Inventories | 24 | 79,784 | 75,328 |
| Trade receivables | 25 | 344,700 | 432,240 |
| Other receivables and current assets | 26 | 81,306 | 39,566 |
| Financial assets | 22 | 2,108 | 1,666 |
| Cash and cash equivalents | 22, 27 | 333,819 | 240,943 |
| **Current assets** | | **841,716** | **789,743** |
| **TOTAL ASSETS** | | **1,506,568** | **1,307,913** |
| Share Capital | | 4,863 | 4,863 |
| Other reserves | | 546,578 | 465,000 |
| Net result of the period | | 123,598 | 113,858 |
| **Group shareholders' equity** | **28** | **675,039** | **583,722** |
| Non-controlling interest | 28 | 918 | 3,339 |
| **NET EQUITY** | **28** | **675,957** | **587,061** |
| Due to minority shareholders and Earn-out | 29 | 53,010 | 38,395 |
| Financial liabilities | 30 | 20,387 | 26,857 |
| Financial liabilities from RoU | 30 | 118,796 | 71,710 |
| Employee benefits | 31 | 46,112 | 43,355 |
| Deferred tax liabilities | 32 | 16,117 | 19,810 |
| Provisions | 33 | 10,753 | 8,897 |
| **Non-current liabilities** | | **265,174** | **209,025** |
| Due to minority shareholders and Earn-out | 29 | 18,370 | 13,073 |
| Financial liabilities | 30 | 13,629 | 18,557 |
| Financial liabilities from RoU | 30 | 24,453 | 20,454 |
| Trade payables | 34 | 114,149 | 119,951 |
| Other current liabilities | 35 | 394,110 | 339,113 |
| Provisions | 33 | 724 | 680 |
| **Current liabilities** | | **565,437** | **511,828** |
| **TOTAL LIABILITIES** | | **830,611** | **720,853** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,506,568** | **1,307,913** |

(*)Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Statement of Financial Position are reported in the annexed Tables and further described in Note 38.

# 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 2019** | **4,863** | **(25)** | **72,836** | **421,950** | **(1,372)** | **(10,081)** | **(2,874)** | **1,315** | **486,612** |
| Dividends distributed | - | - | - | (16,883) | - | - | - | (787) | (17,620) |
| Increase for acquisition of treasury shares | - | - | 50,000 | (50,000) | - | - | - | - | - |
| Total profit (loss) | - | - | - | 113,858 | (1,157) | 4,347 | (3,043) | 2,732 | 116,737 |
| Other changes | - | - | - | 1,253 | - | - | - | 79 | 1,332 |
| **On 31 December 2019** | **4,863** | **(25)** | **122,836** | **470,228** | **(2,529)** | **(5,735)** | **(5,916)** | **3,339** | **587,061** |

| (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 2020** | **4,863** | **(25)** | **122,836** | **470,228** | **(2,529)** | **(5,735)** | **(5,916)** | **3,339** | **587,061** |
| Dividends distributed | - | - | - | (20,093) | - | - | - | (798) | (20,891) |
| Increase for acquisition of treasury shares | - | - | 76,697 | (76,697) | - | - | - | - | - |
| Total profit (loss) | - | - | - | 123,598 | 1,089 | (14,254) | (887) | 608 | 110,154 |
| Other changes | - | - | - | 1,865 | - | - | - | (2,231) | (366) |
| **On 31 December 2020** | **4,863** | **(25)** | **199,533** | **498,899** | **(1,440)** | **(19,989)** | **(6,803)** | **918** | **675,957** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| (THOUSAND EUROS) | 2020 | 2019 |
|---|---|---|
| Group net income | 123,598 | 113,858 |
| Income taxes | 37,848 | 44,829 |
| Amortization and depreciation | 42,441 | 37,239 |
| Other non-monetary expenses/(income) | (9,417) | (10,351) |
| Change in inventories | (4,455) | 1,733 |
| Change in trade receivables | 87,540 | 6,185 |
| Change in trade payables | (5,802) | (7,108) |
| Change in other assets and liabilities | 2,738 | 55,532 |
| 51Income tax paid | (44,829) | (38,230) |
| Interest paid | (788) | (1,175) |
| Interest collected | 154 | 281 |
| **Net cash flows from operating activities (A)** | **229,028** | **202,793** |
| Payments for tangible and intangible assets | (16,366) | (16,600) |
| Payments for financial assets | (3,019) | (3,399) |
| Payments for RoU assets | - | (23,850) |
| Payments for the acquisition of subsidiaries net of cash acquired | (57,166) | (12,157) |
| **Net cash flows from investment activities (B)** | **(76,550)** | **(56,006)** |
| Dividends paid | (20,891) | (17,620) |
| In payments from loans | 1,457 | 2,800 |
| Financial liabilities for leasing | (26,506) | 2,386 |
| Repayment of loans | (13,609) | (17,264) |
| **Net cash flows from financing activities (C)** | **(59,549)** | **(29,698)** |
| **Net cash flows (D) = (A+B+C)** | **92,929** | **117,090** |
| Cash and cash equivalents at the beginning of period | 239,571 | 122,481 |
| Cash and cash equivalents at period end | 332,500 | 239,571 |
| **Total change in cash and cash equivalents (D)** | **92,929** | **117,090** |

**DETAIL OF CASH AND CASH EQUIVALENTS**

| (THOUSAND EUROS) | 2020 | 2019 |
|---|---|---|
| **Cash and cash equivalents at beginning of period:** | **239,571** | **122,481** |
| Cash and cash equivalents | 240,943 | 128,060 |
| Bank overdrafts | (1,372) | (5,578) |
| **Cash and cash equivalents at period end:** | **332,500** | **239,571** |
| Cash and cash equivalents | 333,819 | 240,943 |
| Bank overdrafts | (1,320) | (1,372) |

# NOTES TO THE FINANCIAL STATEMENTS

| | | |
|---|---|---|
| **STATEMENT OF FINANCIAL POSITION - LIABILITIES AND EQUITY** | NOTE 28 | Shareholders' equity |
| | NOTE 29 | Due to minority shareholders and Earn-out |
| | NOTE 30 | Financial liabilities |
| | NOTE 31 | Employee benefits |
| | NOTE 32 | Deferred tax liabilities |
| | NOTE 33 | Provisions |
| | NOTE 34 | Trade payables |
| | NOTE 35 | Other current liabilities |
| **OTHER INFORMATION** | NOTE 36 | Segment Reporting |
| | NOTE 37 | Additional disclosures to financial instruments and risk management policies |
| | NOTE 38 | Transactions with related parties |
| | NOTE 39 | Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities |
| | NOTE 40 | Guarantees, commitments and contingent liabilities |
| | NOTE 41 | Events subsequent to 31 December 2020 |
| | NOTE 42 | Approval of the Consolidated financial statements and authorization to publish |

## NOTE 1 - GENERAL INFORMATION

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

## NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

### COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

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

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

### GENERAL PRINCIPLES

The consolidated financial statement is prepared on the basis of the historic cost principle, modified as requested for the appraisal of some financial instruments for which the fair value criterion is adopted in accordance with IFRS 9.
The consolidated financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist with regards its ability to continue as a going concern.
These consolidated financial statements are expressed in thousands of Euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.
Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

## FINANCIAL STATEMENTS

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

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

The Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
It should be noted that in order to comply with the indications contained in Consob Resolution no. 15519 of 27 July 2006 "as to the format of the financial statements", additional statements: income statement and statement of financial position have been added showing the amounts of related party transactions.

## BASIS OF CONSOLIDATION

### SUBSIDIARIES

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year and consolidated on a line-by-line basis.
The Consolidated Financial Statements comprise the financial statements of the parent Company Reply S.p.A. and those of its subsidiaries, being those entities over which the Company has control, either directly or indirectly, through exposure or rights to their variable returns and the ability to affect those returns through its power over the investees. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee's returns.
Subsidiaries are consolidated, on the basis of consistent accounting policies, from the date on which control is obtained until the date that control ceases. Assets, liabilities, income and expenses of consolidated subsidiaries are fully recognized with those of the parent in the Consolidated Financial Statements; the parent's investment in each subsidiary is eliminated against the corresponding parent's portion of equity of each subsidiary.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Non-controlling interest is stated separately with respect to the Group's net equity. Such Non-controlling interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post-acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority

interest also when net equity attributable to minority interests has a negative balance.
Difference arising from translation of equity at historical exchange rates and year-end exchange rates are recorded at an appropriate reserve of the consolidated shareholders’ equity.

### TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

### BUSINESS COMBINATIONS

Business combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is the sum of the acquisition-date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer. Acquisition-related costs are accounted for as expenses when incurred.
The acquirer shall measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values, unless another measurement basis is required by IFRSs. The excess of the consideration transferred over the Group’s share of the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed is recognized, in the balance sheet, as goodwill; conversely, a gain on a bargain purchase is recognized in the profit and loss account.
Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognized.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

### INVESTMENTS IN ASSOCIATE COMPANIES

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.
Where a group company transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group’s interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.
With regard to investments in associated companies held, either directly or indirectly through venture capital or similar entities, in order to realize capital gains, these are carried at fair value. This treatment is permitted by IAS 28 "Investments in Associates", which requires that these investments are excluded from its scope

and are designated, from the time of initial recognition, at fair value through profit or loss and accounted for in accordance with IFRS 9 "Financial instruments: recognition and measurement "and any change therein is recognized in profit and loss.

### FOREIGN CURRENCY TRANSACTIONS

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

### CONSOLIDATION OF FOREIGN ENTITIES

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

The following table summarizes the exchange rates used in translating the 2020 and 2019 financial statements of the foreign companies included in consolidation:

| | AVERAGE 2020 | ON 31 DECEMBER 2020 | AVERAGE 2019 | ON 31 DECEMBER 2019 |
|---|---|---|---|---|
| GBP | 0.8897 | 0.89903 | 0.87777 | 0.8508 |
| Brazilian Real | 5.8943 | 6.3735 | 4.4134 | 4.5157 |
| Rumanian Leu | 4.8383 | 4.8683 | 4.7453 | 4.783 |
| Belarusian Rubble | 2.7928 | 3.1646 | 2.3414 | 2.3687 |
| US Dollar | 1.1422 | 1.2271 | 1.1195 | 1.1234 |
| Chinese Yuan | 7.8747 | 8.0225 | 7.7355 | 7.8205 |
| Polish Zloty | 4.443 | 4.5597 | 4.2976 | 4.2568 |
| Kuna | 7.5384 | 7.5519 | 7.418 | 7.4395 |

## TANGIBLE ASSETS

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

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

| | |
|---|---|
| Buildings | 6% |
| Equipment | 15% - 30% |
| Plants | 20% - 40% |
| Hardware | 40% |
| Furniture and fittings | 12% - 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.

**ROU ASSETS**

According to IFRS 16, the accounting representation of leases (which do not establish the provision of services) takes place through the inclusion in the financial position of a financial liability, represented by the present value of future rents, against the inclusion in the assets of the 'right of use of the leased asset'.
Leases that were previously accounted for under IAS 17 as financial leases, have not changed compared to the current accounting representation, in full continuity with the past.

Contracts that are within the scope of IFRS 16 relate mainly to:

- land and buildings for office use;
- long term car-rental.

With reference to the options and exemptions provided by IFRS 16, the Group has made the following choices:

- IFRS 16 is not generally applied to intangible assets, short-term contracts (i.e. less than 12 months) and low unit value;
- rights of use and financial liabilities relating to leasing contracts are classified under specific items in the financial position;
- any component relating to the services included in the leasing fees is generally excluded from IFRS 16.

**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 on the following basis:

| | |
|---|---|
| Development costs | 33% |
| Software | 33% |
| Customer list (PPA) | 10% |

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

### INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

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

### IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
The recoverable amount of an asset is the higher of fair value, less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Its value in use is determined net of tax in that this method produces values largely

equivalent to those obtained by discounting cash flows net of tax at a pre-tax discount rate derived, through an iteration, from the result of the post-tax assessment. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets deriving from ongoing use, the so-called Cash generating unit.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where the value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.
Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognized for the asset. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



**INVESTMENTS IN OTHER COMPANIES**

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

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

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

**CURRENT AND NON-CURRENT FINANCIAL ASSETS**

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

(i) financial assets measured at amortized cost;
(ii) financial assets measured at fair value through other comprehensive income (hereinafter also OCI);
(iii) financial assets measured at fair value through profit or loss.

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

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

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

The accumulated changes in fair value, recognized in the equity reserve related to other comprehensive income, is reclassified to the profit and loss account when the financial asset is derecognized. A financial asset represented by a debt instrument that is neither measured at amortized cost nor at FVTOCI, is measured at fair value through profit or loss (hereinafter FVTPL); financial assets held for trading fall into this category. Interest income on assets held for trading contributes to the fair value measurement of the instrument and is recognized in "Finance income (expense)", within "Net finance income (expense) from financial assets held for trading".
When the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, the transaction is accounted for on the settlement date.

**TRANSFER OF FINANCIAL ASSETS**

The Group removes financial assets from its balance sheet when, and only when, the contractual rights to the cash flows from the assets expire or the Group transfers the financial asset. In the case of transfer of the financial asset

- if the entity substantially transfers all the risks and rewards of ownership of the financial asset, the Group removes the asset from the balance sheet and recognizes separately as assets or liabilities any rights and obligations created or retained with the transfer;
- if the Group substantially retains all the risks and rewards of ownership of financial assets, it continues to recognize the financial asset;

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

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

**WORK IN PROGRESS**

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.

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

**TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES**

Trade receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

**CASH**

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

**TREASURY SHARES**

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

**FINANCIAL LIABILITIES AND EQUITY INVESTMENTS**

Financial liabilities and equity instruments issued by the Group are presented according to their substance arising from their contractual obligations and in accordance with the definitions of financial liabilities and equity instruments. The latter are defined as those contractual obligations that give the right to benefit in the residual interests of the Group's assets after having deducted its liabilities.
Financial liabilities, other than derivative instruments, are presented initially at fair value of the sums collected, corrected to any transaction costs directly attributable, and subsequently valued at amortized cost using the effective interest criterion. For short-term liabilities, such as commercial debts, the amortized cost actually coincides with the nominal value.

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

- Bank borrowings

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

- Equity instruments

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

- Non-current financial liabilities.

Liabilities are stated according to the amortization cost.

**DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS**

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately in the Income Statement.

If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

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

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

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

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

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

### EMPLOYEE BENEFITS

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

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

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

### PENSION PLANS

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

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

The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the “ongoing single premiums” method. The portion of net cumulative actuarial gains and losses which exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.

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

### SHARE-BASED PAYMENT PLANS

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

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



### PROVISIONS AND RESERVES FOR RISKS

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

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

### REVENUE RECOGNITION

Revenues represent the gross flows of economic benefits for the year deriving from the performance of the ordinary business.

Revenue from contracts with customers is recognized on the basis of the following steps pursuant to IFRS 15:

- identifying the contract with the customer: this happens when the parties approve the contract and identify their respective rights and obligations. In other words, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified and the company considers probably to receive the payment;
- identifying the *performance obligations*: the main performance obligation identified, or transfer goods and/or services to a customer;

- determining the *transaction price*: is the total amount established with the customer, related to the entire contract period;
- allocating the transaction price to each performance obligation;
- recognizing revenue when (or as) a performance obligation is satisfied.

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

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

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

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

## GOVERNMENT GRANTS

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

## TAXATION

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognized to Shareholders' equity.

## DIVIDENDS

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

## EARNINGS PER SHARE

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

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

## NEW STANDARD ADOPTED

New standards adopted by the Group and related effects are described in the paragraph “New standards, interpretations and amendments adopted since January 1st, 2020”. No other changes beyond those described in the above paragraph.

## ESTIMANTIONS CHANGES AND RECLASSIFICATIONS

It should be noted that at the balance sheet date there are no significant estimates related to uncertain future events and other causes of uncertainty that may cause significant adjustments to the values of assets and liabilities within the following year.

It should further be noted that, for a better representation and comparability, in the preparation of the consolidated financial statements the comparative values of the item Due to minority shareholders and Earn-out have been reclassified for the short-term amount in the caption current liabilities.

## USE OF ESTIMATIONS

The preparation of the Financial Statements and relative notes under IFRS requires that management makes estimates and assumptions based also on subjective judgments, past experiences and assumptions considered reasonable and realistic in relation to the information at the time of estimation. These estimates shall affect items reported in the consolidated financial balance sheet and income statement and the disclosure of contingent assets and liabilities. The results of the financial statements may differ, even significantly, from these estimates as a result of possible changes in the factors considered in the determination of these estimates. Estimates are periodically reviewed.

The estimates are mainly referred to:

- goodwill
- equity investments
- trade receivables
- business combinations and due to minority shareholders
- leasing liabilities and RoU assets
- provisions, contingent liabilities and employee funds
- derivative instruments and equity instruments.

Pursuant to IAS 8 (Accounting Standards, changes in accounting estimates and errors) paragraph 10, in the absence of a principle or interpretation applicable specifically to a certain transaction, Management defines, through subjective assessments, the accounting methodologies to be adopted in order to provide a financial statements that faithfully represent the financial position, the economic result and the financial flows of the Group, reflects the economic substance of the operations, is neutral, drafted on a prudential basis and comprehensive in all relevant aspects.

## NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED SINCE JANUARY 1ST, 2020

The Group adopted for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.
The nature and the impact of each amendment is described below:

### IAS 1 AND IAS 8: DEFINITION OF MATERIALITY

On November 29, 2019, the European Union has published the Regulation no. 2019/2104 which amended to its definition of material in IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates.

### AMENDEMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARD

On November 29, 2019 the European Union has published the Commission Regulation no. 2019/2075 endorsing 'Amendments to References to the Conceptual Framework in IFRS Standards'.

### AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7

On January 15, 2020 the European Union has published the Commission Regulation no. 2020/34 that issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

### IFRS 3 – BUSINESS COMBINATIONS

On April 21 2020 the European Commission published the Commission Regulation no. 2020/551 that issued amendments to IFRS 3 - Business Combinations which change the definition of a business.

### COVID-19 RELATED RENT CONCESSIONS (AMENDMENT TO IFRS 16)

On May 28, 2020, the IASB issued an amendment to IFRS 16 - Leases to make it easier for lessees to account for COVID-19 related rent concessions such as rent holidays and temporary rent reductions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications.

The adoption of these amendments/interpretations had no impact on the Financial Statements ad December 31, 2020.

**STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**Amendments to IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current:** on January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1), which affects the requirements in IAS 1 for the presentation of liabilities, including clarifying one of the criteria for classifying a liability as non-current. More specifically the amendments issued (i) the conditions existing at the end of the period are those to be used to determine whether there is a right to defer the settlement of a liability; (ii) management expectations regarding events after the balance sheet date are not relevant; (iii) clarify situations which are considered to be the settlement of a liability. The IASB deferred the effective date of this amendment to January 1, 2023.

**Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"**: they specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, including both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. These amendments are effective retrospectively from January 1, 2022.

**Amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use":** they prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifying the meaning of "testing whether an asset is functioning properly". These amendments are effective retrospectively from January 1, 2022.

**Amendments to IFRS 3 "Reference to the Conceptual Framework"**: the amendments to IFRS 3 – Business combinations update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. These amendments are effective on or after January 1, 2022.

**Annual Improvements to IFRS Standards 2018- 2020 Cycle**

On May 14, 2020 the IASB issued the Annual Improvements to IFRS 2018-2020 Cycle. The most important topics addressed in these amendments are: (i) on IFRS 9 - Financial Instruments clarifying which fees an entity includes when it applies the "10 per cent" test in assessing whether to derecognize a financial liability; and (ii) on IFRS 16 - Leases removing the illustration of the reimbursement of leasehold improvements. These improvements are effective from January 1, 2022.

**IFRS 17 – Insurance Contracts:** on May 18, 2017 the IASB issued IFRS 17 – Insurance Contracts that will replace IFRS 4 – Insurance contracts. The new principle for the recognition, measurement, presentation and disclosure of insurance contracts issued as well as guidance relating to reinsurance contracts held and investment contracts with discretionary participation features issued. The new standard and amendments are effective on or after January 1, 2022.

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



## NOTE 3 - RISK MANAGEMENT

### CREDIT RISK

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

### LIQUIDITY RISK

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.
The cash flows, funding requirements and liquidity of the Group companies are monitored and centrally managed under the control of the Group Treasury. The aim is to guarantee the efficiency and effectiveness of the management of current and perspective capital resources (maintaining an adequate level of reserves of liquidity and availability of funds via a suitable amount of committed credit lines).
The difficult economic situation of the markets and of financial markets necessitates special attention being given to the management of the liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and maintaining an adequate level of liquid assets. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

### EXCHANGE RATE AND INTEREST RATE RISK

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

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

## NOTE 4 - CONSOLIDATION

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

Change in consolidation compared to 31 December 2019 are related to:

- Sagepath LLC, a company acquired in the month of August 2020 under American law of which Reply Inc. holds 70% of share capital, specializing in digital transformation with skills in strategy, design and technology;
- Brightknight SA, a company acquired in the month of September 2020 under Belgium law of which Reply Ltd. holds 100% of share capital, specializing in Robotic Process Automation;
- Airwalk Holdings Ltd. and its subsidiaries, companies acquired in the month of November 2020 under English law of which Reply Ltd. holds 100% of share capital, specializing in innovative services based on design and consulting models declined according to the paradigms of Cloud Computing;
- Mansion House Consulting Ltd. and its subsidiaries, companies acquired in the month of December 2020 under English law of which Reply Ltd. holds 100% of share capital, specializing in digital transformation in the financial field.

Change in the consolidation does not significantly affect the Group's revenues and profits before tax on 31 December 2020 (approximately 1.1% on consolidated revenues and 0.6% on profits before tax).
Furthermore, the list of the Reply Group companies, presented as an annex herein include the start-up companies, Avvio Reply S.r.l., Autonomus Reply GmbH, Concept Reply LLC, Laife Reply GmbH, Red Reply GmbH and WM Reply Ltd.

It is to be noted that on 26 June 2020 Reply sold the investment in Lem to a third party.

## NOTE 5 - REVENUE

Revenues from sales and services, including changes in work in progress on orders, amounted to 1,250,191 thousand Euros (1,182,528 thousand Euros in 2019).
This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.

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

| **REGION (*)** | **2020** | **2019** |
|---|---|---|
| Region 1 | 67.7% | 67.2% |
| Region 2 | 21.3% | 22.7% |
| Region 3 | 11.0% | 10.0% |
| IoT Incubator | 0.0% | 0.1% |
| **Total** | **100.0%** | **100.0%** |

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

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

## NOTE 6 - OTHER REVENUES

Other revenues, amounted to 19,405 thousand Euros (23,159 thousand Euros in 2019), refer to miscellaneous income, non-recurring income, insurance reimbursement and R&D contributions.

## NOTE 7 - PURCHASES

Detail is as follows:

| (THOUSAND EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Software licenses for resale | 16,364 | 12,334 | 4,030 |
| Hardware for resale | 1,053 | 2,707 | (1,654) |
| Other | 4,093 | 6,209 | (2,116) |
| **Total** | **21,510** | **21,250** | **260** |

Purchases of Software licenses and Hardware licenses for resale are recognized net of any change in inventory.
The item Other includes the purchase of fuel for 1,630 thousand Euros and the purchase of consumption material for 878 thousand Euros.

## NOTE 8 - PERSONNEL

Detail is as follows:

| (THOUSAND EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Payroll employees | 590,176 | 541,522 | 48,653 |
| Executive Directors | 31,187 | 36,740 | (5,554) |
| **Total** | **621,362** | **578,263** | **43,099** |

The increase in the cost of employees, amounting to 43,099 thousand Euros, is attributable to the increase in employees.
Detail of personnel by category is provided below:

| (NUMBER) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Directors | 320 | 276 | 44 |
| Managers | 1,115 | 990 | 125 |
| Staff | 7,624 | 6,891 | 733 |
| **Total** | **9,059** | **8,157** | **902** |

On 31 December 2020 the Group had 9,059, employees compared with 8,157 at the end of 2019.
Change in consolidation brought an increase of 197 employees.
The average number of employees in 2020 was 8,578 marking an increase with respect to 7,915 in the previous year.
Employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Universities.

## NOTE 9 - SERVICE COSTS

Service costs comprised the following:

| (THOUSAND EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Commercial and technical consulting | 250,455 | 269,559 | (19,104) |
| Travelling and professional training expenses | 20,531 | 44,167 | (23,636) |
| Other services costs | 63,239 | 69,307 | (6,068) |
| Office expenses | 13,266 | 14,869 | (1,603) |
| Lease and rentals | 3,852 | 4,333 | (481) |
| Other | 67,892 | 11,840 | 56,051 |
| **Total** | **419,235** | **414,077** | **5,158** |

The change in Service costs, amounting to 5,158 thousand Euros, is analytically reported in the table above.

