



**REPLY
INTERIM
MANAGEMENT REPORT
AT 31 MARCH 2019**

REPLY
INTERIM MANAGEMENT
REPORT AT MARCH
2019

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BOARD OF DIRECTORS AND CONTROLLING BODIES

BOARD OF DIRECTORS

Chairman and Chief Executive Officer

Mario Rizzante

Chief Executive Officer

Tatiana Rizzante

Executive Directors

Filippo Rizzante

Daniele Angelucci

Claudio Bombonato

Elena Maria Previtiera

Fausto Forti (1) (2) (3)

Secondina Giulia Ravera (1) (2)

Francesco Umile Chiappetta (1) (2)

Board of Statutory Auditors

President

Giorgio Mosci

Statutory Auditors

Piergiorgio Re

Ada Alessandra Garzino Demo

Independent Auditors

PwC S.p.A. (4)

(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

(4) Appointed by the General Shareholders' Meeting on April 19, 2019

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

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(thousand Euros)

Economic figures	Q1 2019 (*)	%	Q1 2018	%
Revenue	283,544	100.0	238,880	100.0
EBITDA	42,344	149.0	32,201	13.5
EBIT	33,584	118.0	28,673	12.0
EBT	34,205	121.0	28,303	11.8

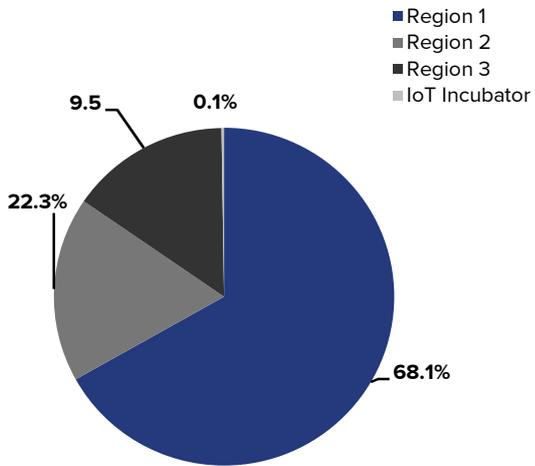
	31/03/2019	31/03/2018
Investments	4,207	3,206

	31/03/2019 (*)	31/12/2018
Net financial position	50,037	66,552

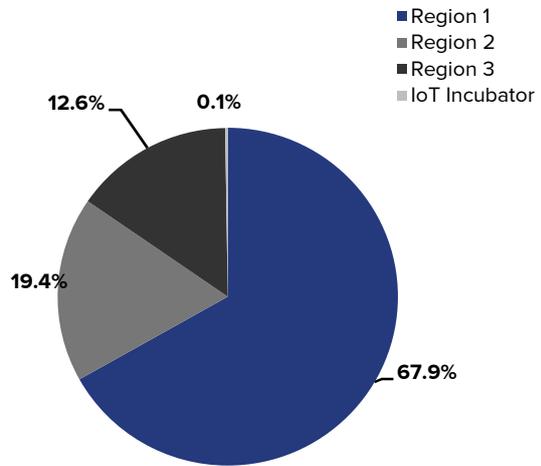
	31/03/2019	31/03/2018
Employees	7,850	6,664

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

REVENUE BY REGION (*)
31 March 2019

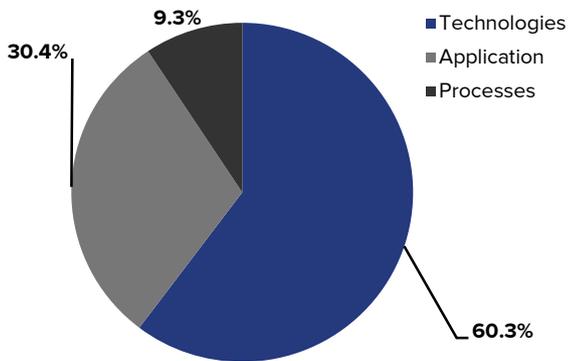


REVENUE BY REGION (*)
31 March 2018

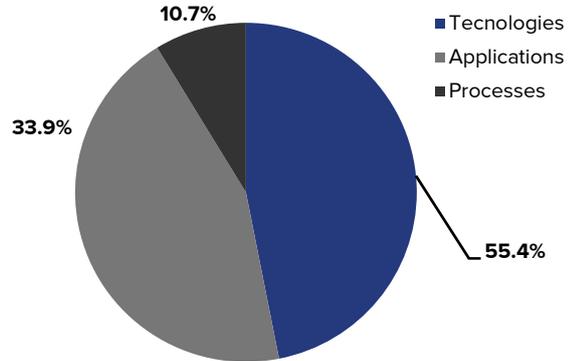


(*)
Region 1: ITA, USA, BRA, POL, ROU
Region 2: DEU, CHE, CHN, HRV
Region 3: GBR, LUX, BEL, NLD, FRA, BLR