It is to be noted that the change in the item Other is mainly attributable to an extraordinary accrual that management considered necessary subsequent to the economic effects in relation to COVID-19 with contra-entry offsetting working capital items.

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

Office expenses include services rendered by related parties referred to service contracts for the use of premises, domiciliation and provision of secretarial services for 814 thousand Euros and rent charged by third parties for 1,419 thousand Euros, utility costs for 7,039 thousand Euros, cleaning expenses for 1,965 thousand Euros and maintenance expenses for 730 thousand Euros.

## NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE DOWNS

Depreciation of tangible assets, calculated on the basis of economic-technical rates determined in relation to the residual useful lives of the assets, resulted in an overall charge as at 31 December 2020 of 10,059 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization of intangible assets for the year ended 2020 amounted to an overall loss of 5,784 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization related to RoU assets arising from the adoption of IFRS 16 amounted to 26,598 thousand Euros.

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

Other operating and non-recurring net income, related to events and transactions that do not occur in the regular course of business, amounted to 4,484 thousand Euros (466 thousand Euros in 2019) and refer to:

- a positive charge of 448 thousand Euros in relation to provisions for risks and charges for contractual, commercial and legal disputes and to provisions made to adjust asset items;
- a positive charge of 4,036 thousand Euros in relation to the fair value adjustment of the liability referred to the deferred consideration for the acquisition of shareholdings in subsidiary companies (Business combination).

## NOTE 12 - (LOSS)/GAIN ON INVESTMENTS

This item amounting to positive 1,240 thousand Euros is related to the fair value adjustments to equity investments in start-up companies made by the Investment company Breed Investments Ltd. and more specifically to:

- positive fair value adjustments for 8,578 thousand Euros;
- impairment of investments in the amount of negative 7,338 thousand Euros.

## NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

| (THOUSAND EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Financial income | 888 | 533 | 355 |
| Interest expenses | (1,501) | (1,500) | (1) |
| Other | (8,103) | (4,301) | (3,801) |
| **Total** | **(8,717)** | **(5,268)** | **(3,448)** |

Financial gains mainly include interest on bank accounts amounting to 154 thousand Euros and interest on tax refunds amounting to 486 thousand Euros.
Interest expenses mainly include expenses related to loans for M&A operations.

The item Other includes:

- the interest expenses arising from the adoption of the new International Accounting Standard IFRS 16 for 2,976 thousand Euros (2,231 thousand Euros at 31 December 2019);
- the Exchange rate differences from the translation of balance sheet items not stated in Euros resulted in a net loss of 161 thousand Euros (positive 192 thousand Euros at 31 December 2019);
- the changes in fair value of financial liabilities pursuant to IFRS 9 recorded a net loss of 4,096 thousand Euros (negative 2,285 thousand Euros at 31 December 2019);
- the net changes in fair value of Convertible Loans including capitalized interest amounting to negative 469 thousand Euros (positive 54 thousand Euros at 31 December 2019).

## NOTE 14 - INCOME TAXES

Income taxes for the financial year ended 2020 amounted to 37,848 thousand Euros and are detailed as follows:

| (THOUSAND EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| IRES and other taxes | 60,656 | 43,028 | 17,628 |
| IRAP (Italy) | 7,876 | 6,968 | 908 |
| **Current taxes** | **68,532** | **49,996** | **18,536** |
| Deferred tax expenses | (7,277) | 2,184 | (9,461) |
| Deferred tax income | (20,459) | (7,200) | (13,259) |
| **Deferred taxes** | **(27,736)** | **(5,016)** | **(22,721)** |
| Corporate tax - previous years | (2,947) | (151) | (2,797) |
| **Total income taxes** | **37,848** | **44,829** | **(6,981)** |

The tax burden on the result before taxes was equivalent to 23.4% (27.8% in the financial year of 2019).

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** | **162,054** | |
|---|---|---|
| Theoretical income taxes | 38,893 | **24.0%** |
| Effect of fiscal permanent differences | (9,027) | |
| Effect of difference between foreign tax rates and the theoretical Italian tax rate | 1,503 | |
| Other differences | (1,397) | |
| **Current and deferred income tax recognized in the financial statement excluding IRAP** | **29,972** | **18.5%** |
| IRAP current and deferred | 7,876 | 4.9% |
| **Current and deferred income recognized in the financial statements** | **37,848** | **23.4%** |

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

## NOTE 15 - EARNINGS PER SHARE

The basic and diluted earnings per share as at 31 December 2020 was calculated on the basis of the Group's net result amounting to 123,598 thousand Euros (113,858 thousand Euros as at 31 December 2019) divided by the weighted average number of shares, net of treasury shares, as at 31 December 2020 which amounted to 37,407,400 (37,407,400 as at 31 December 2019).

| (EUROS) | 2020 | 2019 |
|---|---|---|
| Group net result | 123,598,000 | 113,858,000 |
| Average no. shares | 37,407,400 | 37,407,400 |
| Earnings per share | 3.30 | 3.04 |

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

## NOTE 16 - OTHER INFORMATION

Disclosure on the transparency of public disbursements required by Article 1, paragraph 125 of Law 124/2017
Pursuant to Article 1, paragraph 125 of Law 124/2017, the Group has received the following public contributions from Italian entities in 2020:

### SERVICES RENDERED

| ENTITY | AMOUNT |
|---|---|
| Azienda regionale per l'innovazione e gli acquisti | 12,660 |
| Ente pubblico | 7,512 |
| Previdenza sociale | 1,453 |
| Agenzia delle entrate-riscossione | 1,164 |
| Ministries | 1,036 |
| Ente pubblico nazionale di ricerca | 945 |
| Foundations | 928 |
| Azienda socio sanitaria territoriale | 890 |
| Banks | 849 |
| Universities | 713 |
| Azienda zero | 539 |
| Agenzia di tutela della salute regionale | 486 |
| Anas s.p.a. | 323 |
| Regioni e province | 261 |
| Azienda ulss | 189 |
| Agenzia trasporto pubblico | 149 |
| Agenzia regionale strategica per lo sviluppo ecosostenibile del territorio | 65 |
| Agenzia regionale per la protezione dell'ambiente | 56 |
| Municipals | 46 |
| Arpa-agenzia regionale protezione ambiente | 41 |
| Azienda ospedaliero-universitaria | 33 |
| Azienda per il trasporto pubblico locale | 10 |
| Anpal - agenzia nazionale per le politiche attive del lavoro | 5 |
| **Total** | **30,353** |

### CONTRIBUTIONS

| ENTITY | AMOUNT |
|---|---|
| Commission europeenne | 1,034 |
| EIT Digital Italy | 517 |
| ESA | 124 |
| MIUR | 449 |
| Programma Operativo Nazionale | 659 |
| Regione Piemonte | 247 |
| **Total** | **3,031** |

The beneficiary companies are: Reply S.p.A., Consorzio Reply Public Sector, Santer Reply S.p.A., Eos Reply S.r.l., Storm Reply S.r.l., Tamtamy Reply S.r.l., Discovery S.r.l., Xister S.r.l., Cluster Reply S.r.l., Forge Reply S.r.l., Go Reply S.r.l., Technology Reply S.r.l. and Whitehall Reply S.r.l. For further details, please refer to the individual company's 2020 annual report.

## NOTE 17 - TANGIBLE ASSETS

Tangible assets as at 31 December 2020 amounted to 51,782 thousand Euros and are detailed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Buildings | 22,070 | 20,878 | 1,192 |
| Plant and machinery | 6,219 | 5,152 | 1,067 |
| Hardware | 6,470 | 6,403 | 68 |
| Other | 17,022 | 15,865 | 1,158 |
| **Total** | **51,782** | **48,298** | **3,485** |

Change in tangible assets during 2020 is summarized below:

| (THOUSAND EUROS) | BUILDINGS | PLANT AND MACHINERY | HARDWARE | OTHER | TOTAL |
|---|---|---|---|---|---|
| Historical cost | 23,733 | 13,944 | 41,187 | 36,775 | 115,640 |
| Accumulated depreciation | (2,855) | (8,792) | (34,784) | (20,911) | (67,342) |
| **31/12/2019** | **20,878** | **5,152** | **6,403** | **15,865** | **48,298** |
| | | | | | |
| **Historical cost** | | | | | |
| Increases | 1,457 | 2,987 | 4,263 | 5,014 | 13,722 |
| Disposal | - | (397) | (1,174) | (381) | (1,952) |
| Change in consolidation | 6 | (5) | 342 | 930 | 1,273 |
| Other changes | 25 | (4) | (182) | (912) | (1,073) |
| | | | | | |
| **Accumulated depreciation** | | | | | |
| Depreciations | (259) | (1,725) | (4,309) | (3,767) | (10,059) |
| Utilized | - | 164 | 1.107 | 256 | 1,528 |
| Change in consolidation | (1) | 5 | (60) | (347) | (404) |
| Other changes | (37) | 41 | 81 | 363 | 449 |
| | | | | | |
| Historical cost | 25,222 | 16,526 | 44,436 | 41,427 | 127,610 |
| Accumulated depreciation | (3,152) | (10,307) | (37,965) | (24,405) | (75,828) |
| **31/12/2020** | **22,070** | **6,219** | **6,470** | **17,022** | **51,782** |

During the financial year the Group carried out total investments for 13,722 thousand Euros (13,614 thousand Euros at 31 December 2019).

The item Buildings mainly includes:
- the net value of a building owned by the group amounting to 5,034 thousand Euros located in Guetersloh, Germany. In 2020 the Group has invested approximately 218 thousand Euros to extend the office spaces.
- the real estate complex located in Turin and called “ex Caserma De Sonnaz” in the amount of 16,582 thousand Euros, that after proper innovation will be used to host the offices of the Group.

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

Change in the item Hardware is due to investments made by companies included in Region 1 for 1,997 thousand Euros, 1,822 thousand Euros for purchases made by the companies included in Region 2 and 444 thousand Euros for purchases made by the companies included in Region 3.

The item Other as at 31 December 2020 mainly includes improvements to third party assets and office furniture. The increase of 5,014 thousand Euros mainly refers to the purchase of office furniture for 2,016 thousand Euros and to improvements made to the offices where the Group's companies operate for 2,023 thousand Euros.

Other changes mainly refer to translation differences.

As at 31 December 2020 tangible assets were depreciated by 59.4% of their value, compared to 58.2% at the end of 2019.



## NOTE 18 - GOODWILL

This item includes goodwill arising from consolidation of subsidiaries purchased against payment made by some Group companies.
Goodwill in 2020 developed as follows:

| **(THOUSAND EUROS)** | |
|---|---|
| **Beginning balance** | **267,542** |
| Increases | 73,395 |
| Other changes | (3,395) |
| Impairment | - |
| **Total** | **337,542** |
| Exchange rate differences | (6,793) |
| **Ending balance** | **330,749** |

Increase in Goodwill compared to 31 December 2019 owes to:

- the acquisition of Sagepath LLC, a company incorporated under American law of which Reply Inc. holds 70% of share capital specializing in digital transformation with skills in strategy, design and technology;
- the acquisition of Airwalk Holdings Ltd. and its subsidiaries, companies incorporated by Reply Ltd., specializing in innovative services based on design and consulting models declined according to the paradigms of Cloud Computing;
- the acquisition of Mansion House Consulting Ltd. and its subsidiaries, companies incorporated by Reply Ltd., specializing in digital transformation in the financial field.

The fair value allocation of assets and liabilities related to Blowfish Group was completed in 2020 with the substantial confirmation of the originally defined values, identifying as a difference only the value of the customer list acquired amounting to 3,395 thousand Euros.

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

| (THOUSAND EUROS) | MANSION HOUSE CONSULTING LTD | AIRWALK HOLDINGS LTD. | SAGEPATH LLC | BRIGHTKNIGHT SA | FAIR VALUE (*) |
|---|---|---|---|---|---|
| Tangible and intangible assets | 14 | 139 | 3,193 | 11 | 3,358 |
| Trade receivables and other current assets | 6,424 | 3,335 | 2,811 | 98 | 12,667 |
| Cash and cash equivalents | 6,585 | 5,339 | 1,076 | 354 | 13,354 |
| Financial liabilities, net | - | - | (3,423) | - | (3,423) |
| Trade payables and other current liabilities | (7,275) | (3,361) | (1,386) | (348) | (12,371) |
| **Net assets acquired** | **5,748** | **5,451** | **2,270** | **116** | **13,585** |
| Transaction value | 27,154 | 32,000 | 35,057 | 551 | 94,762 |
| Difference allocated to other intangible assets | - | - | 7,782 | - | 7,782 |
| **Goodwill** | **21,405** | **26,549** | **25,006** | **435** | **73,395** |

(*) book value is equal to fair value

The above situation is to be considered final for Sagepath LLC whereas for Airwalk Holdings Ltd., Brightknight SA and Mansion House Consulting Ltd. the allocation of goodwill is temporary, the process will be completed within the limits of 12 months.

Goodwill was allocated to the cash generating units ("CGU"), identified in the Region in which the Group operates. Moreover, the breakdown reflects the business management of the Group by Top Management and is summarized as follows:

| (THOUSAND EUROS) | AT 31/12/2019 | INCREASES | OTHER CHANGES | TRANSLATION DIFFERENCES | AT 31/12/2020 |
|---|---|---|---|---|---|
| Region 1 | 90,737 | 25,006 | - | (3,594) | 112,149 |
| Region 2 | 108,885 | - | - | - | 108,885 |
| Region 3 | 67,919 | 48,389 | (3,395) | (3,199) | 109,714 |
| **Total** | **267,542** | **73,395** | **(3,395)** | **(6,793)** | **330,749** |

Reply has adopted a structured and periodic planning and budgeting system aimed at defining objectives and business strategies in order to draft the annual budget.

The impairment model adopted by the Reply Group is based on future cash flows calculated using the Discounted cash flow analysis.

In applying this model, Management uses different assumptions, which are applied to the single CGU over two years of extrapolation subsequent to the annual budget, in order to estimate:
- increase in revenues,
- increase in operating costs,
- investments,
- change in net capital.

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

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

| ASSUMPTION | REGION 1 | REGION 2 | REGION 3 |
|---|---|---|---|
| Terminal value growth rates: | 1% | 1% | 1% |
| Discount rate, net of taxes: | 6.20% | 4.34% | 5.67% |
| Discount rate, before taxes: | 8.20% | 6.20% | 6.99% |
| Multiple of EBIT | 11.3 | 11.3 | 11.3 |

As to all CGUs subject to the impairment tests at 31 December 2020 no indications emerged that such businesses may have been subject to impairment.

On 31 December 2020 the positive difference between the headroom estimated and the book value of the net invested capital inclusive of the goodwill initially recognized, is equal to 512.9% for Region 1, 278.6% for Region 2 and 87.3% 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, also pursuant to CONSOB and ESMA recommendations, significant attention has been placed on the planning process to account for the possible impacts deriving from the ongoing pandemic, and to the sensitivity analysis of the recoverable value, which is always significantly higher despite a 50% increase in key parameters (reduction of turnover and discount rate). 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. In this regard, it is to be noted that COVID-19 events have been analysed in the section of subsequent events and in the report on operations.

## NOTE 19 - OTHER INTANGIBLE ASSETS

Net intangible assets as at 2020 amounted to 25,758 thousand Euros (13,676 thousand Euros on 31 December 2019) and are detailed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Development costs | 2,259 | 3,191 | (932) |
| Software | 5,704 | 5,303 | 401 |
| Trademark | 537 | 537 | - |
| Other intangible assets | 17,259 | 4,646 | 12,613 |
| **Total** | **25,758** | **13,676** | **12,082** |

Change in intangible assets during 2020 is summarized in the table below:

| (THOUSAND EUROS) | DEVELOPMENT COSTS | SOFTWARE | TRADEMARK | OTHER INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|
| Historical cost | 29,663 | 27,880 | 537 | 8,312 | 66,391 |
| Cumulative amortization | (26,471) | (22,576) | - | (3,667) | (52,714) |
| **31/12/2019** | **3,191** | **5,303** | **537** | **4,646** | **13,676** |
| | | | | | |
| **Historical cost** | | | | | |
| Increases | 970 | 2,443 | - | 14,813 | 18,226 |
| Disposals | - | (427) | - | 17 | (411) |
| Change in consolidation | 24 | 6 | - | (8) | 22 |
| Other changes | - | (174) | - | (455) | (629) |
| | | | | | |
| **Cumulative amortization** | | | | | |
| Amortization | (1,920) | (1,835) | - | (2,028) | (5,784) |
| Utilized | 18 | 397 | - | - | 415 |
| Change in consolidation | (24) | (3) | - | - | (27) |
| Other changes | - | (6) | - | 275 | 269 |
| | | | | | |
| Historical cost | 30,656 | 29,727 | 537 | 22,678 | 83,599 |
| Cumulative amortization | (28,398) | (24,023) | - | (5,420) | (57,840) |
| **31/12/2020** | **2,259** | **5,704** | **537** | **17,259** | **25,758** |

Development costs refer to software products and are accounted for in accordance with provisions of IAS 38.
The item Software mainly refers to software licenses purchased and used internally by the Group companies. This item includes 1,659 thousand Euros related to software development for internal use in 2020.
The item Trademark mainly refers to the value of the "Reply" trademark granted on 9 June 2000 to the Parent Company Reply S.p.A. (at the time Reply Europe Sàrl), in connection with the share capital increase that was resolved and subscribed to by the Parent Company. Such amount is not subject to systematic amortization and the expected future cash flows are deemed adequate.
The item Other intangible assets is related to the consolidation difference (Purchase price allocation) following several Business combinations related to previous years.
The increase refers to the allocation of the consolidation difference, within one year from acquisitions, to intangible assets, described in Note 18.

## NOTE 20 - ROU ASSETS

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

| (THOUSAND EUROS) | 31/12/2019 | NET CHANGES | AMORTIZATION | EXCHANGE DIFFERENCE | 31/12/2020 |
|---|---|---|---|---|---|
| Buildings | 80,861 | 67,131 | (20,765) | 52 | 127,279 |
| Vehicles | 9,535 | 5,493 | (5,641) | (2) | 9,385 |
| Office equipment | 173 | 1,004 | (192) | (4) | 981 |
| **Total** | **90,569** | **73,628** | **(26,598)** | **46** | **137,645** |

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

## NOTE 21 - EQUITY INVESTMENTS

The item Equity investments amounts to 56,421 thousand Euros and includes for 12 thousand Euros subsidiary companies that were not consolidated as they were not operational at the closing date and for 56,409 thousand Euros investments in start-up companies principally in the IoT field made by the Investment company Breed Investments Ltd.

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

Detail is as follows:

| (THOUSAND EUROS) | VALUE AT 31/12/2019 | FOLLOW-ON INVESTMENTS | NET FAIR VALUE ADJUSTMENTS | EXCHANGE DIFFERENCES | VALUE AT 31/12/2020 |
|---|---|---|---|---|---|
| Investments | 56,992 | 587 | 1,240 | (2,409) | 56,409 |

### FOLLOW-ON INVESTMENTS

The increase is related to follow-on investments existing at December 31, 2019.

### NET FAIR VALUE ADJUSTMENTS

The net fair value adjustment amounting to 1,240 thousand Euros reflects the market values of the last rounds that took place in 2020 on investments already in portfolio.

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

## NOTE 22 - FINANCIAL ASSETS

Current and non-current financial assets amounted to a total of 11,685 thousand Euros compared to 9,233 thousand Euros as at 31 December 2019.

Detail is as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Short term securities | 1,815 | 1,666 | 149 |
| Loans to third parties | 293 | - | 293 |
| **Current financial assets** | **2,108** | **1,666** | **442** |
| Receivables from insurance companies | 3,144 | 3,183 | (39) |
| Guarantee deposits | 1,099 | 1,189 | (90) |
| Other financial assets | 1,848 | 1,251 | 597 |
| Convertible loans | 3,486 | 1,944 | 1,542 |
| **Non-current financial assets** | **9,577** | **7,567** | **2,010** |
| **Total** | **11,685** | **9,233** | **2,452** |

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

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

| (THOUSAND EUROS) | VALUE AT 31/12/2019 | INCREASES | CAPITALIZED INTERESTS | NET FAIR VALUE ADJUSTMENTS | EXCHANGE DIFFERENCES | VALUE AT 31/12/2020 |
|---|---|---|---|---|---|---|
| Convertible loans | 1,944 | 1,926 | 183 | (469) | (98) | 3,486 |

The item Increases is referred to new investments in convertible loans during the year.

Short term securities mainly refer to Time Deposit investments.
Note that the items Receivables from insurance companies, Convertible loans, guarantee deposits and Other financial assets are not shown in the Net financial position.

Cash and cash equivalents at 31 December 2020 are detailed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Bank accounts | 333,765 | 240,901 | 92,864 |
| Cash | 54 | 42 | 12 |
| **Total** | **333,819** | **240,943** | **92,876** |

Cash and cash equivalents is disclosed at Note 27.

## NOTE 23 - DEFERRED TAX ASSETS

Deferred tax assets, amounting to 52,921 thousand Euros, of which 15,010 thousand Euros are current, as at 31 December 2020 (33,527 thousand Euros as at 31 December 2019), include the fiscal charge corresponding to the temporary differences originating among the anti-tax result and taxable income relating to entries with deferred deductibility.

Detail of Deferred tax assets is provided at the table below:

| (THOUSAND EUROS) | 31/12/2019 | ACCRUALS | UTILIZATION | OTHER CHANGES | 31/12/2020 |
|---|---|---|---|---|---|
| Prepaid tax on costs that will become deductible in future years | 7,464 | 2,283 | (1,222) | - | 8,525 |
| Prepaid tax on greater provisions for doubtful accounts | 11,051 | 15,014 | (2,961) | - | 23,103 |
| Deferred fiscal deductibility of amortization | 1,941 | 350 | (239) | - | 2,053 |
| Consolidation adjustments and other items | 13,070 | 7,741 | (1,307) | (264) | 19,240 |
| **Total** | **33,527** | **25,388** | **(5,730)** | **(264)** | **52,921** |

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

## NOTE 24 - WORK IN PROGRESS

Contract work in progress, amounting to 79,784 thousand Euros, is recognized net of a provision amounting to 23,848 detailed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Contract work in progress | 121,551 | 136,808 | (15,257) |
| Advance payments from customers | (41,767) | (61,480) | 19,713 |
| **Total** | **79,784** | **75,328** | **4,455** |

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

## NOTE 25 - TRADE RECEIVABLES

Trade receivables as at 31 December 2020 amounted to 344,700 thousand Euros with a net decrease of 87,540 thousand Euros.

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Domestic clients | 236,140 | 320,712 | (84,572) |
| Foreign trade receivables | 113,382 | 119,006 | (5,624) |
| Credit notes to be issued | (11) | (3,598) | 3,587 |
| **Total** | **349,510** | **436,120** | **(86,610)** |
| Allowance for doubtful accounts | (4,811) | (3,880) | (931) |
| **Total trade receivables** | **344,700** | **432,240** | **(87,540)** |

Trade receivables are shown net of allowances for doubtful accounts, calculated by using the expected credit loss approach pursuant to IFRS 9, amounting to 4,811 thousand Euros on 31 December 2020 (3,880 thousand Euros at 31 December 2019), and of allowances for COVID (57,435 thousand Euros at 31 December 2020). This latter represents managements best estimate of the effects of the ongoing pandemic on the recoverability of the credit portfolio at the closing date, and has been established using the latest available sectoral research.

The Allowance for doubtful accounts developed in 2020 as follows:

| (THOUSAND EUROS) | 31/12/2019 | ACCRUALS | UTILIZATION | REVERSAL | 31/12/2020 |
|---|---|---|---|---|---|
| Allowance for doubtful accounts | 3,880 | 1,938 | (356) | (652) | 4,811 |

It should also be noted that the item includes write-downs for losses on working capital amounts.
Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2019, are summarized in the tables below:

### AGING AT 31/12/2020

| (THOUSAND EUROS) | TRADE RECEIVABLES | CURRENT | 0 - 90 DAYS | 91 - 180 DAYS | 181 - 360 DAYS | OVER 360 DAYS | TOTAL OVERDUE |
|---|---|---|---|---|---|---|---|
| Trade receivables | 349,510 | 288,433 | 46,058 | 8,605 | 3,014 | 3,401 | 61,078 |
| Allowance for doubtful accounts | (4,811) | (530) | (664) | (327) | (925) | (2,365) | (4,281) |
| **Total trade receivables** | **344,700** | **287,903** | **45,394** | **8,278** | **2,089** | **1,036** | **56,797** |

### AGING AT 31/12/2019

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

The carrying amount of Trade receivables is in line with its fair value.
Trade receivables are all collectible within one year.