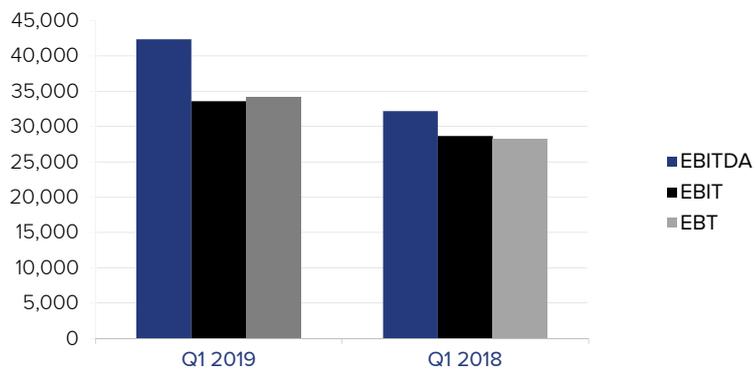
REVENUE BY BUSINESS LINE
31 March 2019



REVENUE BY BUSINESS LINE
31 March 2018



TREND IN MARGINS



REPLY LIVING NETWORK

REPLY LIVING NETWORK

Reply is a group that specializes in consulting, system integration and digital services. Comprised of a network of companies, Reply partners with leading industrial groups in defining business models, made possible by new technological and communication paradigms such as artificial intelligence, big data, cloud computing, digital communication and the Internet of Things (IoT).

THE ORGANISATIONAL MODEL

Reply operates through a network of companies that specialize in processes, applications and technologies, as well as centers of excellence in their respective fields.

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

Applications – Reply designs and implements application solutions aimed at satisfying core business needs.

Technologies – Reply optimizes the use of innovative technologies, implementing solutions capable of ensuring clients maximum efficiency and operational flexibility.

REPLY'S SERVICES INCLUDE:

Consulting – With a focus on strategy, communication, design, processes and technology.

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

Digital Services – Innovative services based on new communication channels and digital trends.

MARKET FOCUS

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

TELCO & MEDIA

Reply works with leading operators in the sector to define and implement digital transformation strategies. These are based on the renewal of systems that support products and services and to support the development of new service models that are customer-focused and delivered across all channels. Furthermore, the rising use of the Internet of Things (IoT) requires an increasing reconfiguration of networks that can transport large volumes of data in real time. This data is no longer solely generated by smartphones and mobile devices, but by a multitude of connected objects with widely different functional characteristics.

Reply offers integrated strategic and technological consulting services to support the design, definition and management of the new-generation networks, based on SDN (Software Defining Network) technologies, capable of integrating and managing virtual networks (Network Virtualization) through network engineering services and network operations. The arrival of 5G networks, furthermore, marks the end of the fixed/mobile barrier, eliminating communication-related distances connected to broadband limitations, to latency, and to the receptive capacity of the 3G network.

FINANCIAL SERVICES

Reply is increasingly active in supporting the digital transformation of Europe's financial institutions. In this area, Reply works with some of the major players in the sector on many key issues, from the definition of multi-channel strategies, to the implementation of open banking. In particular, in the increasingly relevant fields of big data, robots and artificial intelligence, Reply is investing heavily and collaborating with leading financial institutions (banks and insurance companies) along two lines of development: the concrete integration of the new big data technologies and architectures with existing systems; and the development of skills, analytics and machine learning models, aimed at extracting tangible business value from available databases.

Reply also boasts a strong and highly specialized presence in mobile payments and related m-commerce services. Reply offers consulting services, as well as a wide range of models and architectural solutions, aimed at the banking/insurance market and at emerging players in the payments industry.

Reply maintains a strong market presence in the wealth management arena and has developed a wide range of specific skills and solutions. These are focused on the emerging consulting models, on expanding the range of services offered and on "robo advice"-type solutions and platforms. In the area of Governance Risk Control (GRC), Reply operates with a dedicated consulting division highly specialized in issues relating to risk evaluation and risk control. Within this, Reply is working with several leading financial institutions on a broad range of initiatives connected to the implementation of EBU standards and the development of associated models and solutions.

Finally, Reply has been involved in numerous projects relating to the most advanced frontiers of innovation, such as in the latest biometric recognition technologies and digital identity, as well as quantum computing.

MANUFACTURING

Native Cloud platforms and applications, together with a focus on the enabling aspects of digital transformation, and development of Internet of Things are at the core of Reply's offering to the manufacturing market. Industry 4.0 and logistics 4.0 are increasingly critical aspects to the strategic development of companies in the sector. Reply has invested heavily to enhance its products and service offer in this area, with the re-engineering in 2017 and 2018 of its proprietary Supply Chain Execution and Manufacturing Execution System solutions.

RETAIL

The retail industry is experiencing a time of significant change driven by various factors, including the evolution of consumer purchasing behavior, the entry of new players and the digitization of products and services. Customer experience, on the other hand, is an increasingly key differentiator for retailers. Consumers expect to be able to interact with a brand wherever they are, thereby strengthening the link between physical stores and e-commerce.

Reply partnered with various clients to support their digital transformation journeys. This work saw the merging of physical and virtual spaces through the development of multi-channel e-commerce platforms, of marketing automation solutions, of smart boxes and by re-engineering the logistics chain both on supplier and customers ends.

ENERGY & UTILITIES

The energy and utilities sector saw the growth of innovative technologies on an industrial scale, across the entire value chain. Cloud Computing has become the leading provisioning tool for companies of all sizes, above all in the implementation of various digital transformation initiatives. The approach based on IoT models is increasingly widespread in the areas of generation, energy management and at the support of efficiency and smart city initiatives.

Against this backdrop of extensive transformation, Reply is one of the reference partners in the sector, combining knowledge of the market and of its unique processes, with a distinctive capability to design, implement and manage innovative digital solutions and technological platforms that support the "core business". The company's consolidated expertise in the introduction of new digital technologies has been further verticalised, with particular reference to the definition and development of new models in the energy management and downstream services sectors aimed at energy efficiency, areas in which Reply works with energy sales companies, as well as with end customers.

HEALTHCARE & GOVERNMENT

The increasingly evident need to bridge the gap between citizens and Public Administrations (PA) has led to the introduction of measures aimed not only at restructuring the management and control model (e.g. reorganization of the national health system) but also the enhancement of existing services through the introduction of increasingly more digital and smarter systems (e.g. new monitoring system for individuals affected by chronic conditions). A public sector that is closer to its citizens implies a greater reach of the services offered, increasing the levels of usability and therefore of supply possibilities.

In the area of digital health, Reply's highly specialized delivery of IoMT (Internet of Medical Things) focuses on two main areas: developing a network of information sharing among the various stakeholders in the field (i.e. patients, professionals and networks of those affected); as well as monitoring and supporting the citizen/patient at each stage of their "care and cure" journey (e.g. healthcare, social care).

TECHNOLOGICAL INNOVATION

Technological innovation forms the basis of Reply's objective: providing its customers with the tools necessary 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 organizations.

ARTIFICIAL INTELLIGENCE

Reply's artificial intelligence offering is based on three key areas: human-machine interaction (with the development of conversation and natural language recognition systems or visual recognition systems), automation (through technologies such as intelligent process automation) and the creation of systems to support business decisions (data prediction). The essential factor for implementing artificial intelligence projects is the availability of data. AI offers effective results, provided that the datasets available are historical and updated in real time. Within this framework, Reply focuses not only on the technology, but also uses advanced models for the management and processing of vast amounts of data required to train the algorithms.

Specifically, Reply applies the results of its research on artificial intelligence to real-world scenarios, creating customized solutions that integrate machine learning, deep learning or reinforcement learning algorithms, with recommendation systems, predictive engines, conversational interfaces or video and image recognition systems. Reply collaborates in these areas with the world's leading AI technology players.

BLOCKCHAIN

In a landscape of emerging technologies, blockchain will increasingly be able to foster new digital ecosystems based on distributed computational infrastructures. Today, the shared nature of blockchain-based digital registers represents an opportunity characterized by multi-industry application, with repercussions for the financial services sector and management of the supply chain. Moreover, the possible

synergies with other exponential technologies – such as IoT and artificial intelligence – make blockchain an ideal convergence layer to support the data marketplaces of the future.

Reply has defined a portfolio of services, encompassing consulting, design and the implementation of solutions based on the blockchain and the distributed ledger technology (DLT). Among the major initiatives developed in 2018, Reply, alongside its insurance and academic sector partners, launched the first sandbox for the Italian insurance market. As a founding member of the “Trusted Smart Contract Association”, it aims to define standards for the industrial adoption of legally enforceable smart contracts.

CLOUD COMPUTING

The Cloud has permanently established itself as one of the most important areas of transformation that companies have had to face. Virtual environments and services offered by leading, global vendors have modified the concept of IT, transforming it from being a simple commodity to one of the core elements on which to configure an organization’s digital transformation.

At the same time, the ever-increasing maturity of the cloud in its various declinations (IaaS, PaaS or SaaS) is driving service providers and consulting companies to develop offerings to tackle highly [strategic](#)^[EF1] issues, such as the coexistence in the cloud with traditional on premise applications and the challenge of data management security.

In the Cloud Computing field, Reply has defined a products and services offer that combines the following elements:

- consulting support (from the business process to operational management) that can help clients to understand, select and develop the most appropriate technological solutions and applications.
- an end-to-end provider service which, supported by partnerships with major international vendors including Adobe, Amazon Web Services, Google, Microsoft, Oracle, SAP and Salesforce, allows clients to benefit from the most effective solutions for their needs, both in terms of the model and the technology selected.
- SaaS services and solutions, based on Reply’s proprietary application platforms.
- a cloud infrastructure management service, with 24/7 availability, able to support customers not only in managing their infrastructure, but also at the application layer, guaranteeing continuity at the highest levels, constant performance monitoring and cost efficiency.

CUSTOMER ENGAGEMENT

The rapid evolution of data analytics tools was triggered by the major innovations of technology companies. These tools use data-driven analysis methodologies made possible both by the large availability of data and the increasing computational capacity for analysis. Specifically, the data-driven approach is defining a new framework for the design and management of customer-focused marketing initiatives. Once the needs of the individual customer have been interpreted, based on data and analysis provided by CRM platforms, it becomes possible to tailor one-to-one marketing campaigns, launched in real time to meet specific needs.

To exploit this competitive advantage and establish a consultative and strategic platform, Reply has created a competence center focused on the customer robotics approach. Experience from initiatives across various sectors (e.g. automotive, financial services, utilities, retail, etc.), has enabled Reply to develop a framework for the development and implementation of processes related to the direct interaction with the customer, designed to recognize and anticipate needs across the various digital channels. This initiative integrates machine learning, artificial intelligence and cognitive systems models.

Customer robotics facilitates the conception, design and implementation of services aimed at interpreting the data and providing fully data-driven customer service tools. These include recommendation systems for products and conversational services able to understand and interact independently using natural language.