## NOTE 26 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Tax receivables | 44,925 | 10,297 | 34,628 |
| Advances to employees | 78 | 143 | (65) |
| Accrued income and prepaid expenses | 17,551 | 15,912 | 1,639 |
| Other receivables | 18,752 | 13,213 | 5,539 |
| **Total** | **81,306** | **39,566** | **41,741** |

The item Tax receivables mainly includes:

- credits to the Treasury for VAT amounting to 38,571 thousand Euros (4,453 thousand Euros at 31 December 2019);
- income tax prepayments net of the allocated liability amounting to 2,522 thousand Euros (1,600 thousand Euros at 31 December 2019);
- receivables for withholding tax amounting to 1,544 thousand Euros (857 thousand Euros at 31 December 2019).

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

The item Other receivables mainly includes the contributions receivable in relation to research projects for 5,232 thousand Euros (6,355 thousand Euros at 31 December 2019) and an advance payment amounting to 9,512 thousand Euros, in relation to the deferred consideration for the purchase of the last tranche of the company's share capital.

## NOTE 27 - CASH AND CASH EQUIVALENTS

The balance of 333,819 thousand Euros, with an increase of 92,876 thousand Euros compared with 31 December 2019, represents cash and cash equivalents as at the end of the year.

Changes in cash and cash equivalents are fully detailed in the Consolidated statement of cash flow.

## NOTE 28 - SHAREHOLDERS' EQUITY

### SHARE CAPITAL

On 31 December 2020 the share capital of Reply S.p.A, wholly undersigned and paid up, amounted to 4,863,486 Euros and is composed of n. 37,411,428 ordinary shares with nominal value of 0.13 Euros each. The number of shares in circulation as at 31 December 2020 totalled 37,407,400 unchanged compared to year-ended 2019.

### 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 2020 were equal to n. 4,028, unchanged compared to year-ended 2019.

### CAPITAL RESERVES

On 31 December 2020 Capital reserves, amounting to 199,533 thousand Euros, were mainly comprised as follows:

- 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 199,976 thousand Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 21 April 2020 Reply S.p.A. re-authorized it, in accordance with and for the purposes of Article 2357 of the Italian Civil Code, the purchase of a maximum of 200 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 498,899 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 973 thousand Euros;
- Retained earnings amounted to 374,329 thousand Euros (retained earnings amounted to 355,397 thousand Euros on 31 December 2019);
- Profits/ attributable to shareholders of the Parent Company amounted to 123,598 thousand Euros (113,858 thousand Euros as on 31 December 2019).

### OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analysed as follows:

| (THOUSANDS EUROS) | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax: | | |
| Actuarial gains/(losses) from employee benefit plan | (887) | (3,043) |
| **Total Other comprehensive income that will not be classified subsequently to profit or loss, net of tax (B1):** | **(887)** | **(3,043)** |
| Other comprehensive income that may be reclassified subsequently to profit or loss: | | |
| Gains/(losses) on cash flow hedges | 1,089 | (1,157) |
| Gains/(losses) from the translation of assets in foreign currencies | (14,254) | 4,347 |
| **Total Other comprehensive income that may be classified subsequently to profit or loss, net of tax (B2):** | **(13,165)** | **3,190** |
| **Total other comprehensive income, net of tax (B) = (B1) + (B2):** | **(14,052)** | **147** |

## NOTE 29 - DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out on 31 December 2020 amounted to 71,381 thousand Euros (51,468 thousand Euros on 31 December 2019), of which 18,370 thousand Euros were current.
This item refers to the variable consideration defined in the business combination. The distinction between Payables to Minority Shareholders and Earn-Out stems solely from whether or not there is any legal minority interest related to the initial transition.
Detail is as follows:

| (THOUSAND EUROS) | 31/12/2019 | INCREASES | FAIR VALUE ADJUSTMENTS | PAYMENTS | EXCHANGE DIFFERENCES | 31/12/2020 |
|---|---|---|---|---|---|---|
| Payables to minority shareholders | 20,025 | 10,219 | 4,483 | (6,381) | (1,376) | 26,969 |
| Payables for earn-out | 31,443 | 27,683 | (7,448) | (6,692) | (573) | 44,413 |
| **Total due to minority shareholders and Earn-out** | **51,468** | **37,902** | **(2,966)** | **(13,073)** | **(1,949)** | **71,381** |

The increase in this item amounting to 37,902 thousand Euros reflects the best estimate of future considerations for earn-outs in relation to the original contracts signed.
In particular:

- in the month of August 2020 Reply Inc. acquired Sagepath Inc., of which holds 70% of share capital, specializing in Digital Transformation, Ecommerce and Digital Customer Experience;
- in the month of November 2020 Reply Ltd. acquired Airwalk Holdings Ltd. and its subsidiaries, of which holds 100% of share capital, specializing in innovative services based on design and consulting models declined according to the paradigms of Cloud Computing;
- in the month of December 2020 Reply Ltd. acquired Mansion Consulting Ltd. and its subsidiaries, of which holds 100% of share capital, specializing in supporting clients in digital transformation in the financial field.

The item Fair value adjustments in 2020 amounted to 2,966 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 13,073 thousand Euros and refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

Due to minority shareholders and Earn-out are not included in the net financial position.



## NOTE 30 - FINANCIAL LIABILITIES

Detail is as follows:

| | 31/12/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| **(THOUSAND EUROS)** | **CURRENT** | **NON-CURRENT** | **TOTAL** | **CURRENT** | **NON-CURRENT** | **TOTAL** |
| Bank overdrafts | 1,320 | - | 1,320 | 1,372 | - | 1,372 |
| Bank loans | 10,815 | 19,735 | 30,550 | 16,648 | 25,846 | 42,494 |
| **Total due to banks** | **12,135** | **19,735** | **31,870** | **18,020** | **25,846** | **43,866** |
| Other financial borrowings | 1,495 | 651 | 2,146 | 537 | 1,011 | 1,548 |
| IFRS 16 financial liabilities | 24,453 | 118,796 | 143,250 | 20,454 | 71,710 | 92,164 |
| **Total financial liabilities** | **38,083** | **139,183** | **177,266** | **39,011** | **98,567** | **137,578** |

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

| | 31/12/2020 | | | | 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **(THOUSAND EUROS)** | **DUE IN 12 MONTHS** | **FROM 1 TO 5 YEARS** | **OVER 5 YEARS** | **TOTAL** | **DUE IN 12 MONTHS** | **FROM 1 TO 5 YEARS** | **OVER 5 YEARS** | **TOTAL** |
| Bank overdrafts | 1,320 | - | - | 1,320 | 1,372 | - | - | 1,372 |
| M&A loans | 9,071 | 500 | - | 9,571 | 13,429 | 8,571 | - | 22,000 |
| Mortgage loans | 1,709 | 6,836 | 8,729 | 17,274 | 321 | 6,834 | 10,440 | 17,595 |
| Other financial borrowings | 1,495 | 651 | - | 2,146 | 537 | 1,011 | - | 1,548 |
| IFRS 16 financial liabilities | 24,453 | 81,120 | 37,677 | 143,250 | 20,454 | 48,485 | 23,225 | 92,164 |
| Derivative financial instruments | 35 | 734 | 2,936 | 3,705 | 2,899 | - | - | 2,899 |
| **Total** | **38,083** | **127,518** | **11,665** | **177,266** | **39,011** | **64,902** | **33,665** | **137,578** |

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

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

- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000 thousand Euros detailed as follows:
  - Tranche A, amounting to 10,000 thousand Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line is entirely reimbursed at 31 December 2020.
  - Tranche B, amounting to 20,000 thousand Euros, to be used by 30 December 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line is entirely reimbursed at 31 December 2020.
- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000 thousand Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500 thousand Euros was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 March 2019 and will expire on 30 November 2021. Such credit line was used for 500 thousand Euros at 31 December 2020.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 49,000 thousand Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. Such credit line was used for 8,571 thousand Euros at 31 December 2020.

- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000 thousand Euros to be used by 28 February 2020. As at December 31, 2020 this line had not been used and has been expired on 28 February 2020.
- On 29 October 2019 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 50,000 thousand Euros to be used by 30 June 2021. The loan will be reimbursed on a half basis deferred to commence on 30 September 2021 and will expire on 30 September 2024. As at December 31, 2020 this line had not been used.
- On 8 May 2020 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000 thousand Euros to be used by 27 May 2022. As at 31 December 2020 this line had been used for 500 thousand Euros.

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

As contractually defined, such ratios are as follows:
- Net financial indebtedness/Equity
- Net financial indebtedness/EBITDA

At 31 December 2020 the Covenants under the various contracts were satisfied.

The item Mortgages refers to financing granted to Tool Reply GmbH in 2018 by Commerzbank for a total of 2,500 thousand Euros to be used by 30 June 2028. The loan is reimbursed on a quarter-year basis (at 0.99%).

It should also be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000 thousand Euros and for a maximum duration of 156 months (13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. Such credit line was used for 15,300 thousand Euros at 31 December 2020.

The item IFRS 16 financial liabilities is related to the financial lease liabilities at 31 December 2020 related to the adoption of the new Accounting Standard IFRS 16.

The item Derivative financial instruments refers to several loans established with primary financial institutions (Intesa Sanpaolo S.p.A. and Unicredit S.p.A.) to hedge changes in floating interest rates on loans and/or mortgages; the total underlying notional amounts to 60,500 thousand Euros. The effective component of the instrument is stated in the Statement of changes in net equity whereas the ineffective portion of the Derivative instrument is recorded at the income statement.

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

For further details related to the risk management policies please see Note 37.

**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 2020.

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Cash and cash equivalents | 333,819 | 240,943 | 92,876 |
| Current financial assets | 2,108 | 1,666 | 442 |
| **Total financial assets** | **335,927** | **242,609** | **93,318** |
| Current financial liabilities | (13,629) | (18,557) | 4,928 |
| Current IFRS 16 financial liabilities | (24,453) | (20,454) | (3,999) |
| Non-current financial liabilities | (20,387) | (26,857) | 6,470 |
| Non-current IFRS 16 financial liabilities | (118,796) | (71,710) | (47,086) |
| **Total financial liabilities** | **(177,266)** | **(137,578)** | **(39,687)** |
| **Total net financial position** | **158,661** | **105,031** | **53,630** |

For further details with regards to the above table see Note 27 as well as Note 30.
Pursuant to the aforementioned recommendations long term financial assets are not included on the net financial position.
As previously mentioned in Note 29, Due to minority shareholders and Earn-out are not included in the net financial position.

Change in financial liabilities during 2020 is summarized below:

| (THOUSAND EUROS) | |
|---|---|
| **Total financial liabilities 2019** | **137,578** |
| Bank overdrafts | (1,372) |
| IRS | (2,899) |
| **Non-current financial liabilities 2019** | **133,307** |
| IFRS 16 financial liabilities | 51,085 |
| Cash flows | (12,152) |
| **Total non-current financial liabilities 2020** | **172,240** |
| Bank overdrafts | 1,320 |
| IRS | 3,706 |
| **Total financial liabilities 2020** | **177,266** |



## NOTE 31 - EMPLOYEE BENEFITS

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Employee severance indemnities | 32,607 | 29,385 | 3,221 |
| Employee pension funds | 11,961 | 12,385 | (424) |
| Directors severance indemnities | 1,528 | 1,569 | (41) |
| Other | 16 | 16 | - |
| **Total** | **46,112** | **43,355** | **2,757** |

### 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:<br>frequency of advances in 2020: 2.50%<br>frequency of turnover in 2020: 10% |

### ECONOMIC AND FINANCIAL ASSUMPTIONS

| | |
|---|---|
| Annual discount rate | Average annual rate of 0.8% |
| 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.<br>An annual constant rate equal to 0.34% was used for the year 2020. |
| Annual increase in salaries | Annual increase in salaries equal to 2.1% |
| Annual inflation rate | The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50% |

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

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

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

In accordance with IAS 19, Employment severance indemnities at 31 December 2020 are summarized in the table below:

| (THOUSAND EUROS) | |
|---|---|
| **Balance at 31/12/2019** | **29,385** |
| Change in consolidation | (153) |
| Cost relating to current (service cost) work | 5,051 |
| Actuarial gain/loss | 773 |
| Interest cost | 221 |
| Indemnities paid during the year | (2,670) |
| **Balance at 31/12/2020** | **32,607** |

### 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) | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Present value of liability | 12,348 | 13,453 |
| Fair value of plan assets | (387) | (1,068) |
| **Net liability** | **11,961** | **12,384** |

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

| (THOUSAND EUROS) | |
|---|---|
| Present value at beginning of the year | **13,453** |
| Service cost | (305) |
| Interest cost | 98 |
| Actuarial gains/(losses) | 185 |
| Indemnities paid during the year | (1,083) |
| **Present value at year end** | **12,348** |

The assumptions adopted were as follows:

| | |
|---|---|
| Discount rate | 0.4% |
| Rate of future compensation increases | 2.0% |
| Rate of pension increases | 1.0% - 1.5% - 2.0% |

### DIRECTORS SEVERANCE INDEMNITIES

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 41 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 2020 and to a partial payment of the indemnity.

## NOTE 32 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2020 amounted to 16,117 thousand Euros, of which 8,364 thousand Euros are current, 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) | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Deductible items off the books | 875 | 3,077 |
| Other | 15,242 | 16,733 |
| **Total** | **16,117** | **19,810** |

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

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

## NOTE 33 - PROVISIONS

Provisions amounted to 11,477 thousand Euros (of which 10,753 thousand Euros are non-current).

Change in 2020 is summarized in the table below:

| (THOUSAND EUROS) | BALANCE AT 31/12/2019 | ACCRUALS | UTILIZATION | REVERSALS | OTHER CHANGES | BALANCE AT 31/12/2020 |
|---|---|---|---|---|---|---|
| Fidelity fund | 450 | 260 | (63) | 3 | - | 650 |
| Provision for risks | 9,127 | 4,256 | (558) | (1,533) | (465) | 10,827 |
| **Total** | **9,577** | **4,516** | **(621)** | **(1,530)** | **(465)** | **11,477** |

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 is related to the accrual of the year referred to the update of this estimate and to new legal ongoing controversies, lawsuits with former employees and other liabilities in Italy and abroad.
Other changes mainly refer to translation differences.

## NOTE 34 - TRADE PAYABLES

Trade payables at 31 December 2020 amounted to 114,149 thousand Euros and are detailed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Domestic suppliers | 93,997 | 97,719 | (3,721) |
| Foreign suppliers | 20,508 | 22,788 | (2,281) |
| Advances to suppliers | (356) | (556) | 201 |
| **Total** | **114,149** | **119,951** | **(5,802)** |

## NOTE 35 - OTHER CURRENT LIABILITIES

Other current liabilities at 31 December 2020 amounted to 394,110 thousand Euros with an increase of 54,997 thousand Euros with respect to the previous financial year.

Detail is as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Income tax payable | 30,518 | 8,750 | 21,768 |
| VAT payable | 27,860 | 20,651 | 7,208 |
| Withholding tax and other | 8,888 | 8,163 | 726 |
| **Total due to tax authorities** | **67,266** | **37,564** | **29,702** |
| National social insurance payable | 41,491 | 31,552 | 9,939 |
| Other | 3,333 | 2,997 | 336 |
| **Total due to social securities** | **44,824** | **34,549** | **10,275** |
| Employee accruals | 93,798 | 90,503 | 3,295 |
| Other payables | 160,616 | 159,890 | 726 |
| Accrued expenses and deferred income | 27,606 | 16,608 | 10,998 |
| **Total other payables** | **282,020** | **267,001** | **15,020** |
| **Other current liabilities** | **394,110** | **339,113** | **54,997** |

Due to tax authorities amounting to 67,266 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 44,824 thousand Euros, is related to both Company and employee's contribution payables.

Other payables at 31 December 2020 amount to 282,020 thousand Euros and mainly include:
- amounts due to employees that at the balance sheet date had not yet been paid;
- remuneration of directors recognised as participation in the profits of the subsidiary companies;
- amount invoiced to customers exceeding the value of the work in progress amounting to 117,731 thousand Euros.

Accrued Expenses and Deferred Income, that increase in 2020 by 10,998 thousand Euros, mainly relate to advance invoicing in relation to T&M consultancy activities to be delivered in the subsequent financial year.

## NOTE 36 - SEGMENT REPORTING

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

| (THOUSAND EUROS) | REGION 1 | % | REGION 2 | % | REGION 3 | % | IOT INCUBATOR | % | INTERSEGMENT | TOTAL 2020 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **859,443** | **100** | **270,568** | **100** | **139,223** | **100** | **123** | **100** | **(19,165)** | **1,250,191** | **100** |
| Operating costs | (718,721) | (83.6) | (217,842) | (80.5) | (124,253) | (89.2) | (603) | (490.4) | 19,165 | (1,042,255) | (83.4) |
| **Gross operating income** | **140,721** | **16.4** | **52,726** | **19.5** | **14,969** | **10.8** | **(480)** | **(390.4)** | **-** | **207,936** | **16.6** |
| Amortization, depreciation and write-downs | (24,989) | (2.9) | (11,162) | (4.1) | (6,271) | (4.5) | (19) | (15.7) | - | (42,441) | (3.4) |
| Other non-recurring (costs)/income | (3,414) | (0.4) | 3,289 | 1.2 | 4,161 | 2.9 | - | - | - | 4,036 | 0.3 |
| **Operating income** | **112,318** | **13.1** | **44,853** | **16.6** | **12,860** | **9.2** | **(500)** | **(406.1)** | **-** | **169,531** | **13.6** |
| Gain/(loss) on investments | - | - | - | - | - | - | 1,241 | 1.008 | - | 1,240 | - |
| Financial income/(loss) | (3,036) | (0.4) | (4,196) | (1.6) | (419) | (0.3) | (1,067) | (866.8) | - | (8,717) | (0.7) |
| **Income before taxes** | **109,282** | **12.7** | **40,657** | **15.0** | **12,441** | **8.9** | **(326)** | **(264.7)** | **-** | **162,054** | **13.0** |

| (THOUSAND EUROS) | REGION 1 | % | REGION 2 | % | REGION 3 | % | IOT INCUBATOR | % | INTERSEGMENT | TOTAL 2019 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **803,803** | **100** | **271,324** | **100** | **120,513** | **100** | **504** | **100** | **(13,616)** | **1,182,528** | **100** |
| Operating costs | (666,464) | (82.9) | (229,869) | (84.7) | (104,326) | (86.6) | (4,178) | (828.6) | 13,616 | (991,221) | (83.8) |
| **Gross operating income** | **137,339** | **17.1** | **41,455** | **15.3** | **16,188** | **13.4** | **(3,674)** | **(728.6)** | **-** | **191,307** | **16.2** |
| Amortization, depreciation and write-downs | (22,295) | (2.8) | (9,238) | (3.4) | (5,560) | (4.6) | (147) | (29.1) | - | (37,239) | (3.1) |
| Other non-recurring (costs)/income | - | - | 1,673 | 0.6 | (417) | (0.3) | - | - | - | 1,256 | 0.1 |
| **Operating income** | **115,044** | **14.3** | **33,890** | **12.5** | **10,210** | **8.5** | **(3,821)** | **(757.6)** | **-** | **155,324** | **13.1** |
| Gain/(loss) on investments | - | - | - | - | (28) | - | 11,392 | 2.259.0 | - | 11,364 | 1.0 |
| Financial income/(loss) | 993 | - | (3,344) | (1.2) | (1,515) | (1.3) | (1,402) | (278.0) | - | (5,268) | (0.4) |
| **Income before taxes** | **116,037** | **14.4** | **30,545** | **11.3** | **8,668** | **7.2** | **6,169** | **1,223.3** | **-** | **161,419** | **13.7** |

The percentage breakdown of revenues by type is as follows:

| (TYPE) | REGION 1 | | REGION 2 | | REGION 3 | | IOT INCUBATOR | |
|---|---|---|---|---|---|---|---|---|
| **BUSINESS LINE** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| T&M | 17.0% | 16.7% | 54.8% | 51.7% | 43.8% | 52.0% | - | - |
| Fixed price projects | 83.0% | 83.3% | 45.2% | 48.3% | 56.2% | 48.0% | - | - |
| Other business | - | - | - | - | - | - | 100.0% | 100.0% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

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

| (THOUSAND EURO) | REGION 1 | REGION 2 | REGION 3 | IOT INCUBATOR | INTERSEG. | TOTAL 2020 |
|---|---|---|---|---|---|---|
| Current operating assets | 402,470 | 81,835 | 53,361 | 718 | (32,595) | 505,790 |
| Current operating liabilities | (395,280) | (87,102) | (62,099) | (15,469) | 32,595 | (527.,54) |
| **Net working capital (A)** | **7,191** | **(5,267)** | **(8,738)** | **(14,750)** | **-** | **(21,565)** |
| Non-current assets | 268,630 | 187,209 | 147,488 | 61,525 | | 664,852 |
| Non-financial liabilities long term | (62,062) | (40,512) | (23,416) | - | | (125,991) |
| **Fixed capital (B)** | **206,568** | **146,696** | **124,071** | **61,525** | **-** | **538,860** |
| **Net invested capital (A+B)** | **213,759** | **141,430** | **115,333** | **46,775** | **-** | **517,296** |

| (THOUSAND EUROS) | REGION 1 | REGION 2 | REGION 3 | IOT INCUBATOR | INTERSEG. | TOTAL 2019 |
|---|---|---|---|---|---|---|
| Current operating assets | 438,195 | 96,720 | 47,120 | 703 | (35,604) | 547,134 |
| Current operating liabilities | (369,517) | (83,370) | (40,353) | (15,180) | 35,604 | (472,817) |
| **Net working capital (A)** | **68,677** | **13,350** | **6,767** | **(14,477)** | **-** | **74,317** |
| Non-current assets | 187,425 | 167,229 | 103,459 | 60,167 | - | 518,170 |
| Non-financial liabilities long term | (55,602) | (44,775) | (10,080) | - | - | (110,457) |
| **Fixed capital (B)** | **131,823** | **122,454** | **93,379** | **60,167** | **-** | **407,713** |
| **Net invested capital (A+B)** | **200,500** | **135,804** | **100,146** | **45,690** | **-** | **482,030** |

Breakdown of employees by Region is as follows:

| REGION | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Region 1 | 6,319 | 5,702 | 617 |
| Region 2 | 1,775 | 1,715 | 60 |
| Region 3 | 962 | 737 | 225 |
| IoT Incubator | 3 | 3 | - |
| **Total** | **9,059** | **8,157** | **902** |

## NOTE 37 - ADDITIONAL DISCLOSURES TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

### TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

Reply S.p.A. has determined the guide lines in managing financial risks. In order to maximize costs and the resources Reply S.p.A. has centralized all of the groups risk management. Reply S.p.A. has the task of gathering all information concerning possible risk situations and define the corresponding hedge.
As described in the section “Risk management”, Reply S.p.A. constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.
The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the company.
The quantitative data reported in the following do not have any value of a prospective nature, in particular the sensitivity analysis on market risks, is unable to reflect the complexity of the market and its related reaction which may result from every change which may occur.

### CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 2020 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

Refer to the note on trade receivables for a quantitate analysis.

## LIQUIDITY RISK

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

The two main factors that determine the company's liquidity situation are on one side the funds generated by or used in operating and investing activities and on the other the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.
As described in the Risk management section, Reply S.p.A has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce the liquidity risk, as follows:

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

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

## CURRENCY RISK

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

## INTEREST RATE RISK

Reply S.p.A. makes use of external funds obtained in the form of financing and invest in monetary and financial market instruments. Changes in market interest rates can affect the cost of the various forms of financing, including the sale of receivables, or the return on investments, and the employment of funds, causing an impact on the level of net financial expenses incurred by the company. To mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as "cash flow hedges".

## SENSITIVITY ANALYSIS

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

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

A hypothetical, unfavourable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2020 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 184 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 2020, according to the fair value hierarchical assessment level.

| (THOUSAND EUROS) | NOTE | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| Investments | 21 | - | - | 56,409 |
| Convertible loans | 22 | - | - | 3,486 |
| Financial securities | 22 | 1,815 | - | - |
| **Total financial assets** | | **1,815** | **-** | **59,895** |
| Derivative financial liabilities (IRS) | 30 | - | 3,705 | |
| Liabilities to minority shareholders and earn out | 29 | - | - | 71,381 |
| **Total financial liabilities** | | **-** | **3,705** | **71,381** |

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

The item Financial securities is related to securities listed on the active stock markets and therefore falls under the fair value hierarchical level 1.

To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes). The latter, in the calculation of their estimates made use of data observed on the market directly (interest rates) or indirectly (interest rate interpolation curves observed directly): consequently, for the purposes of IFRS 7 the fair value used by the Group for the exploitation of hedging derivatives contracts in existence as at 31 December 2020 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 2020, there have not been any transfers within the hierarchy levels.

## NOTE 38 - TRANSACTIONS WITH RELATED PARTIES

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

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

**(THOUSAND EUROS)**

| **FINANCIAL TRANSACTIONS** | **31/12/2020** | **31/12/2019** | **NATURE OF TRANSACTION** |
|---|---|---|---|
| Trade receivables | 183 | 153 | Receivables from professional services |
| Trade payables and other | 258 | - | Payables for professional services and official rentals offices |
| Other payables | 7,927 | 5,210 | Payables for emoluments to Directors and Managers with strategic responsibilities and Board of Statutory Auditors |
| **ECONOMIC TRANSACTIONS** | **2020** | **2019** | |
| Revenues from professional services | 30 | 158 | Revenues from professional services |
| Services from Parent company and related parties | 1,604 | 1,158 | Service contracts relating to office rental, and office administration |
| Personnel | 12,592 | 9,268 | Emoluments to Directors and Key Management with strategic responsibilities |
| Services and other costs | 152 | 122 | Emoluments to Statutory Auditors |

With reference to the Cash flows statement, the above mentioned transactions impact the change in working capital by 2,945 thousand Euros.

### REPLY GROUP MAIN ECONOMIC AND FINANCIAL TRANSACTIONS

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

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006 the financial statements present the Consolidated Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption.
Pursuant to Art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

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



The fees of the Directors and statutory Auditors of Reply S.p.A. for carrying out their respective function, including those in other subsidiary companies, are as follows:

| (THOUSAND EUROS) | 2020 | 2019 |
|---|---|---|
| Executive Directors | 7,615 | 6,804 |
| Statutory auditors | 152 | 122 |
| **Total** | **7,767** | **6,926** |

Emoluments to Key management amounted to approximately 4,977 thousand Euros (2,464 thousand Euros at 31 December 2019).

## NOTE 40 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

### GUARANTEES

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

### COMMITMENTS

Note that:

- The Domination Agreement contract undersigned in 2010 between Reply Deutschland AG, dominated company, and Reply S.p.A, dominating company, ceased to exist from the date of legal efficacy of the merger for incorporation of Reply Deutschland AG in Reply S.p.A and with this, the obligations taken on by Reply. It is reported that the judgment of the qualified German Court is still pending for deciding on the suitability of the strike value of the acquisition option of shares on request of the minority shareholders of Reply Deutschland AG at a pre-determined price (8.19 euros). On June 2018, the German court took note of the agreement reached between the parties also affected by the agreement related to the merger of the following point.
  With regard to shareholders who did not join the settlement agreement, in February 2019, the German Court issued a judgment that provides for an increase of 1.81 euros in the price paid per share and an increase of 0.07 euros gross of the dividends paid in 2010-2013. The financial effects on the Group are covered by specific provisions.
- With regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122j of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.

Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure. On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.

Some minority shareholders have commenced the aforementioned procedures.
Following exchanges with the minority shareholders and their appointed representative, the Company has reached a settlement agreement where the payment of an additional amount of 4.41 Euros per share of Reply Deutschland was agreed plus legal interest, in addition to the flat-rate reimbursement of proceedings costs. On 18 June 2018, the German court took note of the agreement reached between the parties. The expenses arising from this agreement amounting to approximately 5 million Euros is covered by specific provisions (please see Note 33).

In relation to the above accruals, as a result of the utilizations, the provision for risks has a residual amount of 100 thousand Euros at 31 December 2020.

**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 recognises specific provision for this purpose.

## NOTE 41 - EVENTS SUBSEQUENT TO 31 DECEMBER 2020

The battle against the Covid-19 pandemic will continue to determine the evolution of the economy at least for the first 6-9 months of 2021. The emergency, at the time of this annual report, is still ongoing, with different trends in the countries where Reply is present. Its evolution will depend, to a large extent, on the effectiveness and speed of the vaccination plans that the various countries have begun to activate.

In recent months, despite the difficulties introduced by the various local and national lock-downs, Reply has managed to guarantee the continuity of activities at each customer, thanks to a way of working already long based on advanced tools of individual productivity and, on the massive use of collaboration and development platforms entirely in the cloud.

In particular, between December 2020 and February 2021, when the second wave of the pandemic hit much of the Western world, Reply, thanks to the resilience of its organizational model, compensated, very quickly, for yet another slowdown in activities related to particularly affected sectors such as, transport, manufacturing and tourism.
The Group's financial soundness has also allowed us to continue on the path of growth and development in Europe, England and North America and to enrich with new skills the main offers on the cloud, artificial intelligence, 5g, robotics, e-commerce and connected vehicles.

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

The Consolidated financial statements at 31 December 2020 were approved by the Board of Directors on March 15, 2021 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) | 2020 | OF WHICH WITH RELATED PARTIES | % | 2019 | OF WHICH WITH RELATED PARTIES | % |
|---|---|---|---|---|---|---|
| **Revenues** | **1,250,191** | **30** | **-** | **1,182,528** | **158** | **0.01%** |
| Other income | 19,405 | | | 23,159 | | |
| Purchases | (21,510) | | | (21,250) | | |
| Personnel | (621,362) | (12,592) | 2.0% | (578,263) | (9,268) | 1.6% |
| Service costs | (419,235) | (1,756) | 0.4% | (414,077) | (1,280) | 0.3% |
| Amortization, depreciation and write-downs | (42,441) | | | (37,239) | | |
| Other operating and non-recurring (cost)/income | 4,484 | | | 466 | | |
| **Operating income** | **169,531** | | | **155,324** | | |
| (Loss)/gain on investments | 1,240 | | | 11,364 | | |
| Financial income/(expenses) | (8,717) | | | (5,268) | | |
| **Income before taxes** | **162,054** | | | **161,419** | | |
| Income taxes | (37,848) | | | (44,829) | | |
| **Net income** | 124,206 | | | 116,590 | | |
| Non-controlling interest | (608) | | | (2,732) | | |
| **Group net result** | **123,598** | | | **113,858** | | |

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

| (THOUSAND EUROS) | 31/12/2020 | OF WHICH WITH RELATED PARTIES | % | 31/12/2019 | OF WHICH WITH RELATED PARTIES | % |
|---|---|---|---|---|---|---|
| Tangible assets | 51,782 | | | 48,298 | | |
| Goodwill | 330,749 | | | 267,541 | | |
| Intangible assets | 25,758 | | | 13,676 | | |
| RoU Assets | 137,645 | | | 90,569 | | |
| Equity investments | 56,421 | | | 56,991 | | |
| Other financial assets | 9,577 | | | 7,567 | | |
| Deferred tax assets | 52,921 | | | 33,527 | | |
| **Non-current assets** | **664,852** | | | **518,170** | | |
| Inventories | 79,784 | | | 75,328 | | |
| Trade receivables | 344,700 | 183 | 0.05% | 432,240 | 153 | 0.04% |
| Other receivables and current assets | 81,306 | | | 39,566 | | |
| Financial assets | 2,108 | | | 1,666 | | |
| Cash and cash equivalents | 333,819 | | | 240,943 | | |
| **Current assets** | **841,716** | | | **789,743** | | |
| **TOTAL ASSETS** | **1,506,568** | | | **1,307,913** | | |
| Share Capital | 4,863 | | | 4,863 | | |
| Other reserves | 546,578 | | | 465,000 | | |
| Net result of the period | 123,598 | | | 113,858 | | |
| **Group shareholders' equity** | **675,039** | | | **583,722** | | |
| Non-controlling interest | 918 | | | 3,339 | | |
| **NET EQUITY** | **675,957** | | | **587,061** | | |
| Due to minority shareholders and Earn-out | 53,010 | | | 38,395 | | |
| Financial liabilities | 20,387 | | | 26,857 | | |
| Financial liabilities from RoU | 118,796 | | | 71,710 | | |
| Employee benefits | 46,112 | | | 43,355 | | |
| Deferred tax liabilities | 16,117 | | | 19,810 | | |
| Provisions | 10,753 | | | 8,897 | | |
| **Non-current liabilities** | **265,174** | | | **209,025** | | |
| Due to minority shareholders and Earn-out | 18,370 | | | 13,073 | | |
| Financial liabilities | 13,629 | | | 18,557 | | |
| Financial liabilities from RoU | 24,453 | | | 20,454 | | |
| Trade payables | 114,149 | 258 | 0.23% | 119,951 | | |
| Other current liabilities | 394,110 | 7,927 | 2.01% | 339,113 | 5,210 | 1.54% |
| Provisions | 724 | | | 680 | | |
| **Current liabilities** | **565,437** | | | **511,828** | | |
| **TOTAL LIABILITIES** | **830,611** | | | **720,853** | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,506,568** | | | **1,307,913** | | |

## LIST OF COMPANIES AT 31 DECEMBER 2020

| COMPANY NAME | HEADQUARTERS | GROUP INTEREST |
|---|---|---|
| **Parent company** | | |
| Reply S.p.A. | Turin – Corso Francia, 110 - Italy | |
| **Companies consolidated on a line-by-line basis** | | |
| 4brands Reply GmbH & CO. KG. (**) | Minden, Germany | 51.00% |
| Air Reply S.r.l. (*) | Turin, Italy | 85.00% |
| Airwalk Holding Ltd. | Kent, United Kingdom | 100.00% |
| Airwalk Consulting Ltd. | Edinburgh, Scotland | 100.00% |
| Airwalk Consulting Ltd. (Hong Kong) | Shueng Wan, Hong Kong | 100.00% |
| AWC Partners Ltd. | London, United Kingdom | 100.00% |
| Alpha Reply GmbH | Guetersloh, Germany | 100.00% |
| 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% |
| Autonomous Reply GmbH | Guetersloh, Germany | 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% |
| Avvio Reply S.r.l. | Turin. Italy | 100.00% |
| Blowfish Digital Holdings Ltd. | London, United Kingdom | 100.00% |
| Blue Reply S.r.l. | Turin, Italy | 100.00% |
| Blue Reply GmbH | Guetersloh, Germany | 100.00% |
| Bridge Reply S.r.l. | Turin, Italy | 60.00% |
| Business Reply S.r.l. | Turin, Italy | 100.00% |
| Breed Reply Ltd. | London, United Kingdom | 100.00% |
| Breed Reply Investment Ltd. | London, United Kingdom | 91.00% |
| Brightknight SA | Belgium | 100.00% |
| Cluster Reply S.r.l. | Turin, Italy | 100.00% |
| Cluster Reply GmbH & CO. KG (**) | Munich, Germany | 100.00% |
| Cluster Reply Informatica LTDA. | San Paolo, Brazil | 100.00% |
| Cluster Reply Roma S.r.l. | Turin, Italy | 100.00% |
| Comsysto D.O.O. | Zagreb, Croatia | 100.00% |
| ComSysto Reply GmbH | Munich, Germany | 100.00% |

| | | |
|---|---|---|
| Concept Reply GmbH | Munich, Germany | 100.00% |
| Concept Reply LLC | Michigan, USA | 100.00% |
| Consorzio Reply Public Sector | Turin, Italy | 100.00% |
| Core Reply S.r.l. | Turin, Italy | 90.00% |
| Data Reply S.r.l. | Turin, Italy | 100.00% |
| Data Reply GmbH | Munich, Germany | 100.00% |
| 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% |
| Elbkind Reply GmbH | Hamburg, Germany | 100.00% |
| Eos Reply S.r.l. | Turin, Italy | 100.00% |
| Envision Reply S.r.l. | Turin, Italy | 88.00% |
| Forge Reply S.r.l. | Turin, Italy | 100.00% |
| France Reply Ltd. (***) | London, United Kingdom | 100.00% |
| Go Reply S.r.l. | Turin, Italy | 100.00% |
| Go Reply GmbH | Guetersloh, Germany | 100.00% |
| Hermes Reply S.r.l. | Turin, Italy | 100.00% |
| Hermes Reply Consulting (Nanjing) Co. Ltd. | China | 100.00% |
| Hermes Reply Polska Zo.O. | Katowice, Poland | 100.00% |
| Implico LLC | Seattle, USA | 100.00% |
| Industrie Reply GmbH | Munich, Germany | 100.00% |
| Industrie Reply LLC | Michigan, USA | 100.00% |
| Infinity Reply GmbH | Düsseldorf, Germany | 100.00% |
| IrisCube Reply S.r.l. | Turin, Italy | 100.00% |
| Laife Reply GmbH | Munich, Germany | 100.00% |
| Leadvise Reply GmbH | Darmstadt, Germany | 100.00% |
| Like Reply S.r.l. | Turin, Italy | 100.00% |
| Live Reply GmbH | Düsseldorf, Germany | 100.00% |
| Logistics Reply S.r.l. | Turin, Italy | 100.00% |
| Logistics Reply GmbH | Munich, Germany | 100.00% |
| Lynx Recruiting Ltd. (***) | London, United Kingdom | 100.00% |
| Macros Reply GmbH | Munich, Germany | 100.00% |

| | | |
|---|---|---|
| Mansion House Consulting Ltd | London, United Kingdom | 100.00% |
| Mansion House Consulting PTE Limited | Singapore | 100.00% |
| MHC Holding Us Ltd. | London, United Kingdom | 100.00% |
| Mansion House Consulting Inc. | Wilmington, USA | 100.00% |
| MCG Systems AG | Colony, Germany | 100.00% |
| Modcomp GmbH | Colony, Germany | 100.00% |
| Neveling.net GmbH | Hamburg, Germany | 100.00% |
| Open Reply GmbH | Guetersloh, Germany | 100.00% |
| Open Reply S.r.l. | Turin, Italy | 100.00% |
| Pay Reply S.r.l | Turin, Italy | 100.00% |
| Portaltech Reply Ltd. (***) | London, United Kingdom | 100.00% |
| Portaltech Reply S.r.l. | Turin, Italy | 100.00% |
| Portaltech Reply GmbH | Guetersloh, Germany | 100.00% |
| Portaltech Reply Süd GmbH | Munich, Germany | 100.00% |
| Power Reply S.r.l. | Turin, Italy | 100.00% |
| Power Reply GmbH & CO. KG. (**) | Munich, Germany | 100.00% |
| Protocube Reply S.r.l. | Turin, Italy | 70.00% |
| Red Reply GmbH | Frankfurt, Germany | 100.00% |
| Reply Consulting S.r.l. | Turin, Italy | 100.00% |
| Reply AG | Guetersloh, Germany | 100.00% |
| Reply GmbH | Zurich, Switzerland | 100.00% |
| Reply do Brasil Sistemas de Informatica Ltda | Belo Horizonte, Brazil | 100.00% |
| Reply Inc. | Michigan, USA | 100.00% |
| Reply Ltd. | London, United Kingdom | 100.00% |
| Reply Belgium Sprl | Mont Saint Guibert, Netherland | 100.00% |
| Reply Digital Experience S.r.l. | Turin, Italy | 100.00% |
| Reply France Sarl | Paris, France | 100.00% |
| Reply Luxembourg Sarl | Sandweiler, Luxembourg | 100.00% |
| Reply NL Ltd. (***) | London, United Kingdom | 100.00% |
| Reply Services S.r.l. | Turin, Italy | 100.00% |
| Reply Verwaltung GmbH | Guetersloh, Germany | 100.00% |
| Retail Reply S.r.l. | Turin, Italy | 100.00% |

| | | |
|---|---|---|
| Ringmaster S.r.l. | Turin, Italy | 50.00% |
| Risk Reply Ltd. (***) | London, United Kingdom | 100.00% |
| Riverland Reply GmbH | Munich, Germany | 100.00% |
| Sagepath LLC (*) | Atlanta, USA | 70.00% |
| Santer Reply S.p.A. | Milan, Italy | 100.00% |
| Security Reply S.r.l. | Turin, Italy | 100.00% |
| Sense Reply S.r.l. | Turin, Italy | 90.00% |
| Solidsoft Reply Ltd. (***) | London, United Kingdom | 100.00% |
| Spark Reply S.r.l. | Turin, Italy | 100.00% |
| Spark Reply GmbH | Germany | 100.00% |
| Spike Reply GmbH | Colony, Germany | 100.00% |
| Sprint Reply S.r.l. | Turin, Italy | 100.00% |
| Sprint Reply GmbH | Munich, Germany | 100.00% |
| Spot Digital Ltd. | London, United Kingdom | 100,00% |
| Storm Reply S.r.l. | Turin, Italy | 100.00% |
| Storm Reply GmbH | Guetersloh, Germany | 100.00% |
| Syskoplan Reply S.r.l. | Turin, Italy | 100.00% |
| Syskoplan Reply GmbH & CO. KG | Guetersloh, Germany | 100.00% |
| Sytel Reply Roma S.r.l. | Turin, Italy | 100.00% |
| Sytel Reply S.r.l. | Turin, Italy | 100.00% |
| Target Reply S.r.l. | Turin, Italy | 100.00% |
| TamTamy Reply S.r.l. | Turin, Italy | 100.00% |
| Technology Reply S.r.l. | Turin, Italy | 100.00% |
| Technology Reply Roma S.r.l. | Turin, Italy | 100.00% |
| Technology Reply S.r.l. | Bucharest, Romania | 100.00% |
| TD Reply GmbH | Berlin, Germany | 100.00% |
| TD Marketing Consultants, Beijing Co. Ltd. | China | 100.00% |
| Threepipe Reply Ltd. | London, United Kingdom | 100,00% |
| Tool Reply GmbH | Guetersloh, Germany | 100.00% |
| Triplesense Reply GmbH | Frankfurt, Germany | 100.00% |
| Valorem LLC (*) | Kansas City, USA | 90.00% |
| Valorem Private Ltd | India | 99.99% |

| | | |
|---|---|---|
| Valorem GmbH | Zurich, Switzerland | 100.00% |
| WM Reply Inc. | Illinois, USA | 80.00% |
| WM Reply LLC | Minsk, Belarus | 100.00% |
| WM Reply Ltd | Auckland, NZ | 100.00% |
| WM Reply Ltd. (***) | London, United Kingdom | 100.00% |
| Whitehall Reply S.r.l. | Turin, Italy | 100.00% |
| Xister Reply S.r.l. | Turin, Italy | 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 2020 Annual Financial Report.

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

(***) As permitted under English law, these subsidiary companies have claimed audit exemption under Companies Act 2006: Avvio Reply Ltd Company No. 02865104, Avantage Reply Ltd Company No. 05177605, Lynx Recruitment Ltd Company No. 04289642, Portaltech Reply Ltd Company No. 03999284, Solidsoft Reply Ltd Company No. 02853022, Risk Reply Ltd Company No. 09030959, France Reply Ltd Company No. 08823238, Reply NL Ltd Company No. 09920476 and WM Reply Ltd Company number: 07466050 The parent, Reply S.p.A has given a statement of guarantee under Companies Act Section 479A whereby Reply S.P.A will guarantee all outstanding liabilities to which aforementioned UK registered companies are subject as at 31 December 2020.

## Companies carried at fair value

| | | |
|---|---|---|
| Amiko Digital Health Ltd | England | 19.68% |
| CageEye AS | Norway | 9.95% |
| Callsign Inc. | England | 3.61% |
| Canard Drones Ltd | Spain | 24.06% |
| Connecterra BV | Belgium | 16.00% |
| enModus Ltd. | England | 19.18% |
| FoodMarble Digestive Health Ltd | England | 18.05% |
| iNova Design Ltd | England | 34.05% |
| Iotic Labs Ltd | England | 16.28% |
| Kokoon Technology Ltd | England | 29.53% |
| Metron Sas | France | 10.11% |
| RazorSecure Ltd | England | 32.03% |
| Senseye Ltd | England | 12.58% |
| Sensoria Inc. | USA | 24.00% |
| TAG Sensors AS | Norway | 15.60% |
| Ubirch GmbH | Germany | 18.51% |
| We Predict Ltd | England | 16.64% |
| Wearable Technologies Ltd | England | 18.64% |
| Yellow Line Parking Ltd | England | 9.86% |
| Zeetta Networks Ltd | England | 29.28% |

## Companies carried at cost

| | | |
|---|---|---|
| Reply Sarl | Luxembourg | 100.00% |

## 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 2020 for the audit and audit related services provided by the Independent Auditors and by entities that are part of the Independent Auditors' network.

| (EUROS) | SERVICE PROVIDER | GROUP ENTITY | FEE 2020 |
|---|---|---|---|
| **Audit** | PwC S.p.A. | Parent company - Reply S.p.A. | 89,552 (*) |
| | PwC S.p.A. | Subsidiaries | 386,674 |
| | PwC LLP - US | Subsidiaries | 85,000 |
| | PwC GmbH | Subsidiaries | 212,775 |
| | **Total** | | **774,002** |
| **Audit related services** | PwC S.p.A. | Parent company - Reply S.p.A (1) | 11,200 |
| | PwC S.p.A. | Parent company - Reply S.p.A (2) | 32,000 |
| | PwC S.p.A. | Subsidiaries (1) | 30,176 |
| | **Total** | | **73,376** |
| **Other services** | PwC LLP - US | Subsidiaries (3) | 25,200 |
| **Total** | | | **872,578** |

(1) Signed tax forms (Modello Unico, IRAP and Form 770)
(2) DNF
(3) Audit of the interim report of Valorem LLC to determine 2020 earn-out value
(*) includes an extra 48 thousand euros for activities on the new ERP system SAP

# 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 2020.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2020 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 2021

/s/ Mario Rizzante
Chairman and Chief Executive Officer

**Mario Rizzante**

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

**Giuseppe Veneziano**

# REPORT OF THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

## related to the consolidated financial statements as at 31 December 2020



Dear Shareholders,

The Board of Directors is submitting to you the Consolidated Financial Statements as at 31 December 2020 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 2020 present a consolidated Shareholders' equity amounting to 675,039 thousand Euros, including a consolidated profit of 123,598 thousand Euros.

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

The consolidation area is determined in such context, which included as at 31 December 2020 in addition to the Parent Company, 134 companies and 1 consortium, all of which consolidated on a line-by-line basis.

The controls made by the Independent Auditor PricewaterhouseCoopers S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2020 are supported by the Parent Company's accounting records, in the financial statements for the reporting period of the subsidiaries, and in the information that they have formally communicated.

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

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

PricewaterhouseCoopers S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements, has issued its report on March 30, 2021 in which it confirms that, in its opinion:

- the Consolidated Financial Statements of the Reply Group as at 31 December 2020 conform to the International Financial Reporting Standards (IFRS) endorsed by the European Union, as well as to the measures issued to implement Article 9 of Legislative Decree 38/2005 and, therefore, they were prepared with clarity and represent a true and fair view of the financial and economic position, the economic result and the cash flows of the Reply Group as at such date,
- the Report on Operations and some of the information pursuant to Article 123-bis, paragraph 4 of Legislative Decree 58/1998 presented in the Report on Corporate Governance and Ownership Structure

are consistent with the Consolidated Financial Statements and are prepared in accordance to the law.

PricewaterhouseCoopers S.p.A. has identified the recoverability of goodwill as a Key Audit Matter.

- On the basis of the audits and controls carried out, we certify that: The consolidation area has been determined in a correct manner;
- The consolidation procedures adopted conform to legal requirements and have been properly applied;
- The review of the Report on Operations demonstrated that it is consistent with the consolidated Financial statements;
- All the information used for the consolidation refers to the entire administrative period represented by the financial year 2020;
- The measurement criteria are homogeneous with those used for the previous reporting period;
- Changes in consolidation compared to 31 December 2019 consist in the inclusion of the following companies:
  - Airwalk Holing Ltd;
  - Airwalk Consulting Ltd;
  - Airwalk Consulting Ltd. (Hong Kong);
  - AWC Partners Ltd;
  - Autonomous Reply GmbH;
  - Avvio Reply S.r.l.;
  - Brightnight SA;
  - Concept Reply LLC;
  - Laife Reply GmbH;
  - Mansion House Consulting Ltd;
  - Mansion House Consulting PTE Limited;
  - MHC Holding Us Ltd;
  - Mansion House Consulting Inc.;
  - Red Reply GmbH;
  - Sagepath LLC;
  - WM Reply Ltd (Auckland NZ);

- whereas the following companies are no longer in consolidation:
  - Avantage Reply Gmbh (incorporated in Syskoplan GmbH);
  - Lem Reply S.r.l..