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

CYBER SECURITY

Over the years, IT-related risks have increased dramatically in frequency and impact, leading to serious security violations. Millions of client data records have been compromised worldwide, affecting governments and other organizations. As a result, the mounting attention from regulatory bodies concerning the protection of information, personal data and critical infrastructures, requires an ever-increasing commitment from companies to manage their cyber security.

To respond to this increasing complexity, Reply's coherent and complete set of integrated products and services protect the integrity of its customers' systems, from setting the best cybersecurity strategies, to the identification and implementation of the most suitable technological solutions to mitigate risk. Through its extensive network of partnerships, Reply offers wide-ranging expertise on the most innovative and widely used security technologies on the market. Furthermore, the company can help its customers to scout, select and implement protection solutions designed to mitigate advanced risks related to the latest technological drivers (cloud, IoT, Industry 4.0, automation, etc.).

Reply supports businesses throughout the implementation phase of its integrated information protection plan, from the identification of threats and vulnerabilities to the planning, design and employment of appropriate technological, legal, organizational and risk transfer (cyber insurance) countermeasures. Lastly, thanks to its cyber security command center, Reply assists large organizations with advanced computer security incident management and response action as well as threat intelligence services.

DATA & ANALYTICS

Data and its uses have become a key strategic factor in the digital transformation of businesses.

By combining technological skills in data analysis, data modelling and data process re-engineering, Reply makes it easier for its clients to approach the issue of data, focusing on cultural change and a new approach to data management and to the use of data. In particular, Reply supports its customers in the definition and implementation of data analytics platforms that apply advanced models to core corporate processes.

In 2018, Reply continued to develop a specific offer portfolio in the machine learning field, designed to address growing demand from companies wishing to automate lower impact processes such as invoice reconciliation, while building value-added services based on innovative process automation models through deep learning, image recognition and prescriptive analytics.

DESIGN CONSULTING

In a world increasingly characterized by complex ecosystems, Reply supports its clients to create innovative and distinctive product-service experiences for the B2C and B2B sectors. From analyzing needs through to strategic business objectives and technological enablers, Reply can transform them into integrated customer journeys and prototypes that make the results immediately tangible and verifiable. Results are then developed in an iterative and agile way, until they are launched on the market.

At the same time, a customer-centric approach requires a change in the organization, to enable a successful customer experience journey. Reply supports organizations in managing such changes to make them really customer-centric, receptive to market inputs or feedback, agile in releasing new products and services, as well as mobilizing cross-functional teams that operate in full autonomy towards specific objectives.

In 2018, Reply continued to invest in this area through the acquisition of new talent and expertise. Its two studios in Milan and Munich were further expanded enabling support for customers in Europe and globally.

DIGITAL EXPERIENCE

Real time marketing, artificial intelligence and analysis of the customer journey are the three transformation technologies set to impact most on the relationship of brands with customers. The use of these technologies enables brands to increase their marketing results through a continuous improvement of the customer experience in terms of loyalty and growth of its base.

Taking advantage of these emerging capabilities means building a more data-driven vision of the individual customer. The growing interest in cross-device identification tools and account-based marketing solutions (ABM) underlines the increasing interest among brands towards technologies offering targeted and coherent interactions among owned, earned and paid media.

Reply has developed a broad and highly specialized set of skills, including digital storytelling, contextual interaction, omnichannel loyalty, data recognition to capture large quantities of information and subsequent data analysis expertise to create effective market insights. To extend this scenario further, there is a need to ensure coherent communication between the various media involved, through a consolidated strategy that also incorporates a multimedia asset management component.

In recent years, Reply has developed specific expertise and solutions to support companies in the development of immersive experience projects through the application of augmented reality and virtual reality. These technologies are expected to have an increasingly strong impact on the marketing strategies of highly innovative brands.

E-COMMERCE

Physical and digital, in-store and online: these are today's drivers of convergence and digitalization of companies, reaching far beyond the retail market.

Today, there is an increasing demand that the digital presence of a brand guarantees a purchase experience can be made in just a few clicks, allowing customers to quickly browse an interactive site. There should be no barriers, technological, physical, digital or relating to touch points that limit the user experience. For companies, these needs translate into targeted investments that aim at optimizing and extending processes and choosing enabling technologies, passing through the definition of a clear digitalization strategy.

The magnitude of the customers' digital identities is of increasing importance. Now, any strategic decision regarding investments in technology must be supported by increasingly sophisticated mathematical models based on data collected across the distribution chain, the sales chain and in all interactions with consumers. The value of this information is therefore twofold: the data is able to help streamline revenue reporting, quickly exerting influence on stock management, while the purchase conversion rate can be improved thanks to predictive analysis of purchasing behavior.

Reply supports its customers on their journey, offering the latest technological solutions and helping them to define the best digital transformation strategies for the specific market and budget.

GAME STUDIOS

The development of the videogame market is increasingly prevalent, attracting all age groups and remaining equally divided between males and females. The average age of gamers increased in 2018 to around 36 years old.

Videogames are more and more a communication language. A culture has developed that allows companies to continually improving the dialogue with customers, looking at new forms of "customer engagement" among which video games certainly playing an important role.

In addition to creating internationally acclaimed games, Reply has developed an offer that meets the communication needs of gaming brands within a 360° perspective. Reply is constantly investing in this area so that it can offer, through the use of the latest technologies, increasingly innovative and engaging game experiences.