Finally, we remind you that our three-year office term has expired and in thanking you for the trust you have given us, we invite you to take the necessary actions.

Genova - Turin, 30 March 2021
THE STATUTORY AUDITORS
**(Dott. Giorgio Mosci)**
**(Dott.ssa Ada Alessandra Garzino Demo)**
**(Dott. Piergiorgio Re)**

pwc

# *Independent auditor's report*

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

To the shareholders of Reply SpA

## *Report on the Audit of the Consolidated Financial Statements*

### *Opinion*

We have audited the consolidated financial statements of Reply Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

### *Basis for Opinion*

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

### *Key Audit Matters*

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


*PricewaterhouseCoopers SpA*

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

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### *Key Audit Matters*

#### Evaluation of the recoverability of goodwill

*Note 18 to the consolidated financial statements "Goodwill"*

The goodwill as of 31 December 2020 is equal to Euro 331 million, related to the Region 1's cash generating unit ("CGU") for Euro 112 million, to the Region 2's CGU for Euro 109 million and to Region 3's CGU for Euro 110 million. Goodwill represents approximately 22% of total assets, therefore is a significant line item of the consolidated financial statements.

Group's management tests the impairment of each identified CGU's goodwill, by comparing the carrying amount with the recoverable amount in accordance with IAS 36 (impairment test), annually or when there is any indication of impairment based on which the value of the goodwill is expected to be recovered with difficulty.

Group management with the support of external experts, performed the annual impairment test as at 31 December 2020 for all the CGU identified. Based on the impairment test performed as at 31 December 2020 the recoverable amounts of all the CGU identified resulted higher than the carrying values.

The impairment test involved the usage of complex estimates for instance those related to future cash flows and related normalization, discount rates and growth rate used to estimate the terminal value beyond the projections of the explicit cash flows.

This was an area of particular audit focus because of the CGU's goodwill materiality and the complexity of the assumptions used to determine

### *Auditing procedures performed in response to key audit matters*

The audit procedures performed included the analysis of the consistency between the impairment test procedures approved by the board of directors, the requirements of the International Accounting Standard 36 and the impairment test procedure effectively in place.

We analysed the key assumptions utilized to determine the net present value of the prospective cash flows. These activities have been performed through discussion held with Group's management, comparing discount rate and growth rate with market benchmark, with indications provided by external experts and with corresponding assumptions and parameters used in the context of impairment test performed for the previous annual financial report.

Additionally, we evaluated the consistency between the expected cash flows used for the impairment test and the ones approved by the Board of Directors and we verified the accuracy of underlying calculations. These activities have been integrated with the support of PwC experts with the review of Group's management sensitivity analyses performed on risk factors identified, and on some parameters used in the impairment test like discount rate and growth rate.

Lastly, we verified the adequacy of the financial disclosure based on international financial reporting standards requirements, also considering information and data

| *Key Audit Matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| the value in use. | obtained during our audit, with a particular focus on the description of the impairment test process, disclosure of main assumptions, quantitative results of the impairment test and sensitivity analysis. |

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

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

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

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

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

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

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

## *Report on Compliance with other Laws and Regulations*

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

The directors of Reply SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Reply Group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Reply Group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Reply Group as of 31 December 2020 and are prepared in compliance with the law.

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

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

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

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

Turin, 30 March 2021

PricewaterhouseCoopers SpA

*Signed by*

Mattia Molari
(Partner)

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

# FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

# INCOME STATEMENT (*)

| (EUROS) | NOTE | 2020 | 2019 |
|---|---|---|---|
| Revenue | 5 | 531,223,744 | 534,005,629 |
| Other income | 6 | 12,884,123 | 14,335,309 |
| Purchases | 7 | (24,819,193) | (26,553,872) |
| Personnel | 8 | (25,955,930) | (22,681,309) |
| Services and other costs | 9 | (484,010,216) | (487,105,947) |
| Amortization, depreciation and write-downs | 10 | (1,977,953) | (1,378,856) |
| Other operating and non-recurring income/(expenses) | 11 | 55,433 | (2,102,000) |
| **Operating income** | | **7,400,007** | **8,518,955** |
| Gain/(loss) on equity investments | 12 | 73,706,187 | 72,561,906 |
| Financial income/(expenses) | 13 | (7,277,504) | 9,708,821 |
| **Income before taxes** | | **73,828,690** | **90,789,682** |
| Income taxes | 14 | (421,464) | (1,540,684) |
| **Net income** | | **73,407,227** | **89,248,998** |
| *Net and diluted income per share* | *15* | *1.96* | *2.40* |

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

# STATEMENT OF COMPREHENSIVE INCOME

| (EUROS) | NOTE | 2020 | 2019 |
|---|---|---|---|
| **Profit of the period (A)** | | **73,407,227** | **89,248,998** |
| Other comprehensive income that will not be reclassified subsequently to profit or loss | | | |
| Actuarial gains/(losses) from employee benefit plans | 28 | (24,045) | (29,248) |
| **Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):** | | **(24,045)** | **(29,248)** |
| Other comprehensive income that may be reclassified subsequently to profit or loss: | | | |
| Gains/(losses) on cash flow hedges | 28 | 1,089,317 | (1,156,830) |
| **Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):** | | **(1,089,317)** | **(1,156,830)** |
| **Total other comprehensive income, net of tax (B) = (B1) + (B2):** | | **1,065,272** | **(1,186,078)** |
| **Total comprehensive income (A)+(B)** | | **74,472,498** | **88,062,920** |

# STATEMENT OF FINANCIAL POSITION (*)

| (EUROS) | NOTE | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| Tangible assets | 17 | 333,489 | 208,885 |
| Goodwill | 18 | 86,765 | 86,765 |
| Intangible assets | 19 | 6,646,657 | 4,661,803 |
| RoU assets | 20 | 755,027 | 722,294 |
| Equity investments | 21 | 144,527,524 | 142,118,922 |
| Other financial assets | 22 | 248,530,974 | 174,871,137 |
| Deferred tax assets | 23 | 6,112,288 | 5,538,988 |
| **Non-current assets** | | **406,992,725** | **328,208,793** |
| Trade receivables | 24 | 320,790,536 | 353,511,710 |
| Other receivables and current assets | 25 | 72,109,275 | 27,350,198 |
| Financial assets | 26 | 27,349,313 | 47,493,994 |
| Cash and cash equivalents | 27 | 184,012,136 | 161,330,565 |
| **Current assets** | | **604,261,260** | **589,686,466** |
| **TOTAL ASSETS** | | **1,011,253,985** | **917,895,259** |
| Share Capital | | 4,863,486 | 4,863,486 |
| Other reserves | | 389,243,196 | 318,380,775 |
| Net income | | 73,407,227 | 89,248,998 |
| **NET EQUITY** | **28** | **467,513,909** | **412,493,259** |
| Due to minority shareholders | 29 | - | 1,019,980 |
| Financial liabilities | 30 | 18,024,304 | 23,871,428 |
| IFRS 16 financial liabilities | 30 | 383,955 | 394,992 |
| Employee benefits | 31 | 810,266 | 703,702 |
| Deferred tax liabilities | 32 | 776,201 | 2,978,117 |
| Provisions | 35 | 6,065,000 | 5,942,347 |
| **Non-current liabilities** | | **26,059,725** | **34,910,565** |
| Financial liabilities | 30 | 156,251,633 | 95,775,792 |
| IFRS 16 financial liabilities | 30 | 373,712 | 324,907 |
| Trade payables | 33 | 289,681,517 | 313,652,192 |
| Other current liabilities | 34 | 61,373,490 | 50,738,544 |
| Provisions | 35 | 10,000,000 | 10,000,000 |
| **Current liabilities** | | **517,680,351** | **470,491,435** |
| **TOTAL LIABILITIES** | | **543,740,076** | **505,402,000** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,011,253,985** | **917,895,259** |

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

# STATEMENT OF CHANGES IN EQUITY

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

| (EUROS) | SHARE CAPITAL | TREASURY SHARES | CAPITAL RESERVES | EARNING RESERVES | CASH FLOW HEDGE RESERVE | RESERVE FOR ACTUARIAL GAINS/ (LOSSES) | TOTAL |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | **4,863,486** | **(24,502)** | **129,183,600** | **281,031,221** | **(2,529,268)** | **(31,278)** | **412,493,259** |
| Dividends distributed | - | - | - | (19,451,848) | - | - | (19,451,848) |
| Increase for acquisition of treasury shares | - | - | 76,697,308 | (76,697,308) | - | - | - |
| Total profit | - | - | - | 73,407,227 | 1,089,317 | (24,045) | 74,472,498 |
| **Balance at 31 December 2020** | **4,863,486** | **(24,502)** | **205,880,909** | **258,289,291** | **(1,439,951)** | **(55,323)** | **467,513,909** |

# STATEMENT OF CASH FLOWS

| (EUROS) | 2020 | 2019 |
|---|---|---|
| Result | 73,407,227 | 89,248,998 |
| Income taxes | 421,464 | 1,540,684 |
| Amortization and depreciation | 1,977,953 | 1,378,856 |
| Other non-monetary expenses/(income) | 1,214,697 | 2,554,555 |
| Change in trade receivables | 32,721,173 | (11,782,297) |
| Change in trade payables | (23,970,675) | (16,340,023) |
| Change in other assets and liabilities | (32,972,780) | 39,596,901 |
| Income tax paid | (1,540,684) | (2,038,858) |
| Interest paid | (2,596,763) | (1,104,836) |
| Interest cashed | 18,633 | 31,692 |
| **Net cash flows from operating activities (A)** | **48,680,245** | **104,085,671** |
| Payments for tangible and intangible assets | (3,653,037) | (2,639,844) |
| Payments for financial assets | (73,942,893) | (17,521,273) |
| Change in right of use assets | - | (452,654) |
| Payments for the acquisition of subsidiaries net of cash acquired | (2,755,765) | (1,250,700) |
| **Net cash flows from investment activities (B)** | **(80,351,695)** | **(21,864,472)** |
| Dividends paid | (19,451,848) | (16,833,330) |
| In payments from treasury shares | 500,000 | 2,800,000 |
| Payment of financial liabilities | (12,928,571) | (16,785,715) |
| Change in financial liabilities from RoU IFRS 16 | (445,188) | 122,690 |
| Other changes | - | (29,248) |
| **Net cash flows from financing activities (C)** | **(32,325,608)** | **(30,725,603)** |
| **Net cash flows (D) = (A+B+C)** | **(63,997,058)** | **51,495,597** |
| Cash and cash equivalents at the beginning of period | 129,375,965 | 77,880,368 |
| Cash and cash equivalents at period end | 65,378,907 | 129,375,965 |
| **Total change in cash and cash equivalents (D)** | **(63,997,058)** | **51,495,597** |

**DETAIL OF CASH AND CASH EQUIVALENTS**

| (EUROS) | 2020 | 2019 |
|---|---|---|
| **Cash and cash equivalents at beginning of period:** | **129,375,965** | **77,880,368** |
| Cash and cash equivalents | 161,330,565 | 71,016,284 |
| Transaction accounts – surplus | 47,493,994 | 67,655,451 |
| Transaction accounts - overdraft | (79,448,593) | (56,786,827) |
| Bank overdrafts | - | (4,004,540) |
| **Cash and cash equivalents at the end of the year:** | **65,378,907** | **129,375,965** |
| Cash and cash equivalents | 184,012,136 | 161,330,565 |
| Transaction accounts - surplus | 27,066,257 | 47,493,994 |
| Transaction accounts - overdraft | (145,699,486) | (79,448,593) |

# NOTES TO THE FINANCIAL STATEMENTS

| | | |
|---|---|---|
| **FINANCIAL POSITION- LIABILITIES AND SHAREHOLDERS' EQUITY** | NOTE 28 | Shareholders' equity |
| | NOTE 29 | Due to minority shareholders |
| | NOTE 30 | Financial liabilities |
| | NOTE 31 | Employee benefits |
| | NOTE 32 | Deferred tax liabilities |
| | NOTE 33 | Trade payables |
| | NOTE 34 | Other current liabilities |
| | NOTE 35 | Provisions |
| **OTHER INFORMATION** | NOTE 36 | Transactions with related parties |
| | NOTE 37 | Additional disclosures to financial instruments and risk management policies |
| | NOTE 38 | Significant non-recurring transactions |
| | NOTE 39 | Transactions resulting from unusual and/or abnormal operations |
| | NOTE 40 | Guarantees, commitments and contingent liabilities |
| | NOTE 41 | Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities |
| | NOTE 42 | Events subsequent to 31 December 2020 |
| | NOTE 43 | Approval of the financial statements and authorization for publication |

## NOTE 1 – GENERAL INFORMATION

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

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

## NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

### COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The 2020 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

In compliance with European Regulation No. 1606 of 19 July 2002, beginning in 2005, the Reply Group adopted the International Financial Reporting Standards ("IFRS") for the preparation of its Consolidated Financial Statements. On the basis of national legislation implementing the aforementioned Regulation, those accounting standards were also used to prepare the separate Financial Statements of the Parent Company, Reply S.p.A., for the first time for the year ended 31 December 2006.
It is hereby specified that the accounting standards applied conform to those adopted for the preparation of the initial Statement of Assets and Liabilities as at 1 January 2005 according to the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

### GENERAL PRINCIPLES

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

The Financial Statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Company's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist relative to its ability to continue as a going concern.
These Financial Statements are expressed in Euros and are compared to the Financial Statements of the previous year prepared in accordance with the same principles.
These Financial Statements have been drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.
The fiscal year consists of a twelve (12) month period and closes on the 31 December each year.

**FINANCIAL STATEMENTS**

The Financial Statements include statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.
The income statement format adopted by the company classifies costs according to their nature, which is deemed to properly represent the company's business.
The Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.

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

## TANGIBLE ASSETS

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

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

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

## GOODWILL

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

## OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

- An internally-generated intangible asset arising from the company's e-business development (such as informatics solutions) is recognized only if all of the following conditions are met:
- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits;
- The development cost of the asset can be measured reliably.

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

| | |
|---|---|
| Development costs | 33% |
| Software | 33% |

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.

**ROU ASSETS**

According to IFRS 16, the accounting representation of leases (which do not establish the provision of services) takes place through the inclusion in the financial position of a financial liability, represented by the present value of future rents, against the inclusion in the assets of the 'right of use of the leased asset'. Leases that were previously accounted for under IAS 17 as financial leases, have not changed compared to the current accounting representation, in full continuity with the past.

Contracts that are within the scope of IFRS 16 relate mainly to long term car-rental.

With reference to the options and exemptions provided by IFRS 16, the Company has made the following choices:

- IFRS 16 is not generally applied to intangible assets, short-term contracts (i.e. less than 12 months) and low unit value;
- rights of use and financial liabilities relating to leasing contracts are classified under specific items in the financial position;
- any component relating to the services included in the leasing fees is generally excluded from IFRS 16.

**INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE**

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

**IMPAIRMENT**

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

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

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

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



**EQUITY INVESTMENTS**

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

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

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

in fair value are recognized directly in Shareholders' equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized in the Income Statement for the period.
Minor investments in other companies for which fair value is not available are measured at cost, and adjusted for any impairment losses.

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

**CURRENT AND NON CURRENT FINANCIAL ASSETS**
Financial assets are classified, on the basis of both contractual cash flow characteristics and the entity's business model for managing them, in the following categories:
(i) financial assets measured at amortized cost;
(ii) financial assets measured at fair value through other comprehensive income (hereinafter also OCI);
(iii) financial assets measured at fair value through profit or loss.

At initial recognition, a financial asset is measured at its fair value; at initial recognition, trade receivables that do not have a significant financing component are measured at their transaction price. After initial recognition, financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (the so-called hold to collect business model). For financial assets measured at amortized cost, interest income determined using the effective interest rate, foreign exchange differences and any impairment losses (see the accounting policy for "Impairment of financial assets") are recognized in the profit and loss account.
Conversely, financial assets that are debt instruments are measured at fair value through OCI (hereinafter also FVTOCI) if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (the so-called hold to collect and sell business model).
In these cases:
(i) interest income determined using the effective interest rate, foreign exchange differences and any impairment losses (see the accounting policy for "Impairment of financial assets") are recognized in the profit and loss account;
(ii) changes in fair value of the instruments are recognized in equity, within other comprehensive income.
The accumulated changes in fair value, recognized in the equity reserve related to other comprehensive income, is reclassified to the profit and loss account when the financial asset is derecognized. A financial asset represented by a debt instrument that is neither measured at amortized cost nor at FVTOCI, is measured at fair value through profit or loss (hereinafter FVTPL); financial assets held for trading fall into this category. Interest income on assets held for trading contributes to the fair value measurement of the

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

**TRANSFER OF FINANCIAL ASSETS**

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

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

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

**TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES**

Trade receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
At initial recognition they are measured at fair value adjusted for transaction costs and subsequently measured at amortized cost determined using the effective interest rate, to account for foreign exchange differences and any impairment losses.
At each reporting date, all financial assets, with the exception of those measured at fair value through profit and loss, are analysed for any impairment indicators.
Under IFRS 9, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying

the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it from the moment of its origination or acquisition.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

### CASH AND CASH EQUIVALENTS

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

### TREASURY SHARES

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

### FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

- Bank borrowings

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

- Equity instruments

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

- Non-current financial liabilities

Liabilities are stated according to the amortization cost.

### DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

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

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

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

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

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

**EMPLOYEE BENEFITS**

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

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

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

## SHARE-BASED PAYMENT PLANS

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

Share-based payments are measured at fair value at granting date. Such amount is recognized in the Income Statement, with a balancing entry in Shareholders' equity, on a straight-line basis and over the (vesting period).

The fair value of the option, measured at the granting date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted.

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

## PROVISIONS AND RESERVES FOR RISKS

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

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

## REVENUE RECOGNITION AND OTHER REVENUES

Revenues represent the gross flows of economic benefits for the year deriving from the performance of the ordinary business.

Revenue from contracts with customers is recognized on the basis of the following steps pursuant to IFRS 15:

- identifying the contract with the customer: this happens when the parties approve the contract and identify their respective rights and obligations. In other words, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified and the company considers probably to receive the payment;
- identifying the *performance obligations*: the main performance obligation identified, or transfer goods and/or services to a customer;
- determining the *transaction price*: is the total amount established with the customer, related to the entire contract period;
- allocating the transaction price to each performance obligation;
- recognizing revenue when (or as) a performance obligation is satisfied.

Revenue is measured at the fair value of the consideration to which the Group expects to be entitled in exchange for transferring promised goods and/or services to a customer, excluding amounts collected on behalf of third parties. Therefore, revenue is recognized when control over the goods or services is transferred to the customer either a) “over time” or b) “at a point in time”.
In determining the transaction price, the promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The promised amount of consideration is not adjusted for the effect of the significant financing component if, at contract inception, it is expected that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Interest income is recognised in application of the principle of time jurisdiction, on the basis of the amount financed and the applicable effective interest rate, which represents the discount rate of future receipts estimated over the expected life of the financial asset to bring them back to the book value of the asset itself. Dividends from investments in subsidiaries are recognised when the right of shareholders to receive payment is established.

**FINANCIAL INCOME AND EXPENSES**

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

**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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

## EARNINGS PER SHARE

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

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

## USE OF ESTIMATIONS

The preparation of the Financial Statements and relative notes under IFRS requires that management makes estimates and assumptions based also on subjective judgments, past experiences and assumptions considered reasonable and realistic in relation to the information at the time of estimation. These estimates shall affect items reported in the consolidated financial balance sheet and income statement and the disclosure of contingent assets and liabilities. The results of the financial statements may differ, even significantly, from these estimates as a result of possible changes in the factors considered in the determination of these estimates. Estimates are periodically reviewed.

The estimates are mainly referred to:

- goodwill
- equity investments
- trade receivables and work in progress
- leasing liabilities and RoU assets
- provisions, contingent liabilities and employee funds
- derivative instruments and equity instruments.

Pursuant to IAS 8 (Accounting Standards, changes in accounting estimates and errors) paragraph 10, in the absence of a principle or interpretation applicable specifically to a certain transaction, Management defines, through subjective assessments, the accounting methodologies to be adopted in order to provide a financial statements that faithfully represent the financial position, the economic result and the financial flows of the Company, reflects the economic substance of the operations, is neutral, drafted on a prudential basis and comprehensive in all relevant aspects.

## ESTIMATIONS CHANGES AND RECLASSIFICATIONS

It should be noted that at the balance sheet date there are no significant estimates related to uncertain future events and other causes of uncertainty that may cause significant adjustments to the values of assets and liabilities within the following year.

## NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY FROM 1 JANUARY 2020

Reply S.p.A. applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. Reply S.p.A. has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.
The nature and the impact of each amendment is described below:

### IAS 1 AND IAS 8: DEFINITION OF MATERIALITY

On November 29, 2019, the European Union has published the Regulation no. 2019/2104 which amended to its definition of material in IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates.

### AMENDEMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARD

On November 29, 2019 the European Union has published the Commission Regulation no. 2019/2075 endorsing 'Amendments to References to the Conceptual Framework in IFRS Standards'.

### AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7

On January 15, 2020 the European Union has published the Commission Regulation no. 2020/34 that issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

### IFRS 3 – BUSINESS COMBINATIONS

On April 21, 2020 European Commission published the Commission Regulation no. 2020/551 that issued amendments to IFRS 3 - Business Combinations which change the definition of a business.

### COVID-19 RELATED RENT CONCESSIONS (AMENDMENT TO IFRS 16)

On May 28, 2020, the IASB issued an amendment to IFRS 16 - Leases to make it easier for lessees to account for COVID-19 related rent concessions such as rent holidays and temporary rent reductions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications.

The adoption of these amendments/interpretations had no impact on the Financial Statements at December 31, 2020.

## STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

**Amendments to IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current:** on January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1), which affects the requirements in IAS 1 for the presentation of liabilities, including clarifying one of the criteria for classifying a liability as non-current. More specifically the amendments issued (i) the conditions existing at the end of the period are those to be used to determine whether there is a right to defer the settlement of a liability; (ii) management expectations regarding events after the balance sheet date are not relevant; (iii) clarify situations which are considered to be the settlement of a liability. The IASB deferred the effective date of this amendment to January 1, 2023.

**Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"**: they specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, including both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. These amendments are effective retrospectively from January 1, 2022.

**Amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use":** they prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifying the meaning of "testing whether an asset is functioning properly". These amendments are effective retrospectively from January 1, 2022.

**Amendments to IFRS 3 "Reference to the Conceptual Framework"**: the amendments to IFRS 3 – Business combinations update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. These amendments are effective on or after January 1, 2022.

**IFRS 17 – Insurance Contracts:** on May 18, 2017 the IASB issued IFRS 17 – Insurance Contracts that will replace IFRS 4 – Insurance contracts. The new principle for the recognition, measurement, presentation and disclosure of insurance contracts issued as well as guidance relating to reinsurance contracts held and investment contracts with discretionary participation features issued. The new standard and amendments are effective on or after January 1, 2022.

The Company does not expect any significant effects on its financial statements deriving from the new Standards/Interpretations the company is in the process of analysing the standards mentioned above and evaluating if their adoption will have a significant impact on the financial statements.

## NOTE 3 - RISK MANAGEMENT

Reply S.p.A. operates at a world-wide level and for this reason its activities are exposed to various types of financial risks: market risk (broken down in exchange risk, interest rate risk on financial flows and on “fair value”, price risk), credit risk and liquidity risk.
To minimize risks Reply utilizes derivative financial instruments. At a central level it manages the hedging of principle operations. Reply S.p.A. does not detain derivate financial instruments for negotiating purposes.

### CREDIT RISK

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

### LIQUIDITY RISK

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

### RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

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

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

## NOTE 4 - OTHER INFORMATION

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

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

### FISCAL CONSOLIDATION

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

## NOTE 5 - REVENUE

Revenues amounted to 531,223,744 Euros and are detailed as follows:

| (EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Revenues from services | 458,481,101 | 464,569,348 | (6,088,246) |
| Royalties on "Reply" trademark | 35,432,545 | 34,343,249 | 1,089,296 |
| Intercompany services | 24,992,376 | 24,401,517 | 590,859 |
| Other intercompany revenues | 12,317,721 | 10,691,515 | 1,626,206 |
| **Total** | **531,223,744** | **534,005,629** | **(2,781,885)** |

Reply manages business relationships on behalf of some of its major clients. Such activities were recorded in the item Revenues from services to third parties which decreased by 6,088,246 Euros.
Revenues from Royalties on the “Reply” trademark refer to charges to subsidiaries, corresponding to 3% of the subsidiaries’ turnover with respect to third parties.
Revenues from Intercompany services and Other intercompany revenues refer to activities that Reply S.p.A. carries out for the subsidiaries, and more specifically:

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

## NOTE 6 - OTHER INCOME

Other revenues that as at 31 December 2020 amounted to 12,884,123 Euros (14,335,309 Euros at 31 December 2019) 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) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Software licenses for resale | 13,011,444 | 13,092,017 | (80,573) |
| Hardware for resale | 11,339,767 | 13,017,288 | (1,677,521) |
| Other | 467,982 | 444,567 | 23,415 |
| **Total** | **24,819,193** | **26,553,872** | **(1,734,679)** |

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

The item Other mainly includes the purchase of supplies, e-commerce material, stationary and printed materials (282,937 Euros) and fuel (149,867 Euros).

## NOTE 8 - PERSONNEL EXPENSES

Personnel expenses amounted to 25,955,930 Euros, with an increase of 3,274,621 Euros and are detailed in the following table:

| (EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Payroll employees | 18,444,043 | 17,200,218 | 1,243,825 |
| Directors | 7,511,887 | 5,481,091 | 2,030,797 |
| **Total** | **25,955,930** | **22,681,309** | **3,274,621** |

Detail of personnel by category is provided below:

| (NUMBER) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Directors | 74 | 68 | 6 |
| Managers | 6 | 8 | (2) |
| Staff | 13 | 12 | 1 |
| **Total** | **93** | **88** | **5** |

The average number of employees in 2020 was 89 (in 2019 they were 87).

## NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

| (EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Commercial and technical consulting | 4,285,502 | 2,557,271 | 1,728,231 |
| Travelling and training expenses | 1,593,746 | 2,521,638 | (927,892) |
| Professional services from group companies | 441,659,977 | 443,506,335 | (1,846,358) |
| marketing expenses | 2,237,797 | 5,001,256 | (2,763,459) |
| Administrative and legal services | 3,321,887 | 1,729,293 | 1,592,594 |
| Statutory auditors and Independent auditors fees | 280,432 | 192,280 | 88,152 |
| Leases and rentals | 965,694 | 1,027,674 | (61,981) |
| Office expenses | 2,978,538 | 2,764,971 | 213,567 |
| Other services from group companies | 13,683,273 | 13,213,410 | 469,864 |
| Expenses incurred on behalf of group companies | 8,225,983 | 11,286,890 | (3,060,907) |
| Other | 4,777,388 | 3,304,931 | 1,472,457 |
| **Total** | **484,010,216** | **487,105,947** | **(3,095,731)** |

Professional Services from Group companies, which changed during the year by 1,846,358 Euros, relate to revenues from services to third parties.

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

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

## NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets was calculated on the basis of technical-economic rates determined in relation to the residual useful lives of the assets, and which amounted in 2020 to an overall cost of 176,017 Euros. Details of depreciation are provided at the notes to tangible assets.

Amortization of intangible assets amounted in 2020 to an overall cost of 1,367,562 Euros. Details of depreciation are provided at the notes to intangible assets.

Amortization related to RoU assets arising from the application of IFRS 16 amounted to 434,374 thousand Euros.

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

Other operating and non-recurring expenses, related to events and transactions that do not occur in the regular course of business, amounted to 55,433 and refer to provisions for risks and reversal in relation to contractual, commercial and legal disputes.

## NOTE 12 - GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is as follows:

| (EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Dividends | 78,246,187 | 81,145,000 | (2,898,813) |
| Loss on equity investments | (4,540,000) | (8,583,094) | 4,043,094 |
| **Total** | **73,706,187** | **72,561,906** | **1,144,281** |

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

Detail is as follows:

| (EUROS) | 2020 |
|---|---|
| Aktive Reply S.r.l. | 1,290,000 |
| Atlas Reply S.r.l. | 355,000 |
| Blue Reply S.r.l. | 9,100,000 |
| Bridge Reply S.r.l. | 210,000 |
| Business Reply S.r.l. | 2,530,000 |
| Cluster Reply Roma S.r.l. | 1,080,000 |
| Cluster Reply S.r.l. | 8,595,000 |
| Data Reply S.r.l. | 2,450,000 |
| Discovery Reply S.r.l. | 1,930,000 |
| E*finance Consulting S.r.l. | 1,620,000 |
| Ekip Reply S.r.l. | 135,000 |
| Eos Reply S.r.l. | 459,000 |
| Go Reply S.r.l. | 225,000 |
| Hermes Reply S.r.l. | 720,000 |
| Hermes Reply Polska Zo.O. | 334,187 |

| | |
|---|---|
| Iriscube Reply S.r.l. | 3,525,000 |
| Like Reply S.r.l. | 65,000 |
| Open Reply S.r.l. | 2,570,000 |
| Pay Reply S.r.l. | 1,620,000 |
| Portaltech Reply S.r.l. | 270,000 |
| Power Reply S.r.l. | 2,650,000 |
| Reply Consulting S.r.l. | 375,000 |
| Reply Digital Experience S.r.l. | 1,050,000 |
| Reply Services | 140,000 |
| Retail Reply S.r.l. | 800,000 |
| Ringmaster S.r.l. | 658,000 |
| Santer Reply S.p.A. | 550,000 |
| Security Reply S.r.l. | 6,725,000 |
| Sprint Reply S.r.l. | 40,000 |
| Storm Reply S.r.l. | 1,460,000 |
| Syskoplan Reply S.r.l. | 770,000 |
| Sytel Reply Roma S.r.l. | 3,560,000 |
| Sytel Reply S.r.l | 8,795,000 |
| Tamtamy Reply S.r.l. | 690,000 |
| Target Reply S.r.l. | 2,160,000 |
| Technology Reply Roma S.r.l. | 875,000 |
| Technology Reply S.r.l. | 6,150,000 |
| Whitehall Reply S.r.l. | 1,715,000 |
| **Total** | **78,246,187** |

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

For further details, see Note 21 herein.

## NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

| (EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| Interest income from subsidiaries | 6,325,110 | 6,070,410 | 254,700 |
| Interest income on bank accounts | 18,633 | 31,692 | (13,060) |
| Interest expenses | (1,169,522) | (751,582) | (417,940) |
| Other | (12,451,725) | 4,358,301 | (16,810,025) |
| **Total** | **(7,277,504)** | **9,708,821** | **(16,986,325)** |

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

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

The item Other mainly includes a loss on exchange rate differences amounting to 10,670,600 Euros arising from the translation of balance sheet items not recorded in Euros and the non-effective portion of the IRS amounting to 1,846,631 Euros.

## NOTE 14 - INCOME TAXES

The details are provided below:

| (EUROS) | 2020 | 2019 | CHANGE |
|---|---|---|---|
| IRES | 2,837,541 | 1,631,159 | 1,206,383 |
| IRAP | 585,000 | 163,000 | 422,000 |
| Corporate tax - previous years | (225,862) | (535,964) | 310,102 |
| **Current taxes** | **3,196,679** | **1,258,195** | **1,938,485** |
| Deferred tax liabilities | (2,201,915) | 1,053,622 | (3,255,537) |
| Deferred tax assets | (573,300) | (771,132) | 197,832 |
| **Deferred taxes** | **(2,775,216)** | **282,489** | **(3,057,705)** |
| **Total income taxes** | **421,464** | **1,540,684** | **(1,119,220)** |

## 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** | **73,828,690** | |
| **Theoretical tax rate** | **24.0%** | **17,718,886** |
| Temporary differences, net | (62,985,380) | |
| **Taxable income** | **10,843,310** | **2,602,395** |
| **Total IRES** | | **2,607,000** |
| Start-up replacement tax fee - controlling stake | 230,642 | |
| Benefit arising from the National Fiscal Consolidation | 101 | |
| **Total current IRES** | | **2,837,541** |

Temporary differences, net refer to:

- deductible differences amounting to 84,346 thousand Euros arising mainly from the non-taxable share of the dividends received in the financial year (74,334 thousand Euros), Directors' fees to be paid (3,838 thousand Euros) and the deduction of the implicit goodwill of the investment in Xister (1,442 thousand Euros);
- non-deductible differences amounting to 21,361 thousand Euros owing mainly to reversal of earnings on valuation changes (9.350 thousand Euros), write-down/losses of equity investments (4,540 thousand Euros), Directors' fees to be paid (5,772 thousand Euros) and provisions for non-deductible risk funds (715 thousand Euros).

### CALCULATION OF TAXABLE IRAP

| (EUROS) | AMOUNT | TAXATION |
|---|---|---|
| Difference between value and cost of production | **7,400,007** | |
| IRAP net | 6,950,663 | |
| **Taxable IRAP** | **14,350,670** | |
| **Total IRAP** | | **585,000** |

Temporary differences, net refer to:

- non-deductible differences amounting to 9,375 thousand Euros mainly due to emoluments to Directors (7,316 thousand Euros);
- deductible differences amounting to 2,424 thousand Euros mainly due to the implicit goodwill of the investment in Xister (1,442 thousand Euros).



## NOTE 15 - EARNINGS PER SHARE

Basic earnings and diluted earnings per share as at 31 December 2020 was calculated with reference to the net profit which amounted to 73,407,227 Euros (89,248,998 Euros at 31 December 2019) divided by the weighted average number of shares outstanding as at 31 December 2020, net of treasury shares, which amounted to 37,407,400 (37,407,400 at 31 December 2019).

| (EUROS) | 2020 | 2019 |
|---|---|---|
| Net profit of the year | 73,407,227 | 89,248,998 |
| Weighted number of shares | 37,407,400 | 37,407,400 |
| Basic earnings per share | 1.96 | 2.40 |

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

## NOTE 16 - CONTRIBUTIONS

**Disclosure on the transparency of public disbursements required by Article 1, paragraph 125 of Law 124/2017**

Pursuant to Article 1, paragraph 125 of Law 124/2017, the Company in 2020 has received the following public contributions from Italian entities:

### SERVICES

| ENTITY (EUROS) | 2020 |
|---|---|
| Banca Generali Spa | 469,700 |
| Fondazione istituto Italiano di tecnologia | 26,000 |
| Ministero della Difesa-Stato Maggiore dell'aeronautica militare | 80,008 |
| Università campus bio-medico di Roma | 33,247 |
| **Total** | **608,956** |

## NOTE 17 - TANGIBLE ASSETS

Tangible assets as at 31 December 2020 amounted to 333,489 Euros are detailed as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Plant and machinery | 116,188 | 39,640 | 76,548 |
| Hardware | 63,596 | 64,209 | (613) |
| Other | 153,705 | 105,036 | 48,669 |
| **Total** | **333,489** | **208,885** | **124,604** |

The item Other mainly includes mobile phones and furniture and fittings.

Change in Tangible assets during 2020 is summarized below:

| **(EUROS)** | **PLANT AND MACHINERY** | **HARDWARE** | **OTHER** | **TOTAL** |
|---|---|---|---|---|
| Historical cost | 760,639 | 1,707,062 | 1,303,140 | 3,770,841 |
| Accumulated depreciation | (720,998) | (1,642,853) | (1,198,104) | (3,561,956) |
| **31/12/2019** | **39,640** | **64,209** | **105,036** | **208,885** |
| | | | | |
| **Historical cost** | | | | |
| Increases | 123,629 | 55,116 | 156,636 | 335,380 |
| Disposals | (4,050) | (9,082) | (58,455) | (71,587) |
| | | | | |
| **Accumulated depreciation** | | | | |
| Depreciation | (43,031) | (53,999) | (78,986) | (176,017) |
| Utilized | - | 7,353 | 29,475 | 36,828 |
| | | | | |
| Historical cost | 880,218 | 1,753,095 | 1,401,321 | 4,034,634 |
| Accumulated depreciation | (764,030) | (1,689,499) | (1,247,616) | (3,701,145) |
| **31/12/2020** | **116.188** | **63.596** | **153.705** | **333.489** |

During the year under review the Company made investments amounting to 335,380 Euros, which mainly refer to screen monitors, furniture and fittings, hardware and mobile phones.

The disposals are mainly related to the transfer of vehicles.

## NOTE 18 - GOODWILL

Goodwill as at 31 December 2020 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to Information Technology and management support acquired in July 2000.

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

## NOTE 19 - OTHER INTANGIBLE ASSETS

Intangible assets as at 31 December 2020 amounted to 6,646,657 Euros (4,661,803 Euros at 31 December 2019) and are detailed as follows:

| (IN EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Software | 6,110,593 | 4,125,739 | 1,984,854 |
| Trademark | 536,064 | 536,064 | - |
| **Total** | **6,646,657** | **4,661,803** | **1,984,854** |

Change in intangible assets in 2020 is summarized in the table below:

| (EUROS) | SOFTWARE | TRADEMARK | TOTAL |
|---|---|---|---|
| Historical cost | 11,435,049 | 536,064 | 11,971,113 |
| Accumulated amortization | (7,309,310) | - | (7,309,310) |
| **31/12/2019** | **4,125,739** | **536,064** | **4,661,803** |
| | | | |
| **Historical cost** | | | |
| Increases | 3,352,416 | - | 3,352,416 |
| | | | |
| **Accumulated amortization** | | | |
| Amortization | (1,367,562) | - | (1,367,562) |
| | | | |
| Historical cost | 14,787,465 | 536,064 | 15,323,529 |
| Accumulated amortization | (8,676,872) | - | (8,676,872) |
| **31/12/2020** | **6,110,593** | **536,064** | **6,646,657** |

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

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

## NOTE 20 - ROU ASSETS

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

| (EUROS) | 31/12/2019 | NET CHANGES | AMORTIZATION | 31/12/2020 |
|---|---|---|---|---|
| Vehicles | 722,294 | 467,107 | (434,374) | 755,027 |

The net change mainly refers to the signing of new lease agreements, resulting in an increase in the value of the right of use.

## NOTE 21 - EQUITY INVESTMENTS

The item Equity investments at 31 December 2020 amounted to 144,527,524 Euros, with an increase of 2,408,603 Euros compared to 31 December 2019.

| (EUROS) | BALANCE AT 31/12/2019 | ACQUISITIONS AND SUBSCRIPTIONS | DISPOSAL | WRITE DOWNS | OTHER MOVEMENTS | BALANCE AT 31/12/2020 | INTEREST |
|---|---|---|---|---|---|---|---|
| Air Reply S.r.l. | 558,500 | | | | | 558,500 | 85.00% |
| Aktive Reply S.r.l. | 512,696 | | | | | 512,696 | 100.00% |
| Arlanis Reply S.r.l. | 588,000 | | | | | 588,000 | 100.00% |
| Atlas Reply S.r.l. | 12,575 | | | | | 12,575 | 100.00% |
| Avvio Reply S.r.l. | - | 10,000 | 154,000 | | | 164,000 | 100.00% |
| Avantage Ltd | 3.499,102 | | | (756,000) | | 2,743,102 | 100.00% |
| Blue Reply S.r.l. | 527,892 | | | | | 527,892 | 100.00% |
| Breed Reply Investment Ltd. | 103 | 1,888,784 | | | | 1,888,887 | 91.00% |
| Bridge Reply S.r.l. | 6,000 | | | | | 6,000 | 60.00% |
| Business Reply S.r.l. | 268,602 | | | | | 268,602 | 100.00% |
| Cluster Reply S.r.l. | 2,540,848 | | | | | 2,540,848 | 100.00% |
| Cluster Reply Roma S.r.l. | 296,184 | | | | | 296,184 | 100.00% |
| Consorzio Reply Public Sector | 32,500 | | | | | 32,500 | 33.33% |
| Core Reply S.r.l. | 9,000 | | | | | 9,000 | 90.00% |
| Data Reply S.r.l. | 317,662 | | | | | 317,662 | 100.00% |
| Discovery Reply S.r.l. | 1,311,669 | | | | | 1,311,669 | 100.00% |
| e*finance Consulting Reply S.r.l. | 3,076,385 | | | | | 3,076,385 | 100.00% |
| Ekip Reply S.r.l. | 30,000 | | | | | 30,000 | 100.00% |
| Envision Reply S.r.l. | 1,283,800 | | 295,000 | | | 1,578,800 | 88.00% |
| Eos Reply S.r.l. | 495,369 | | | | | 495,369 | 100.00% |
| Forge Reply S.r.l. | 1,000 | | 2,610,000 | (2,610,000) | | 1,000 | 100.00% |
| Go Reply S.r.l. | 1,920,000 | | | | | 1,920,000 | 100.00% |
| Hermes Reply Polska Zo.O. | 10,217 | | | | | 10,217 | 100.00% |
| Hermes Reply S.r.l. | 199,500 | | | | | 199,500 | 100.00% |
| Hermes Reply Consulting Nanjing Co. | 250,000 | 750,000 | | | | 1,000,000 | 100.00% |
| IrisCube Reply S.r.l. | 6,724,952 | | | | | 6,724,952 | 100.00% |
| Lem Reply S.r.l. | 360,012 | | 155,000 | | (515,012) | - | 0.00% |

| (EUROS) | BALANCE AT 31/12/2019 | ACQUISITIONS AND SUBSCRIPTIONS | DISPOSAL | WRITE DOWNS | OTHER MOVEMENTS | BALANCE AT 31/12/2020 | INTEREST |
|---|---|---|---|---|---|---|---|
| Like Reply S.r.l. | 87,317 | | 110,000 | (110,000) | | 87,317 | 100.00% |
| Logistics Reply S.r.l. | 1,049,167 | | | | | 1,049,167 | 100.00% |
| Open Reply S.r.l. | 1,417,750 | | | | 207,415 | 1,625,165 | 100.00% |
| Pay Reply S.r.l. | 10,000 | | | | | 10,000 | 100.00% |
| Portaltech Reply S.r.l. | 106,000 | | | | | 106,000 | 100.00% |
| Power Reply S.r.l. | 2,500,850 | | | | 207,415 | 2,708,265 | 100.00% |
| Protocube Reply S.r.l. | 1,000 | | 288,000 | (288,000) | | 1,000 | 70.00% |
| Reply Consulting S.r.l. | 3,518,434 | | | | | 3,518,434 | 100.00% |
| Reply AG | 57,835,781 | | | | | 57,835,781 | 100.00% |
| Reply Digital Experience S.r.l. | 4,227,019 | | | | | 4,227,019 | 100.00% |
| Reply do Brasil Sistemas de Informatica Ltda | 206,816 | | | | | 206,816 | 98.50% |
| Reply Inc. | 2,814,625 | | | | | 2,814,625 | 100.00% |
| Reply Ltd. | 11,657,767 | | | | | 11,657,767 | 100.00% |
| Reply Sarl | - | 12,000 | | | | 12,000 | 100.00% |
| Reply Services S.r.l. | 1,000 | | | | | 1,000 | 100.00% |
| Retail Reply S.r.l. | 100,000 | | | | | 100,000 | 100.00% |
| Ringmaster S.r.l. | 5,000 | | | | | 5,000 | 50.00% |
| Santer Reply S.p.A. | 11,386,966 | | | | | 11,386,966 | 100.00% |
| Sense Reply S.r.l. | 15,700 | | | | | 15,700 | 90.00% |
| Spark Reply S.r.l. | 1,042,500 | | 200,000 | (200,000) | | 1,042,500 | 100.00% |
| Security Reply S.r.l. | 392,866 | | | | | 392,866 | 100.00% |
| Sprint Reply S.r.l. | 155,000 | | 80,000 | (80,000) | | 155,000 | 100.00% |
| Storm Reply S.r.l. | 986,000 | | | | | 986,000 | 100.00% |
| Syskoplan Reply S.r.l. | 949,571 | | | | | 949,571 | 100.00% |
| Sytel Reply S.r.l. | 5,513,232 | | | | | 5,513,232 | 100.00% |
| Sytel Reply Roma S.r.l. | 894,931 | | 496,000 | (496,000) | | 894,931 | 100.00% |
| Tamtamy Reply S.r.l. | 263,471 | | | | | 263,471 | 100.00% |
| Target Reply S.r.l. | 600,338 | | | | | 600,338 | 100.00% |
| Technology Reply Roma | 10,000 | | | | | 10,000 | 100.00% |
| Technology Reply S.r.l. | 216,658 | | | | | 216,658 | 100.00% |
| Technology Reply S.r.l. (Romania) | 9,919 | | | | | 9,919 | 100.00% |
| Whitehall Reply S.r.l. | 160,212 | | | | | 160,212 | 100.00% |
| Xister Reply S.r.l. | 9,150,465 | | | | | 9,150,465 | 100.00% |
| **Total** | **142,118,922** | **2,660,784** | **4,388,000** | **(4,540,000)** | **(100,182)** | **144,527,524** | |

## ACQUISITIONS AND SUBSCRIPTIONS

**Avvio Reply S.r.l.**

In the month of January 2020 Avvio Reply S.r.l. was constituted, a company in which Reply S.p.A, holds 100% of the share capital.

**Reply Sarl**

In the month of December 2020 Reply Sarl was constituted in Luxembourg, a company in which Reply S.p.A, holds 100% of the share capital amounting to 12.000 Euros. The company will manage the investments in European companies currently held by Reply Ltd.

## FINANCIAL LOAN REMISSION

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

## WRITE-DOWNS

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

The list of equity investments in accordance with Consob communication no, 6064293 of 28 July 2006 is included in the attachments.
The negative differences arising between the carrying value of the investments and the corresponding portion of their shareholders' equity are not related to permanent impairment of value, as the carrying value is supported by positive economic and financial forecasts that guarantee the recoverable amount of the investment.

## NOTE 22 - NON CURRENT FINANCIAL ASSETS

Detail is as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Guarantee deposits | 251,061 | 241,061 | 10,000 |
| Loans to subsidiaries | 248,066,913 | 174,517,076 | 73,549,837 |
| Investments in other parties | 213,000 | 113,000 | 100,000 |
| **Total** | **248,530,974** | **174,871,137** | **73,659,837** |

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

| COMPANY | AMOUNT |
|---|---|
| Breed Reply Investments Ltd | 50,156,859 |
| Cluster do Brasil | 1,215,000 |
| Core Reply S.r.l. | 300,000 |
| Hermes Reply Polska Zo.O. | 319,500 |
| Implico LLC | 244,479 |
| Reply AG | 35,000,000 |
| Reply do Brasil Sistemas de Informatica Ltda | 2,181,740 |
| Reply Inc. | 74,234,544 |
| Reply Ltd | 66,958,922 |
| Reply Services S.r.l. | 16,955,870 |
| Sense Reply S.r.l. | 300,000 |
| Technology Reply S.r.l. Romania | 200,000 |
| **Total** | **248,066,913** |

## NOTE 23 - DEFERRED TAX ASSETS

This item amounted to 6,112,288 Euros at 31 December 2020 (5,538,988 Euros at 31 December 2019), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductible items.

| TEMPORARY DEDUCTIBLE DIFFERENCES | TAXABLE AMOUNT | TAX |
|---|---|---|
| **Total deferred tax assets at 31/12/2019** | **21,702,741** | **5,538,988** |
| Accrued | 6,548,743 | 1,599,583 |
| Utilization | (4,227,430) | (1,026,283) |
| **Total deferred tax assets at 31/12/2020** | **24,024,054** | **6,112,288** |
| Of which: | | |
| - directors fees and employee bonuses accrued but not yet paid | 11,737,000 | 3,049,515 |
| - unrealized foreign exchange losses | 8,943,130 | 2,146,351 |
| - taxable amounts greater than book value | 3,343,924 | 916,422 |
| **Total** | **24,024,054** | **6,112,288** |

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

## NOTE 24 - TRADE RECEIVABLES

Trade receivables at 31 December 2020 amounted to 320,790,536 Euros and are all collectible within 12 months.

Detail is as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Third party trade receivables | 186,165,891 | 223,901,257 | (37,735,365) |
| Credit notes to be issued | (11,254) | (3,124,644) | 3,113,390 |
| Allowance for doubtful accounts | (681,593) | (564,349) | (117,244) |
| **Third party trade receivables** | **185,473,045** | **220,212,264** | **(34,739,220)** |
| Receivables from subsidiaries | 135,291,174 | 133,286,154 | 2,005,020 |
| Receivables from Parent Company | 26,317 | 13,291 | 13,026 |
| **Trade receivables from subsidiaries and Parent Company** | **135,317,491** | **133,299,445** | **2,018,046** |
| **Total trade receivables** | **320,790,536** | **353,511,709** | **(32,721,173)** |

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third party trade receivables which decreased by 34,739,220 Euros.