Reply was able to further assert the company's ability to create quality products, with a focus on an international market. In particular, the release of Lone Wolf, a legacy Reply production, on the Nintendo Switch platform has had considerable success both in terms of visibility and sales performance.

INDUSTRY 4.0

Industry 4.0 models are quickly redefining production sites around the world, transforming them into systems closely interconnected with the supply chain, logistics, sales, the products themselves and the support and maintenance chain.

For this new global world of interconnected production, Reply has developed a suite of integrated solutions capable of ensuring its customers are flexible, connected and efficient. In particular, Reply's mission is to accompany its customers along the entire transformation journey: from the planning and development of solutions that open up the production sites and interconnect them to the entire digital world, to the design and implementation of solutions capable of rendering products "smart", connected and digital.

The digitization of companies is a transformation expected to take place in the medium term, made possible and concrete by the use of all the vertical and horizontal pillars offered by Industry 4.0 (robotics, digital twin, cloud and fog computing, augmented reality, big data, artificial intelligence and machine learning, etc.).

THE INTERNET OF THINGS

The last months saw the emergence of three main trends which steered the development of Reply's products and services offer in the IoT realm. The first is the growing need for differentiation in insurance, telco and utilities. In response, companies in these industries have consolidated connected objects as a cornerstone of product portfolio extension strategies for creating value and customer loyalty. The second trend is the growing opportunity for marketing in support of existing products. Through the increasing availability of connectivity, it is now possible to fundamentally transform the market approach of the manufacturing segment. The third and final trend has seen the exponential spread and popularity of new voice interaction mechanisms, such as smart speakers or voice assistants, as well as new systems of interaction, which are stimulating a different interaction between the physical world and the digital services world.

To tackle these challenges, Reply has designed and developed HI Connect™, a platform of services, devices and middleware, on which to base specific vertical applications such as ecosystems for the household appliances sector, advanced logistics, environmental security, contactless payment and product traceability. In 2018, Reply consolidated its position in the areas of home and professional appliances, connected insurance and in new telco offers and utilities for the connected home, as well as in the manufacturing, healthcare, insurance and automotive sectors.

MIXED REALITY

Combining advanced technological skills, experimentation of new technologies that come to the market every month, and the ability to interpret customer needs and to produce high quality content in its proprietary laboratory, means Reply has developed a products and services offer for implementing augmented reality applications. This design and development offer enables users to enjoy an engaging experience, where they are transported into in a virtual and navigable environment.

AR and VR projects implemented by Reply during the course of the year have covered many areas including in healthcare, where installations aimed at motor rehabilitation and training were created. Numerous projects were also conducted in the marketing sphere, which saw VR and AR become excellent tools to support product presentation and customer engagement.

MOBILE & APPS

In the mobile sector, Reply supports companies' interactions with their users based on omnichannel applications and architectures capable of meeting needs of the new market by increasing the usability and performance of services, integrating new channels and types of devices seamlessly following specific guidelines of each platform.

With reference to the increasingly pervasive phenomenon of mobile video – where the quality and stability of the service are essential to ensuring its success – Reply is engaged in major European projects for the provision of Over The Top services, with design, development, validation and monitoring teams.

Following the latest mobile developments, during 2018, Reply launched its first experiments on the iOS platform, based on the use of AR Kit for augmented reality solutions, as well as on the Android platform, based on the Android Auto and Android TV tools.

In addition, Reply strengthened the company's own application factory dedicated to mobile apps for both business and consumer worlds. The factory includes a user experience laboratory that closely collaborates with teams of developers specialized in various platforms, which bases its activity on a data-driven approach using tools and methods that focus on users' needs and behaviors.

SOCIAL MEDIA

Social networks are increasingly connected to digital marketing activities that Reply integrates into a universal relationship model, based on paid, owned and earned media analysis and activation skills to enable and optimize a company positioning integrated in the relationship channels with its own ecosystem: social networks, search engines, comparison sites, shopping and social shopping squares, affiliate networks, email, applications, lead generation channels.

REPLY PLATFORMS

Reply supports its clients in the quest for innovation with services and platforms designed to fully exploit new potentials offered by networks and by communication technologies. These platforms are:

- Brick Reply™
- Discovery Reply™
- HI Connect™
- Lea Reply™
- TamTamy™
- Ticuro Reply™
- Pulse Reply
- Sonar Reply

SUMMARY REPORT OF THE FIRST QUARTER

SUMMARY REPORT OF THE FIRST QUARTER 2019 AND EXPECTED BUSINESS DEVELOPMENTS

Since the beginning of the year, the Group has recorded a consolidated turnover amounting to €283.5 million, an increase of 18.7% compared to the corresponding data for 2018.

All indicators are positive for the period (*). In the first quarter of 2019 the consolidated EBITDA was €42.3 million (compared to €32.2 million recorded in 2018), and is equal to 14.9% of the turnover. Consolidated EBITDA - without the effects of applying IFRS 16 - would have been €36.5 million.

EBIT, from January to March, was €33.6 million (€28.7 million in 2018), and is equal to 11.8% of the turnover. EBIT, without the effects of applying IFRS 16, would have been €33.3 million.

The profit before tax, from January to March 2019, was €34.2 million (€28.3 million in 2018), equal to 12.1% of the turnover. The value, without the effects of applying IFRS 16, would have been equal to €34.4 million.