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

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

In 2020 the provision for doubtful accounts, following a specific risk analysis of all the trade receivables, was increased by 117,244 Euros and calculated by using the expected credit loss approach pursuant to IFRS 9; detail is as follows:

| BALANCE AT 31/12/2019 | ACCRUAL | BALANCE AT 31/12/2020 |
|---|---|---|
| 564,349 | 117,244 | 681,593 |

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

## NOTE 25 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Tax receivables | 29,707,798 | 1,169,677 | 28,538,121 |
| Other receivables from subsidiaries | 23,980,005 | 17,950,920 | 6,029,085 |
| Other receivables | 1,521,165 | 849,708 | 671,457 |
| Accrued income and prepaid expenses | 16,900,307 | 7,379,893 | 9,520,415 |
| **Total** | **72,109,275** | **27,350,198** | **44,759,077** |

The item Tax receivables mainly includes VAT receivables net amounting to 29,520,278 Euros (8,354 Euros at 31 December 2019). The change compared to the previous year is a temporary phenomenon due to the dynamics of receiving and posting invoices in the last month of the fiscal year.

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

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

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



## NOTE 26 - CURRENT FINANCIAL ASSETS

This item amounted to 27,349,313 Euros (47,493,994 Euros at 31 December 2019) and mainly refers to the total of interest yielding cash pooling accounts of subsidiaries included in the centralized pooling system of the Parent Company Reply S.p.A.; the interest yield on these accounts is in line with current market conditions.

## NOTE 27 - CASH AND CASH EQUIVALENTS

This item amounted to 184,012,136 Euros, with an increase of 22,681,571 Euros compared to 31 December 2019 and is referred to cash at banks and on hand at year-end.

## NOTE 28 - SHAREHOLDERS' EQUITY

### SHARE CAPITAL

As at 31 December 2020 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,863,486 Euros and is made up of no. 37,411,428 ordinary shares having a nominal value of euro 0.13 each.
The number of shares in circulation as at 31 December 2020 totalled 37,407,400 unchanged compared to year-ended 2019.

### 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 2020 were equal to no. 4,028, unchanged compared to year-ended 2019.

### CAPITAL RESERVES

At 31 December 2020 amounted to 205,880,909 Euros, and included the following:

- Treasury share reserve amounting to 24,502 Euros, relating to the shares of Reply S.p.A. which at 31 December 2020 were equal to no. 4.028.
- Reserve for the purchase of treasury shares amounting to 99,975,498 Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 21 April 2020 Reply S.p.A. re-authorized it, in accordance with and for the purposes of Article 2357 of the Italian Civil Code, the purchase of a maximum of 200 million Euros of ordinary shares, corresponding to 20% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.
- Reserves arising from the merger operation of Reply Deutschland AG. in Reply S.p.A, and include:
  - › Share swap surplus reserve amounting to 3,445,485 Euros;
  - › Surplus annulment reserve amounting to 2,902,479 Euros.

### EARNINGS RESERVE

Earning reserves amounted to 258,289,291 Euros and were comprised as follows:

- The Legal reserve amounting to 972,697 Euros (972,697 Euros at 31 December 2019);
- Extraordinary reserve amounting to 181,086,666 Euros (187,986,824 Euros at 31 December 2019);
- Retained earnings amounting to 2,822,701 Euros (2,822,701 Euros at 31 December 2019);
- Net result totalling 73,407,227 Euros (89,248,998 Euros at 31 December 2019).

### OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analysed as follows:

| (THOUSAND EUROS) | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Other comprehensive income that will not be reclassified subsequently to profit or loss: | | |
| Actuarial gains/(losses) from employee benefit plans | (24,045) | (29,248) |
| **Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):** | **(24,045)** | **(29,248)** |
| Other comprehensive income that may be reclassified subsequently to profit or loss: | | |
| Gains/(losses) on cash flow hedges | 1,089,317 | (1,156,830) |
| **Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):** | **1,089,317** | **(1,1456,830)** |
| **Total Other comprehensive income, net of tax (B) = (B1) + (B2)** | **1,065,272** | **(1,186,078)** |

## NOTE 29 - DUE TO MINORITY SHAREHOLDERS

Due to minority shareholders at 31 December 2020 are equal to 0 (1,019,980 Euros on 31 December 2019) and are detailed as follows:

| (EUROS) | 31/12/2019 | FAIR VALUE ADJUSTMENTS | PAYMENTS | 31/12/2020 |
|---|---|---|---|---|
| Due to minority shareholders | 1,019,980 | (175,000) | (845,000) | - |

The item Fair value adjustments in 2020 amounted to 175,000 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. The Payments in 2020 amounted to 845,000 Euros and refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

## NOTE 30 - FINANCIAL LIABILITIES

Detail is as follows:

| | 31/12/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| **(EUROS)** | **CURRENT** | **NON-CURRENT** | **TOTAL** | **CURRENT** | **NON-CURRENT** | **TOTAL** |
| Bank loans | 10,517,429 | 14,354,000 | 24,871,429 | 13,428,571 | 23,871,428 | 37,299,999 |
| Transaction accounts | 145,699,486 | - | 145,699,486 | 79,448,593 | - | 79,448,593 |
| Derivative financial instruments | 34,718 | 3,670,304 | 3,705,022 | 2,898,628 | - | 2,898,628 |
| IFRS 16 financial liabilities | 373,712 | 383,955 | 757,667 | 324,907 | 394,992 | 719,899 |
| **Total financial liabilities** | **156,625,345** | **18,408,258** | **175,033,603** | **96,100,699** | **24,266,420** | **120,367,120** |

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

| | 31/12/2020 | | | | 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **(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 loans | 9,071,429 | 500,000 | - | 9,571,429 | 13,428,571 | 8,571,428 | - | 21,999,999 |
| Mortgage loans | 1,446,000 | 5,784,000 | 8,070,000 | 15,300,000 | - | 5,782,040 | 9.517.960 | 15,300,000 |
| Transaction accounts | 145,699,486 | - | - | 145,699,486 | 79,448,593 | - | - | 79,448,593 |
| IFRS 16 financial liabilities | 373,712 | 383,955 | - | 757,667 | 324,907 | 394,992 | - | 719,899 |
| Derivative financial instruments | 34,718 | 734,450 | 2,935,853 | 3,705,022 | 2,898,628 | - | - | 2,898,628 |
| **Total** | **156,625,345** | **7,402,405** | **11,005,853** | **175,033,603** | **96,100,699** | **14,748,460** | **9,517,960** | **120,367,120** |

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

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

- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
  - Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis deferred to commence on 30 September 2015. Such credit line is entirely reimbursed at 31 December 2020.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 December 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line is entirely reimbursed at 31 December 2020.
- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros to be used by 30 September 2018. On 17 February 2017 a reduction of the credit line to 1,500,000 Euros was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 March 2019 and will expire on 30 November 2021. Such credit line was used for 500,000 Euros at 31 December 2020.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 49,000,000 Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. Such credit line was used for 8,571,000 Euros at 31 December 2020.
- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 28 February 2020. As at December 31, 2020 this line had not been used and has been expired on 28 February 2020.
- On 29 October 2019 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 50,000,000 Euros to be used by 30 June 2021. The loan will be reimbursed on a half basis deferred to commence on 30 September 2021 and will expire on 30 September 2024. As at December 31, 2020 this line had not been used.
- On 8 May 2020 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 27 May 2022. As at 31 December 2020 this line had been used for 500,000 Euros.

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

As contractually defined, such ratios are as follows:
- Net financial indebtedness/Equity
- Net financial indebtedness/EBITDA

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

It should be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000,000 Euros and for a maximum duration of 156 months (13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. Such credit line was used for 15,300,000 Euros at 31 December 2020.

The item IFRS 16 financial liabilities is related to the financial lease liabilities at 31 December 2020 related to the adoption of the new Accounting Standard IFRS 16.

The item Derivative financial instruments refers to several loans established with primary financial institutions (Intesa Sanpaolo S.p.A. and Unicredit S.p.A.) to hedge changes in floating interest rates on loans and/or mortgages; the total underlying notional amounts to 60,500,000 Euros. The effective component of the instrument is stated in the Statement of changes in net equity whereas the ineffective portion of the Derivative instrument is recorded at the income statement.

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

## NET FINANCIAL POSITION

In compliance with Consob regulation issued on 28 July 2006 and in accordance with CESR's "Recommendations for the consistent implementation of the European's regulation on Prospectuses" issued on 10 February 2005 the Net financial position at 31 December 2020 was as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Cash and cash equivalents | 184,012,136 | 161,330,565 | 22,681,571 |
| Transaction accounts, asset | 27,066,257 | 47,493,994 | (20,427,737) |
| **Total current financial assets** | **211,078,393** | **208,824,559** | **2,253,834** |
| Due to banks | (10,552,147) | (16,327,199) | 5,775,052 |
| Transaction accounts | (145,699,486) | (79,448,593) | (66,250,893) |
| IFRS 16 financial liabilities | (373,712) | (324,907) | (48,805) |
| **Current financial liabilities** | **(156,625,345)** | **(96,100,699)** | **(60,524,646)** |
| Due to banks | (18,024,304) | (23,871,428) | 5,847,124 |
| IFRS 16 financial liabilities | (383,955) | (394,992) | 11,037 |
| **Non-current financial liabilities** | **(18,408,259)** | **(24,266,420)** | **5,858,161** |
| **Total financial liabilities** | **(175,033,603)** | **(120,367,119)** | **(54,666,484)** |
| **Total net financial position** | **36,044,790** | **88,457,440** | **(52,412,650)** |
| *of which related parties* | *(118.633.229)* | *(31,954,599)* | *(86,678,629)* |

For further details with regards to the above table see Notes 26 and 27 as well as Note 30.
To be noted that the non-current financial assets, pursuant to the above recommendations, have not been included in the net financial position for 248,349,969 euros (174,517,076 euros as at 31 December 2019).

Change in Financial liabilities during 2020 is summarized below:

| (EUROS) | |
|---|---|
| **Total financial liabilities 2019** | **120,367,119** |
| Transaction accounts, liability | (79,448,593) |
| Fair value IRS | (2,898,628) |
| IFRS 16 financial liabilities | (719,899) |
| **Non-current financial liabilities 2019** | **37,299,999** |
| Cash flows | (12,428,571) |
| **Non-current financial liabilities 2020** | **24,871,428** |
| Transaction accounts, liability | 145,699,486 |
| Fair value IRS | 3,705,023 |
| IFRS 16 financial liabilities | 757,667 |
| **Total financial liabilities 2020** | **175,033,603** |

## NOTE 31 - EMPLOYEE BENEFITS

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

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

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

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

The assumptions adopted can be summarized as follows:

### DEMOGRAPHIC ASSUMPTIONS

| | |
|---|---|
| Mortality | RG 48 survival tables of the Italian population |
| Inability | INPS tables divided by age and gender |
| Retirement age | Fulfilment of the minimum requisites provided by the General Mandatory Insurance |
| Advances on Employee severance indemnities | Annual frequency of advances and employee turnover were assumed from historical data of the company:<br>frequency of advances in 2020: 2.50%<br>frequency of turnover in 2020: 10% |

### ECONOMIC AND FINANCIAL ASSUMPTIONS

| | |
|---|---|
| Annual discount rate | Constant average annual rate equal to 0.80% |
| 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.<br>The annual discount used for 2020 was 0.34% |
| Annual increase in salaries | Annual increase in salaries equal to 2.10% |
| Annual inflation rate | The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50% |

In accordance with IAS 19, Employment severance indemnities at 31 December 2020 are summarized in the table below:

| | |
|---|---|
| **31/12/2019** | **703,702** |
| Actuarial gains/(losses) | 24,045 |
| Interest cost | 5,960 |
| Indemnities paid | (40,540) |
| Transfers | 117,098 |
| **31/12/2020** | **810,266** |

## NOTE 32 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2020 amounted to 776,201 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 31/12/2019** | **12,307,609** | **2,978,117** |
| Accruals | 175,128 | 42,031 |
| Utilizations | (9,349,774) | (2,243,946) |
| **Total at 31/12/2020** | **3,132,962** | **776,201** |
| - deduction allowance for doubtful accounts | 718,805 | 172,513 |
| - different goodwill/trademark measurements | 622,828 | 173,769 |
| - gains on unrecognized differences and other minor differences | 1,791,329 | 429,919 |
| **Total at 31/12/2020** | **3,132,962** | **776,201** |

## NOTE 33 - TRADE PAYABLES

Trade payables at 31 December 2020 amounted to 289,681,517 Euros with a decrease of 23,970,675 Euros.

Detail is as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Due to suppliers | 10,346,442 | 14,735,363 | (4,388,921) |
| Due to subsidiaries | 202,024,225 | 217,018,624 | (14,994,400) |
| Due to Parent company | 128,100 | - | 128,100 |
| Advance payments from customers - asset | 77,182,750 | 81,898,205 | (4,715,455) |
| **Total** | **289,681,517** | **313,652,192** | **(23,970,675)** |

Due to suppliers mainly refers to services from domestic suppliers.

Due to subsidiaries recorded a change of 14,994,400 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 amounts invoiced to customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.
The carrying amount of trade payables is deemed to be in line with its fair value.

## NOTE 34 - OTHER CURRENT LIABILITIES

Detail is as follows:

| (EUROS) | 31/12/2020 | 31/12/2019 | CHANGE |
|---|---|---|---|
| Income tax payable | 7,328,468 | 3,644,004 | 3,684,464 |
| Withholding tax and other | 22,593,378 | 28,729,584 | (6,136,206) |
| **Total payable to tax authorities** | **29,921,846** | **32,373,587** | **(2,451,742)** |
| INPS (National Italian insurance payable) | 1,236,308 | 1,087,061 | 149,247 |
| Other | 345,059 | 311,813 | 33,247 |
| **Total social security payable** | **1,581,367** | **1,398,874** | **182,493** |
| Employee accruals | 2,836,709 | 2,521,234 | 315,475 |
| Payable to subsidiary companies | 2,072,621 | 5,834,710 | (3,762,089) |
| Miscellaneous payables | 11,922,058 | 4,206,640 | 7,715,419 |
| Accrued expenses and deferred income | 13,038,888 | 4,403,499 | 8,635,390 |
| **Total other payables** | **29,870,277** | **16,966,083** | **12,904,194** |
| **Total other current liabilities** | **61,373,490** | **50,738,544** | **10,634,946** |

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 employee's 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 2020 and for the tax credits that subsidiaries transferred to Reply S.p.A. as part of the tax consolidation.

Miscellaneous payables mainly refer to remuneration and bonus of directors recognised as participation in the profits of the company.

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

## NOTE 35 - PROVISIONS

The item Provisions amounting to 16,065,000 Euros is summarized as follows:

| (EUROS) | 31/12/2019 | ACCRUALS | REVERSAL | UTILIZED | 31/12/2020 |
|---|---|---|---|---|---|
| Provision for risks | 5,942,347 | 715,000 | (592,347) | - | 6,065,000 |
| Provision for losses on equity investments | 10,000,000 | - | - | - | 10,000,000 |
| **Total** | **15,942,347** | **715,000** | **(592,347)** | **-** | **16,065,000** |

The item Provision for risks reflects the best estimate of contingent liabilities deriving from ongoing legal litigations; at 31 December 2020 an accrual 715,000 Euros and a reversal of 592,347 Euros were made.
The item Provision for losses on equity investments is unchanged compared to year-ended 2019.

## NOTE 36 - TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2020 Financial Statements related to such transactions are summarised 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** | **31/12/2020** | | **31/12/2019** | | |
| Financial receivables | 248,067 | - | 174,517 | - | Financial loans |
| Guarantee deposits | - | 80 | - | 80 | Guarantee deposits |
| Transaction accounts, net | (118,633) | - | (31,955) | - | Transaction accounts held by the Parent company |
| Trade receivables and other | 159,271 | 171 | 151,236 | 158 | Royalties, administration services, marketing, quality management services and office rental |
| Trade payables and other | 204,096 | 128 | 219,602 | - | Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies |
| Other payables | - | 6,963 | - | 3,838 | Compensation paid to Directors and Key Management |
| **ECONOMIC TRANSACTIONS** | **2020** | | **2019** | | |
| Revenues from Royalties | 35,433 | - | 34,343 | - | Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues |
| Revenues from services | 42,415 | 18 | 40,899 | 157 | Administrations services, marketing, quality management and office rental |
| Revenues from management services | 7,816 | - | 7,846 | - | Strategic management services |
| Costs for professional services | 480,264 | - | 483,337 | - | Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies |
| Other services | 1,741 | 482 | 1,640 | 420 | Services related to office rental and office of the secretary |
| Personnel | - | 7,615 | - | 6,804 | Emoluments to Directors and Key Management |
| Interest income, net | 6,325 | - | 6,070 | - | Interest on financial loans: 3 month Euribor + spread of 3 percentage points |

With reference to the Cash flows statement, the above mentioned transactions impact the change in working capital by 20,300 thousand Euros.

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

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

## NOTA 37 - ADDITIONAL DISCLOSURE TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

### TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

Reply S.p.A. has determined the guide lines in managing financial risks. In order to maximize costs and the resources Reply S.p.A. has centralized all of the groups risk management. Reply S.p.A. has the task of gathering all information concerning possible risk situations and define the corresponding hedge.
As described in the section "Risk management", Reply S.p.A. constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.
The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the company.
The quantitative data reported in the following do not have any value of a prospective nature, in particular the sensitivity analysis on market risks, is unable to reflect the complexity of the market and its related reaction which may result from every change which may occur.

### CREDIT RISK

The maximum credit risk to which the company is theoretically exposed at 31 December 2020 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, unfavourable and instantaneous change of 50 basis points in short-term interest rates at 31 December 2020 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 161 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 2020, 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) | 30 | - | 3,705 | |
| **Total Liabilities** | | **-** | **3,705** | **-** |

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 Reply for the exploitation of hedging derivatives contracts in existence as at 31 December 2020 re-enters under the hierarchy profile in level 2.

As at 31 December 2020, there have not been any transfers within the hierarchy levels.

## NOTE 38 - SIGNIFICANT NON-RECURRING TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, there were no significant non-recurring transaction during 2020.

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

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

## NOTE 40 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES GUARANTEES

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

### COMMITMENTS

It is reported that:

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

AG at a pre-determined price (8.19 euros). On June 2018, the German court took note of the agreement reached between the parties also affected by the agreement related to the merger of the following point.
With regard to shareholders who did not join the settlement agreement, in February 2019, the German Court issued a judgment that provides for an increase of 1.81 euros in the price paid per share and an increase of 0.07 euros gross of the dividends paid in 2010-2013. The financial effects on the Group are covered by specific provisions.

- with regards the merger operation for the incorporation of Reply Deutschland AG in Reply S.p.A. the assessment procedures foreseen in the measures of Article 122j of Umwandlungsgesetz find application – German law on extraordinary operations – with reference to the exchange ratio and the corresponding amount in cash.

Within three months from the registration of the merger in the Turin Companies Register, each minority shareholder was able to present a petition for the purpose of commencing, in compliance with German law, before a Judge qualified in Germany – who shall have exclusive jurisdiction – the assessment inherent in the Share Swap ratio and the corresponding amount in cash. All shareholders of Reply Deutschland will have the right to benefit from a possible increase in the exchange ratio determined by the Judge or on the basis of an agreement between the parties, and that is to say independently of their participation in the evaluation procedure. On the contrary, from the possible increase of the corresponding amount in cash determined by the Judge or on the basis of an agreement between the parties only the shareholders who verbally annotated their disagreement in the general meeting in respect of conditions of the law can benefit.
In the case where evaluation procedures include a modification of the exchange ratio, every single difference shall be regulated in cash.

Some minority shareholders have commenced the aforementioned procedures.
Following exchanges with the minority shareholders and their appointed representative, the Company has reached a settlement agreement where the payment of an additional amount of 4.41 Euros per share of Reply Deutschland was agreed plus legal interest, in addition to the flat-rate reimbursement of proceedings costs. On 18 June 2018, the German court took note of the agreement reached between the parties. The expenses arising from this agreement amounting to approximately 5 million Euros is covered by specific provisions (please see Note 35).

In relation to the above accruals, as a result of the utilizations, the provision for risks has a residual amount of 100 thousand Euros at 31 December 2020.

## 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 recognises specific provision for this purpose.

## NOTE 41 - EMOLUMENTS TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT

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

## NOTE 42 - EVENTS SUBSEQUENT TO 31 DECEMBER 2020

The battle against the Covid-19 pandemic will continue to determine the evolution of the economy at least for the first 6-9 months of 2021. The emergency, at the time of this annual report, is still ongoing, with different trends in the countries where Reply is present. Its evolution will depend, to a large extent, on the effectiveness and speed of the vaccination plans that the various countries have begun to activate.

In recent months, despite the difficulties introduced by the various local and national lock-downs, Reply has managed to guarantee the continuity of activities at each customer, thanks to a way of working already long based on advanced tools of individual productivity and, on the massive use of collaboration and development platforms entirely in the cloud.

In particular, between December 2020 and February 2021, when the second wave of the pandemic hit much of the Western world, Reply, thanks to the resilience of its organizational model, compensated, very quickly, for yet another slowdown in activities related to particularly affected sectors such as, transport, manufacturing and tourism.

Reply's financial soundness has also allowed us to continue on the path of growth and development in Europe, England and North America and to enrich with new skills the main offers on the cloud, artificial intelligence, 5g, robotics, e-commerce and connected vehicles.

## NOTE 43 - APPROVAL OF THE FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The financial statements for the year-ended 31 December 2020 were approved by the Board of Directors on March 15, 2021 which approved their publication.