The net financial position of the Group on 31 March 2019 is positive by €50.0 million (€134.3 million without the effects of applying IFRS 16). The net financial position on 31 December 2018 was positive for €66.6 million.

The mission of the Group has always been to support its customers in a process of continuous innovation. The growth registered in 2018 and the positive start in 2019 are solid foundation on which to further develop Reply; the goal now is to strengthen Reply as a reference point for the new technology frontiers such as Artificial Intelligence, Data, Internet of Things and new cloud platforms.

() Reply has applied the new international accounting standard IFRS 16 prospectively from 1 January 2019, therefore without restating the comparative data.*

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

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

Reply applied the new IFRS 16 accounting standard starting 1 January 2019, without restatement of the previous periods used for comparison (modified retrospective approach).

At the bottom of the consolidated financial statements shown below, the effects of the application of the new accounting standard are reported as at 31 March 2019.

CONSOLIDATED FINANCIAL STATEMENT AT 31 MARCH 2019

(thousand Euros)	Note	Q1 2019 (*)	%	Q1 2018	%
Revenue	4	283,544	100.0	238,880	100.0
Purchases	5	(4,727)	(1.7)	(4,044)	(1.7)
Personnel	6	(142,026)	(50.1)	(118,365)	(49.6)
Services and other expenses	7	(94,720)	(33.4)	(84,373)	(35.3)
Other operating (expenses)/income		272	0.1	104	-
Operating expenses		(241,201)	(85.1)	(206,678)	(86.5)
Gross operating margin		42,344	14.9	32,202	13.5
Amortization and write-downs	8	(8,760)	(3.1)	(3,528)	(1.5)
Operating margin		33,584	11.8	28,673	12.0
Income/(loss) on investments	9	1,171	0.4	-	-
Financial (loss)/income	10	(549)	0.2	(370)	0.2
Income before taxes		34,206	12.1	28,303	11.8

(*) The first quarter data of 2019 include the following impacts relating to the application of the new Accounting Standard IFRS 16:

- cancellation of rents and rental fees with an impact on EBITDA of 5,812 thousand Euros;
- depreciation and amortization increase for 5,509 thousand euro with a positive impact on EBIT of 303 thousand Euros;
- increase in financial charges for 531 thousand Euros with a negative impact on EBT of 228 thousand Euros.

NET FINANCIAL POSITION

The Group's net financial position as at 31 March 2019, analyzed by due date and with comparative figures as at 31 December 2018, is shown in the following statement:

(thousand Euros)	31/03/2019	31/12/2018
Cash and cash equivalents	182,201	122,481
Current financial assets	1,769	997
Due to banks	(29,215)	(31,990)
Due to other providers of finance	(557)	(689)
Financial lease liability- current	(21,169)	-
Net financial position - Short term	133,028	90,799
Due to banks	(18,957)	(23,366)
Due to other providers of finance	(932)	(881)
Financial lease liability - non current	(63,103)	-
Net financial position - Long term	(82,992)	(24,247)
Total net financial position	50,037	66,552

(*) The first quarter data of 2019 include financial debts for 84,272 thousand Euros following the application of the new accounting standard IFRS 16. Net of this effect, the group's net financial position at 31 March 2019 would have amounted to 134,309 thousand Euros.

NOTE 1 – ACCOUNTING PRINCIPLES

Notwithstanding Legislative Decree no. 25 of 15 February 2016 has eliminated the obligation to publish Interim Management Statements, these have as at 31 March 2019, in relation to the first quarter of financial year 2019, been prepared, in capacity of STAR segment issuer, as required by Borsa Italiana S.p.A. under communication no. 7587 of 21 April 2016. The contents herein are pursuant to Art. 154-ter, paragraph 5 of Legislative Decree 24 February 1998, no. 58.

The interim report herein has been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union. The designation “IFRS” also includes all valid International Accounting Standards (“IAS”), as well as all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

The accounting policies applied in these financial statements are consistent with those adopted in preparing the annual report, with the addition of the accounting standards endorsed by the European Union and applicable from 1 January 2019, to which reference should be made.

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

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

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

The Interim Management report as at 31 March 2019, was not subject to audit by Reply’s Independent auditors, as allowed by existing laws.

Adoption of accounting standard IFRS 16

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

Economic figures (K/000)	1° Q 2018	1° Q 2019		Impact
		pre IFRS 16	post IFRS 16	
Services and other costs	84,373	100,532	94,720	(5,812)
EBITDA	32,202	36,532	42,344	5,812
Amortization and depreciation	3,528	3,251	8,760	5,509
EBIT	28,673	33,281	33,584	303
Financial expenses	370	18	549	531
Income before taxes	28,303	34,433	34,205	(228)

Financial figures (K/000)	31/12/2018	31/03/2019		Impact
		pre IFRS 16	post IFRS 16	
RoU asset	-	-	84,312	84,312
Net financial position	66,552	134,309	50,137	(84,272)

NOTE 2 – GROUP ACTIVITIES

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

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

NOTE 3 - CONSOLIDATION

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

Change in consolidation compared to 31 March 2018 is related to:

- Valorem LLC, a US-based company acquired in the month of April 2018 and that specializes in Digital Strategy consulting and the implementation of Cloud, Analytics and differentiated User Experiences;
- Modcomp GmbH, and its subsidiaries CSPI GmbH (now named Spike Reply GmbH) and MCG Systems AG, a company acquired in the month of July 2018 under German law specializing in Security Solutions, of which Reply AG holds 100% of the share capital;
- Elbkind GmbH, a company acquired in the month of November 2018 under German law, a digital communication agency specializing in boosting conversations and placing brands and products on social channels;
- Neveling.net GmbH, a company acquired in the month of January 2019 under German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies.

Change in consolidation affects the Group's revenues and profits before tax of the first quarter 2019 by 6.5% and 0.4% respectively.

NOTE 4 - REVENUES

Revenues from sales and services, including change in work in progress, amounted to 283,544 thousand Euros (238,880 thousand Euros in the first quarter of 2018) with an increase of 18.7%.

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

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

Region (*)	Q1 2019	Q1 2018
Region 1	68.10%	67.90%
Region 2	22.30%	19.40%
Region 3	9.50%	12.60%
IoT Incubator	0.1%	0.10%
Total	100.0%	100.0%

(*)

Region 1: ITA, USA, BRA, POL, ROU

Region 2: DEU, CHE, CHN, HRV

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

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

	Q1 2019	Q1 2018
Technologies	60.3%	55.4%
Applications	30.4%	33.9%
Processes	9.3%	10.7%
Total	100.0%	100.0%

NOTE 5 - PURCHASES

Detail is as follows:

(thousand Euros)	Q1 2019	Q1 2018	Change
Software licenses for resale	2,458	2,580	(122)
Hardware for resale	996	133	863
Other	1,273	1,330	(57)
Total	4,727	4,044	684

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

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

NOTE 6 - PERSONNEL

Increase in personnel expenses amounting to 23,661 thousand Euros owes to the overall increase of the Group's business and to the increase of the number of employees.

Detail of personnel by category is provided below:

(number)	Q1 2019	Q1 2018	Change
Directors	283	240	43
Managers	961	783	178
Staff	6,606	5,641	965
Total	7,850	6,664	1,186

Change in consolidation brought an increase of 563 employees.

NOTE 7 – SERVICES AND OTHER COSTS

Services and other costs amounting to 94,720 thousand Euros (84,373 thousand Euros in the first quarter 2018) comprised the following:

(thousand Euros)	Q1 2019	Q1 2018	Change
Consulting and commercial	64,867	50,219	14,648
Travelling and professional training expenses	9,503	8,339	1,164
Other services	12,990	14,293	(1,303)
Office charges	3,535	6,959	(3,424)
Rental and leasing	1,155	2,092	(937)
Other	2,669	2,472	197
Total	94,720	84,373	10,346

Change in Services and other costs, amounting to 10,346 thousand Euros, is attributable to an overall increase in the Group's business.

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

Office charges relate to costs incurred for the management of the locations in which the Group operates (expenditure on utilities, security services and cleaning services).

The decrease of the items Office charges and Rental and leasing compared to the first quarter 2018 is mainly due to the reversal of the rent fees following the application of IFRS 16.

NOTE 8 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Depreciation of tangible assets, amounting to 2,204 thousand Euros at 31 March 2019 has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset.

Amortization of intangible assets at 31 March 2019 amounted to 1,045 thousand Euros and is mainly related to:

- development charges capitalized according to IAS 38;
- software licenses used internally by the Group;
- amortization of other intangible assets arising from the allocation of the purchase price subsequent to several Business combinations.

Amortization related to RoU assets arising from the adoption of IFRS 16 amounted to 5,509 thousand Euros.

NOTE 9 – (LOSS)/GAIN ON INVESTMENTS

The item amounted to a net gain of 1,171 thousand Euros and was related to the net change in fair value of investments made by Breed Investments Ltd in IoT.

NOTE 10 – FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(thousand Euros)	Q1 2019	Q1 2018	Change
Financial income	131	69	62
Financial losses	(280)	(134)	(146)
Other	(400)	(305)	(96)
Total	(549)	(370)	(179)

The item Financial income mainly includes interest on bank accounts.

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

The item Other includes:

- the interest expenses arising from the adoption of the new International Accounting Standard IFRS 16 for 531 thousand Euros;
- the changes in fair value of financial liabilities pursuant to IAS 39 amounting to negative 226 thousand Euros;
- the net positive exchange rate differences from the translation of balance sheet items not stated in Euros amounting to 302 thousand Euros.

NOTE 11 – NET FINANCIAL POSITION

The net financial position as at 31 March 2019 was positive for 50,037 thousand Euros; without the effects arising from the application of IFRS 16, the net financial position would have amounted to 134,309 thousand Euros (66,552 thousand Euros at 31 December 2018).

Due to banks, amounting to 48,172 thousand Euros, is referred mainly to credit lines for M&A operations.

NOTE 12 – EVENTS SUBSEQUENT TO 31 MARCH 2019

No significant events have occurred subsequent to 31 March 2019.

NOTE 13 – OTHER INFORMATION

The following is to be noted:

- transactions among group companies are carried out at market prices and are eliminated during the consolidation process.
- transactions carried out by the group companies with related parties that in accordance to IAS 24 are Group companies and persons able to exercise control, joint control or have significant influence on the Group and its subsidiaries, are considered ordinary business and are carried out at normal market conditions.
- pursuant to art. 150, 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

For the Board of Directors

/s/ Mario Rizzante

Chairman

Mario Rizzante

DECLARATION PURSUANT TO ART. 154-BIS

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

The director responsible for preparing the Company's financial reports, Dott. Giuseppe Veneziano, declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this interim management report at 31 March 2019 corresponds to the results documented in the books, accounting and other records of the company.