# ANNEXED TABLES

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

| (EUROS) | 2020 | OF WHICH RELATED PARTIES | % | 2019 | OF WHICH RELATED PARTIES | % |
|---|---|---|---|---|---|---|
| Revenues | 531,223,744 | 80,769,231 | 15.2% | 534,005,629 | 73,467,534 | 13.8% |
| Other income | 12,884,123 | 8,828,896 | 68.5% | 14,335,309 | 11,703,940 | 81.6% |
| Purchases | (24,819,193) | (24,351,211) | 98.1% | (26,553,872) | (25,984,303) | 97.9% |
| Personnel | (25,955,930) | (7,615,000) | 29.3% | (22,681,309) | (6,804,000) | 30.0% |
| Services and other costs | (484,010,216) | (458,073,297) | 94.6% | (487,105,947) | (459,413,099) | 94.3% |
| Amortization and depreciation | (1,977,953) | | | (1,378,856) | | |
| Other operating and non-recurring income/(expenses) | 55,433 | | | (2,102,000) | | |
| **Operating income (EBIT)** | **7,400,007** | | | **8,518,955** | | |
| Gain/(loss) on equity investments | 73,706,187 | | | 72,561,906 | | |
| Financial income/(loss) | (7,277,504) | 6,325,110 | 86.9% | 9,708,821 | 6,070,410 | 62.5% |
| **Income before taxes** | **73,828,690** | | | **90,789,682** | | |
| Income taxes | (421,464) | | | (1,540,684) | | |
| **Net income** | **73,407,227** | | | **89,248,998** | | |
| *Net and diluted income per share* | *1.96* | | | *2.40* | | |

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

| (EUROS) | 31/12/2020 | OF WHICH RELATED PARTIES | % | 31/12/2019 | OF WHICH RELATED PARTIES | % |
|---|---|---|---|---|---|---|
| Tangible assets | 333,489 | | | 208,885 | | |
| Goodwill | 86,765 | | | 86,765 | | |
| Other intangible assets | 6,646,657 | | | 4,661,803 | | |
| RoU assets | 755,027 | | | 722,294 | | |
| Equity investments | 144,527,524 | | | 142,118,921 | | |
| Other financial assets | 248,530,974 | 248,066,913 | 99.8% | 174,871,136 | 174,517,076 | 99.8% |
| Deferred tax assets | 6,112,288 | | | 5,538,988 | | |
| **Non-current assets** | **406,992,725** | | | **328,208,793** | | |
| Trade receivables | 320,790,536 | 135,317,028 | 42.2% | 353,511,709 | 133,298,516 | 37.7% |
| Other receivables and current assets | 72,109,275 | 36,747,851 | 51.0% | 27,350,198 | 22,349,619 | 81.7% |
| Financial assets | 27,349,313 | 27,066,257 | 99.0% | 47,493,994 | 47,493,994 | 100.0% |
| Cash and cash equivalents | 184,012,136 | | | 161,330,565 | | |
| **Current assets** | **604,261,260** | | | **589,686,466** | | |
| **TOTAL ASSETS** | **1,011,253,985** | | | **917,895,259** | | |
| Share capital | 4,863,486 | | | 4,863,486 | | |
| Other reserves | 389,243,196 | | | 318,380,775 | | |
| Net income | 73,407,227 | | | 89,248,998 | | |
| **SHAREHOLDERS' EQUITY** | **467,513,909** | | | **412,493,259** | | |
| Due to minority shareholders | - | | | 1,019,980 | | |
| Financial liabilities | 18,024,304 | | | 23,871,428 | | |
| IFRS 16 financial liabilities | 383,955 | | | 394,992 | | |
| Employee benefits | 810,266 | | | 703,702 | | |
| Deferred tax liabilities | 776,201 | | | 2,978,117 | | |
| Provisions | 6,065,000 | | | 5,942,347 | | |
| **Non-current liabilities** | **26,059,725** | | | **34,910,565** | | |
| Financial liabilities | 156,251,633 | 145,699,486 | 93.2% | 95,775,792 | 79,448,593 | 83.0% |
| IFRS 16 financial liabilities | 373,712 | | | 324,907 | | |
| Trade payables | 289,681,517 | 202,151,932 | 69.8% | 313,652,192 | 217,018,624 | 69.2% |
| Other current liabilities | 61,373,490 | 9,227,991 | 15.0% | 50,738,544 | 6,118,185 | 12.1% |
| Provisions | 10,000,000 | | | 10,000,000 | | |
| **Current liabilities** | **517,680,351** | | | **470,491,435** | | |
| **TOTAL LIABILITIES** | **543,740,076** | | | **505,402,000** | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,011,253,985** | | | **917,895,259** | | |

## 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 31/12/2020 |
|---|---|---|---|---|---|---|---|
| Air Reply S.r.l. | Turin | € | 10,000 | 264,035 | 155,415 | 85.00% | 558,500 |
| Arlanis Reply S.r.l. | Turin | € | 10,000 | 1,027,100 | 708,028 | 100.00% | 588,000 |
| Aktive Reply S.r.l. | Turin | € | 10,000 | 1,483,133 | 1,379,601 | 100.00% | 512,696 |
| Atlas Reply S.r.l. | Turin | € | 10,000 | 708,192 | 638,425 | 100.00% | 12,575 |
| Avantage Reply Ltd. | London | GBP | 5,086 | 2,449,115 | (346,981) | 100.00% | 2,743,102 |
| Avvio Reply S.r.l. | Turin | € | 10,000 | 10,246 | (153,754) | 100.00% | 164,000 |
| Blue Reply S.r.l. | Turin | € | 10,000 | 8,705,282 | 8,641,268 | 100.00% | 527,892 |
| Breed Reply Investment Ltd. | London | GBP | 100 | (1,580,263) | (2,079,396) | 91.00% | 1,888,887 |
| Bridge Reply S.r.l. | Turin | € | 10,000 | 462,982 | 422,763 | 60.00% | 6,000 |
| Business Reply S.r.l. | Turin | € | 78,000 | 2,667,575 | 2,517,299 | 100.00% | 268,602 |
| Cluster Reply S.r.l. | Turin | € | 139,116 | 9,638,766 | 9,401,324 | 100.00% | 2,540,848 |
| Cluster Roma Reply S.r.l. | Turin | € | 10,000 | 1,230,399 | 1,188,849 | 100.00% | 296,84 |
| Consorzio Reply Public Sector | Turin | € | 97,500 | 29,320 | - | 33.33% | 32,500 |
| Core Reply S.r.l. | Turin | € | 10,000 | 56,716 | 22,166 | 90.00% | 9,000 |
| Data Reply S.r.l. | Turin | € | 10,000 | 1,674,675 | 1,635,118 | 100.00% | 317,662 |
| Discovery Reply S.r.l. | Turin | € | 10,000 | 3,864,503 | 1,659,569 | 100.00% | 1,311,669 |
| e*finance Consulting Reply S.r.l. | Turin | € | 34,000 | 4,616,619 | 4,469,724 | 100.00% | 3,076,385 |
| Ekip Reply S.r.l. | Turin | € | 10,400 | 20,682 | (25,312) | 100.00% | 30,000 |
| Envision Reply S.r.l. | Turin | € | 10,000 | 12,457 | (295,219) | 88.00% | 1,578,800 |
| Eos Reply S.r.l. | Turin | € | 200,000 | 954,506 | 700,261 | 100.00% | 495,369 |
| Forge Reply S.r.l. | Turin | € | 10,000 | 10,186 | (2,386,671) | 100.00% | 1,000 |
| Go Reply S.r.l. | Turin | € | 50,000 | 2,183,944 | 688,960 | 100.00% | 1,920,000 |
| Hermes Reply Polska Zo.O. | Katowice | ZLT | 40,000 | 10,960,991 | 2,886,141 | 100.00% | 10,217 |
| Hermes Reply S.r.l. | Turin | € | 10,000 | 1,407,569 | 1,028,536 | 100.00% | 199,500 |
| Hermes Reply Consulting Nanjing Co. | China | CNY | 7,932,875 | 10,736,480 | 1,425,065 | 100.00% | 1,000,000 |
| IrisCube Reply S.r.l. | Turin | € | 651,735 | 10,104,473 | 9,219,767 | 100.00% | 6,724,952 |
| Like Reply S.r.l. | Turin | € | 10,000 | 13,731 | (117,543) | 100.00% | 87,317 |
| Logistics Reply S.r.l. | Turin | € | 78,000 | 13,277,648 | 2,604,770 | 100.00% | 1,049,167 |
| Open Reply S.r.l. | Turin | € | 10,000 | 2,684,710 | 2,552,942 | 100.00% | 1,625,165 |
| Pay Reply S.r.l. | Turin | € | 10,000 | 915,411 | 880,647 | 100.00% | 10,000 |
| Portaltech Reply S.r.l. | Turin | € | 10,000 | 560,688 | 539,081 | 100.00% | 106,000 |
| Power Reply S.r.l. | Turin | € | 10,000 | 3,319,721 | 3,103,591 | 100.00% | 2,708,265 |
| Protocube Reply S.r.l. | Turin | € | 10,200 | 13,780 | (287,149) | 70.00% | 1,000 |
| Reply Consulting S.r.l. | Turin | € | 10,000 | 787,571 | 737,023 | 100.00% | 3,518,434 |
| Reply AG | Guetersloh | € | 100,200 | 53,695,795 | (18,699,239) | 100.00% | 57,835,781 |
| Reply Services S.r.l. | Turin | € | 10,000 | 1,159,545 | 1,099,178 | 100.00% | 1,000 |

| COMPANY | REGISTERED OFFICE | CURRENCY | SHARE CAPITAL | TOTAL SHAREHOLDERS' EQUITY | NET RESULT | INTEREST | CARRYING VALUE AT 31/12/2020 |
|---|---|---|---|---|---|---|---|
| Reply Inc. | Michigan - USA | $ | 3,406,420 | 744,070 | 4,267,122 | 100.00% | 2,814,625 |
| Reply Ltd. | London | GBP | 54,175 | 7,622,319 | (2,056,382) | 100.00% | 11,657,767 |
| Reply Digital Experience S.r.l. | Turin | € | 29407 | 553,680 | 510,811 | 100.00% | 4,227,019 |
| Reply do Brasil Sistemas de Informatica Ltda | Belo Horizonte - Brasil | R$ | 650,000 | 7,714,140 | (4,056,666) | 98.50% | 206,816 |
| Reply Sarl | Luxembourg | € | 12,000 | 12,000 | - | 100.00% | 12,000 |
| Ringmaster S.r.l. | Turin | € | 10,000 | 1,193,442 | 1,100,804 | 50.00% | 5,000 |
| Santer Reply S.p.A. | Milan | € | 2,209,500 | 11,010,952 | 4,099,148 | 100.00% | 11,386,966 |
| Security Reply S.r.l. | Turin | € | 50,000 | 6,658,774 | 6,495,519 | 100.00% | 392,866 |
| Sense Reply S.r.l. | Turin | € | 10,000 | 963,372 | 547,501 | 90.00% | 15,700 |
| Retail Reply S.r.l. | Turin | € | 10,000 | 1,293,975 | 1,260,218 | 100.00% | 100,000 |
| Spark Reply S.r.l. | Turin | € | 10,000 | 11,345 | (202,811) | 100.00% | 1,042,500 |
| Sprint Reply S.r.l. | Turin | € | 10,000 | 12,689 | (80,933) | 100.00% | 155,000 |
| Storm Reply S.r.l. | Turin | € | 10,000 | 10,754,918 | 3,555,771 | 100.00% | 986,000 |
| Syskoplan Reply S.r.l. | Turin | € | 32,942 | 1,414,970 | 1,298,235 | 100.00% | 949,571 |
| Sytel Reply S.r.l. | Turin | € | 115,046 | 8,406,860 | 7,885,238 | 100.00% | 5,513,232 |
| Sytel Reply Roma S.r.l. | Turin | € | 10,000 | 12,097 | (550,220) | 100.00% | 894,931 |
| TamTamy Reply S.r.l. | Turin | € | 10,000 | 2,225,891 | 836,167 | 100.00% | 263,471 |
| Target Reply S.r.l. | Turin | € | 10,000 | 2,189,313 | 2,110,036 | 100.00% | 600,338 |
| Technology Reply Roma | Turin | € | 10,000 | 1,041,436 | 709,435 | 100.00% | 10,000 |
| Technology Reply S.r.l. | Turin | € | 79,743 | 9,521,526 | 9,223,493 | 100.00% | 216,658 |
| Technology Reply S.r.l. (Romania) | Rumania | RON | 44,000 | 795,884 | (257,775) | 100.00% | 9,919 |
| Whitehall Reply S.r.l. | Turin | € | 21,224 | 1,831,529 | 1,701,178 | 100.00% | 160,212 |
| Xister Reply S.r.l. | Rome | € | 10,000 | 3,095,054 | (206,162) | 100.00% | 9,150,465 |

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

| | | | | SUMMARY OF THE AMOUNTS USED IN THE PRIOR THREE FISCAL YEARS | |
|---|---|---|---|---|---|
| **NATURE/DESCRIPTION** | **AMOUNT** | **POSSIBILITY OF UTILIZATION** | **AVAILABLE** | **FOR COVERAGE OF LOSSES** | **OTHER** |
| Capital | 4,863,486 | | | | |
| **Capital reserve** | | | | | |
| Reserve for treasury shares | 24,502 | | | | |
| Reserve for treasury shares | 53,293,565 | A,B,C | 53,293,565 | | |
| **Income reserves** | | | | | |
| Legal reserve | 972,697 | B | | | |
| Extraordinary reserve | 181,086,665 | A,B,C | 181,086,665 | | |
| 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 | 146,681,933 | A,B,C | 146,681,933 | | |
| **Total** | | | **388,084,867** | | |
| Not available amount | | | - | | |
| **Residual available amount** | | | **388,084,867** | | |
| | | | | | |
| **Reserves from transition to IAS/IFRS** | | | | | |
| FTA reserve | 303,393 | | | | |
| Retained earnings | 2,147,961 | | | | |
| Reserve for cash flow hedge | (1,439,951) | | | | |
| Reserve for treasury shares | (24,502) | | | | |
| IAS reserve | (55,323) | | | | |
| Accounting expenses according to IAS 32 | (770,448) | | | | |
| | **161,130** | | | | |

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 2020 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 | 2020 FEES |
|---|---|---|
| Audit | PwC S.p.A. | 89,552 (*) |
| Audit related services | PwC S.p.A. (1) | 11,200 |
| | PwC S.p.A. (2) | 32,000 |
| **Total** | | **132,752** |

(1) Attestation of tax forms (tax return, IRAP and Form 770)
(2) DNF attestation
(*) includes an extra 48,000 euros for activities on the new ERP system SAP

# 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 2020.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2020 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 2021

/s/ Mario Rizzante
Chairman and Chief Executive Officer

**Mario Rizzante**

/s/ Giuseppe Veneziano
Director in charge of signing the financial statements

**Giuseppe Veneziano**

# REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

## pursuant to article 153 of the legislative decree 58/1998 on the financial statements as at 31 December 2020

Dear Shareholders,
pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activities performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
During the year ended 31 December 2020 the Board of statutory Auditors carried out the supervisory activities in compliance to the law (in particular to art. 149 of Legislative Decree No. 58/1998 and art. 19 of legislative Decree 39/2010), by the Rules of Conduct issued by the National Council of Chartered Accountants and accounting Experts, from Consob recommendations in the field of corporate controls and activities of the Board of Statutory auditors and the indications contained in the Code of Conduct and the following is noted:

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

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2020 or subsequent to the end of the financial year, among which we note:

- in the month of August 2020, Reply Inc, a subsidiary of Reply S.p.A., acquired 70% of Sagepath LLC, a company constituted under American law;
- in the month of September 2020, Reply Ltd, a subsidiary of Reply S.p.A., acquired 100% of Brightknight, a company constituted under Belgium law;
- in the month of November 2020, Reply Ltd, a subsidiary of Reply S.p.A., acquired 100% of AirWalk Holdings Limited and its subsidiaries, a company constituted under English law;
- in the month of December 2020, Reply Ltd, a subsidiary of Reply S.p.A., acquired 100% of Mansion House Consulting Ltd and its subsidiaries, a company constituted under English law.

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

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

With reference to intercompany transactions, we give notice that:

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



Transactions with related parties in 2020, which took place in accordance with market conditions, are related to Emoluments to Directors and Key Management, Statutory Auditors and to "office services", in particular to the office situated in Corso Francia, 110 Turin, provided by Alika S.r.l..

For these operations the Procedure for Related party transactions was not applied as these transactions are exempt pursuant to art. 4.1 and 4.4. of the Procedure.

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

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2020 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2020 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.

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

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

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

Pursuant to art. 19 of Legislative Decree 39/2010, during 2020 and up to the date of this Report, the Board of Statutory Auditors carried out a continuous monitoring process of the activities carried out by the auditing firm through a series of meetings during which among other things, examined: the purpose of the audit, materiality and significant risks and the audit plan.

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

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

- the reports on the audit of the financial statements and the audit of the consolidated financial statements issued on March 30, 2021 pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of the Regulation (EU) n. 537/2014;
- the additional report issued on March 30, 2021, pursuant to Article 11 of the aforementioned Regulation, to the Board of Statutory Auditors in capacity of the Internal Control and Auditing Committee;
- the annual confirmation of independence, issued March 30, 2021, pursuant to art. 6 par. 2) let. a) of the Regulations and pursuant to paragraph 17 of ISA Italia 260.

The aforementioned annual audit reports of the consolidated financial statements show that the individual financial statements and the consolidated financial statements of the Group provide a true and fair view of the balance sheet and financial situation of Reply S.p.A. and of the Reply Group at December 31, 2020, of the economic result and cash flows for the year ended on that date, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

Furthermore, in the opinion of the auditor, the management report and some specific

information disclosed in the report on corporate governance and ownership structure indicated in art. 123-bis, paragraph 4, of Legislative Decree 58/1998, is consistent with the financial statements of Reply S.p.A. and with the consolidated financial statements of the Reply Group at December 31, 2020 and are prepared in accordance with the law. With reference to the possible identification of significant errors in the management report (Article 14, paragraph 2, letter e) of Legislative Decree 39/2010), the auditor declared that nothing had emerged.
The audit reports on the financial statements and the consolidated financial statements describe, according to professional judgement, the most significant audit aspects of the individual and consolidated financial statements for the year under exam.
More specifically, PricewaterhouseCoopers S.p.A. has identified the following key audit matters:

- the recoverable amounts on investments, with regard to the separate financial statements and
- the recoverable amounts of goodwill with regards to the consolidated financial statements.

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

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

No complaints have been acknowledged pursuant to Article 2408 of the Italian Civil Code in 2020 and at the date of this report.

## 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 2020, in addition to the engagement of auditing the Financial Statements as at 31 December 2020, PricewaterhouseCoopers S.p.A. received the following engagements for audit related services:

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

The consideration for such engagement was 11.2 thousand Euros;

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

The consideration for such engagement was 25.2 thousand Euros.

- Review of the Non-financial data report 2020 ex Legislative Decree 254/2016 of the Reply Group.

The consideration for such engagement was 32 thousand Euros.

- Report on Research and development expenses incurred in 2019 by Logistics Reply S.r.l..

The consideration for such engagement was 5 thousand Euros.

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

During 2020 further professional assignments were conferred:

- PricewaterhouseCoopers US received the engagement of verifying the reconciliation of income statement item classifications between the statutory financial statement and a hypothetical IFRS financial statement for the US company Valorem LLC.

No specific consideration for such engagement has been recognised as it was incorporated within the audit.

- PricewaterhouseCoopers US received the engagement of audit of the interim report of Valorem LLC to determine the 2020 earn-out value.

The consideration for such engagement was 25.2 thousand Euros.

During 2021 further professional assignments were conferred:

- PricewaterhouseCoopers US received the engagement of supporting Reply Inc in identifying incentive plans for management of target companies.

The consideration for such engagement was 28.8 thousand Euros.

- PricewaterhouseCoopers GmbH received the engagement of issuing an ISAE 3000 report on Reply AG capital cover for its transformation in a European Company.

The consideration for such engagement was 10 thousand Euros.

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

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

## 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 7 times.

The Internal Control and Risk Management Committee 3 times, whereas the Remuneration Committee met 2 times, and the Committee for Related Party Transactions did not meet.

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

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

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

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

We further advise you that:

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

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

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

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

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A., and revised in January 2020.
On 15 March 2021 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

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

The Board's supervisory activity was carried out through:

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

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

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently modified on 14 May 2015 and on 2 August 2019, as well as compliance to it;
- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";
- We monitored the financial reporting process and its integrity;
- We have verified the effectiveness of the company's internal control, quality and risk management systems, with regard to financial reporting;

- We monitored the statutory audit of the financial statements and of the consolidated financial statements;
- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- We monitored compliance with the provisions of art. 17, paragraph 4, of Legislative Decree 39/2010 and in this regard, we inform you that the new key manager for the review of the financial statements of Reply S.p.A. is Mr. Mattia Molari;
- We verified and monitored the independence of the independent auditing firm PricewaterhouseCoopers S.p.A. pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010 and article 8 of Regulation (EU) 537/2014;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified the correct fulfilment of the obligations related to the health and safety emergency referred to Covid-19;
- We verified compliance with the laws on "Market abuse" and "Protection of savings" in matters of corporate disclosures of information and "Internal Dealings" based on the information provided by the Company;
- We verified the fulfillment of the obligations related to the regulations pursuant to Legislative Decree 254/2016 of the national implementation of the Directive 2014/95 / EU, on the basis of which the Consolidated Disclosure of Non-Financial information was approved by the Board of Directors on March 15, 2021.

In this regard, we acknowledge that PricewaterhouseCoopers S.p.A., issued on March 30, 2021 its opinion pursuant to art. 3, c. 10 of Legislative Decree 254/2016, regarding the compliance of the information provided in the Consolidated Disclosure of the Non-Financial information with respect to the requirements set forth in Legislative Decree 254/2016.

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

**1) ADMINISTRATION**

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

**2) ORGANISATIONAL STRUCTURE**

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

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

**3) INTERNAL CONTROL SYSTEM**

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

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

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

We have received from PricewaterhouseCoopers S.p.A. the report pursuant to in art. 11 of Regulation (EU) 537/2014, which stated that, during the audit of the financial statements of Reply S.p.A. and the consolidated financial statements of the Group as at 31 December 2020, there were no significant aspects giving rise to discussions or correspondence with Management, and no significant gaps have been identified in the internal control system in relation to the financial reporting process, nor have significant difficulties been reported to bring to the attention of the Committee for Internal Control and Risk Management.

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

**4) ADMINISTRATIVE- ACCOUNTING SYSTEM**

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

We therefore deem that the administrative-accounting system is suitable to represent and

monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.
The Chairman and the Director in charge of drawing up the Company's Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements, the attestation required by Article 154-bis (5) of TUF (Legislative Decree 58/1998).

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

In relation both to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998 and the general supervisory obligation pursuant to Article 149(1) of such Decree, as well as the agenda of the Shareholders' meeting which includes discussion of the Financial Statements for the reporting period, the Board of Statutory Auditors states that it has supervised compliance with the procedural rules and law with respect to their preparation.
We note that the Financial Statements as at 31 December 2020 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).
On the basis of the controls made directly and the information exchanged with the Independent Auditor, and also in view of the latter's report pursuant to Article 14 of Legislative Decree 39/2010 which expresses a judgment without reservations, the Board of Statutory Auditors has no comments or proposals with respect to the Financial Statements or Report on Operations and the proposals set forth therein, which it consequently considers, to the extent of its specific expertise, should meet your approval.
Similarly, with specific reference to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998, the Board does not have any proposals to make with respect to the other matters within its scope of expertise.
With reference to the point on the agenda concerning the purchase and disposal of treasury shares, recalling disclosures made by the Directors, the Board states that the resolution proposed is in accordance with articles 2357, 2357-ter of the Italian Civil Code, in accordance with Article 132 of Legislative Decree 58/1998, as well as those of Art. 144-bis of Consob's Issuers Regulation no. 11971 of 14 May 1999.

With reference to the point on the agenda concerning the withdrawal of the delegation attributed to the Board of Directors on 04/21/2016 pursuant to art. 2443 of the Civil Code and the simultaneous attribution of delegation to the current Board of Directors to increase the paid share capital for a maximum amount of nominal Euros 390,000 for a maximum period of 5 years to be freed by the injection of investments in capital companies with a similar or similar subject to that of Reply S.p.A., with surcharge and exclusion of the right of option pursuant to art. 2441, c. 4 of the Civil Code, with consequent modification of art. 5 of the company by-laws, recalled what the Directors have said, the Board states that the resolution proposed is in accordance with the Italian Civil Code, in accordance with Legislative Decree 58/1998, as well as those of Consob's Issuers Regulation no. 11971 of 1999.

Finally, we remind you that our three-year term of office and in thanking you for the trust you have placed in us, we invite you to take the necessary actions.

Genova - Turin, 30 March, 2021
THE STATUTORY AUDITORS
**(Dott. Giorgio Mosci)**
**(Dott.ssa Ada Alessandra Garzino Demo)**
**(Dott. Piergiorgio Re)**

# *Independent auditor's report*

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

To the shareholders of Reply SpA

## *Report on the Audit of the Financial Statements*

### *Opinion*

We have audited the financial statements of Reply SpA (the Company), which comprise the statement of financial position as of 31 December 2020, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

### *Basis for Opinion*

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

### *Key Audit Matters*

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


***PricewaterhouseCoopers SpA***

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| *Key Audit Matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **Evaluation of the recoverability of equity investments in subsidiaries** | |
| *Note 21 to the financial statements "Equity investments"*<br><br>The value of equity investments in subsidiaries as of 31 December 2020 amounted to Euro 145 million. These investments are carried at cost adjusted for impairment losses.<br><br>Company's management tests the equity investments for impairment by comparing the carrying amount with the recoverable amount in accordance with IAS 36 (impairment test), when there is any indication of impairment based on which the value of the investments is expected to be recovered with difficulty.<br><br>The assessment required Company's management to perform with the support of external experts, complex estimations which are mainly based on assumptions affected by economic and market conditions which are hard to foresee, especially in relation to the determination of market multiples, expected cash flows, discount and growth rates to be used for estimating the terminal value.<br><br>Considering the significance of this items representing approximately 14% of Company's total assets and taking into account the complexity of the evaluation process, we identified the evaluation of equity investment's recoverability as a key audit matter. | We gained an understanding and assessed the procedures adopted by management in order to verify the compliance with the requirements of IAS 36.<br><br>We analysed the Company's management expert report with a focus on market multiples. We also verified the reasonability of Company's management assumptions used to estimate the expected cash flows and the mathematical accuracy of the calculations performed to determine the equity investments fair value and value in use.<br><br>We then verified the coherence of the expected cash flows used in the impariment test with the ones approved by the Board of Directors, with the cash flows expected in the preparation of 2019 financial report and with the 2020 actual cash flows.<br><br>During the tests performed by us, including those to assess whether the estimation method and the discount and growth rates used by management complied with the previsions of IAS 36 and the standard evaluation practice, we were supported by PwC network experts.<br><br>Lastly, we verified the adequacy of the financial disclosure based on international financial reporting standards requirements, also considering information and data obtained during our audit. |

## *Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements*

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

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

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

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

## *Report on Compliance with other Laws and Regulations*

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

The directors of Reply SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Reply SpA as of 31 December 2020, including their consistency with the relevant financial statements and their compliance with the law.

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We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Reply SpA as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Reply SpA as of 31 December 2020 and are prepared in compliance with the law.

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

Turin, 30 March 2021

PricewaterhouseCoopers SpA

*Signed by*

Mattia Molari
(Partner)

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

# CORPORATE INFORMATION

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Share capital: Euro 4,863,485.64 i.v.
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