Turin, 14 May 2019

/s/ Giuseppe Veneziano

(Director responsible of drafting
financial statements)

Giuseppe Veneziano

ANNEXED TABLES

ANNEXED TABLES

List of Group companies at 31 March 2019

Company name	Headquarters	Group interest
Parent company		
Reply S.p.A.	Turin – Corso Francia, 110 - Italy	
Companies consolidates on a line-by-line basis		
4brands Reply GmbH & CO. KG.	Minden, Germany	51.00%
Air Reply S.r.l. (*)	Turin, Italy	85.00%
Arlanis Reply S.r.l.	Turin, Italy	100.00%
Arlanis Reply AG	Potsdam, Germany	100.00%
Aktive Reply S.r.l.	Turin, Italy	100.00%
Atlas Reply S.r.l.	Turin, Italy	100.00%
Avantage Reply Ltd.	London, United Kingdom	100.00%
Avantage Reply GmbH	Munich, Germany	100.00%
Avantage Reply (Belgium) Sprl	Brussels, Belgium	100.00%
Avantage Reply (Luxembourg) Sarl	Itzig, Luxembourg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherland	100.00%
Avvio Reply Ltd.	London, United Kingdom	100.00%
Blue Reply S.r.l.	Turin, Italy	100.00%
Blue Reply GmbH	Guetersloh, Germany	100.00%
Bridge Reply S.r.l.	Turin, Italy	60.00%
Business Reply S.r.l.	Turin, Italy	100.00%
Breed Reply Ltd.	London, United Kingdom	100.00%
Breed Reply Investment Ltd.	London, United Kingdom	80.00%
Cluster Reply S.r.l.	Turin, Italy	100.00%
Cluster Reply GmbH & CO. KG	Munich, Germany	100.00%
Cluster Reply Informatica LTDA.	San Paolo, Brazil	100.00%
Cluster Reply Roma S.r.l.	Turin, Italy	100.00%
ComSysto Reply GmbH (*)	Munich, Germany	100.00%
Concept Reply GmbH	Munich, Germany	100.00%
Consorzio Reply Energy	Turin, Italy	100.00%
Consorzio Reply Public Sector	Turin, Italy	100.00%
Core Reply S.r.l.	Turin, Italy	90.00%
Data Reply S.r.l.	Turin, Italy	100.00%
Data Reply GmbH (*)	Munich, Germany	92.50%
Discovery Reply S.r.l.	Turin, Italy	100.00%

e*finance consulting Reply S.r.l.	Turin, Italy	100.00%
Ekip Reply S.r.l.	Turin, Italy	100.00%
Elbkind Reply GmbH	Hamburg, Germany	100.00%
Eos Reply S.r.l.	Turin, Italy	100.00%
Envision Reply S.r.l.	Turin, Italy	100.00%
First Development Hub, LLC	Minsk, Belarus	100.00%
Forge Reply S.r.l.	Turin, Italy	100.00%
France Reply Ltd.	London, United Kingdom	80.00%
Go Reply S.r.l.	Turin, Italy	100.00%
Go Reply GmbH	Guetersloh, Germany	100.00%
Hermes Reply S.r.l.	Turin, Italy	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%
InEssence Reply GmbH	Düsseldorf, Germany	100.00%
Infinity Reply GmbH	Düsseldorf, Germany	100.00%
IrisCube Reply S.p.A.	Turin, Italy	100.00%
Leadwise Reply GmbH	Darmstadt, Germany	100.00%
Lem Reply S.r.l.	Turin, Italy	100.00%
Like Reply S.r.l.	Turin, Italy	100.00%
Live Reply GmbH	Düsseldorf, Germany	100.00%
Logistics Reply S.r.l.	Turin, Italy	100.00%
Lynx Recruiting Ltd.	London, United Kingdom	100.00%
Macros Reply GmbH	Munich, Germany	100.00%
MCG Systems AG	Colony, Germany	100.00%
Modcomp GmbH	Colony, Germany	100.00%
Neveling.net GmbH	Hamburg, Germany	100.00%
Open Reply GmbH	Guetersloh, Germany	100.00%
Open Reply S.r.l.	Turin, Italy	100.00%
Pay Reply S.r.l.	Turin, Italy	100.00%
Portaltech Reply Ltd.	London, United Kingdom	100.00%
Portaltech Reply S.r.l.	Turin, Italy	100.00%
Portaltech Reply GmbH	Guetersloh, Germany	100.00%
Portaltech Reply Süd GmbH	Munich, Germany	100.00%
Power Reply S.r.l.	Turin, Italy	100.00%
Power Reply GmbH & CO. KG.	Munich, Germany	100.00%
Profondo Reply GmbH	Guetersloh, Germany	100.00%

Protocube Reply S.r.l.	Turin, Italy	55.00%
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	80.00%
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	80.00%
Riverland Reply GmbH	Munich, Germany	100.00%
Santer Reply S.p.A.	Milan, Italy	100.00%
Security Reply S.r.l.	Turin, Italy	100.00%
Sense Reply S.r.l.	Turin, Italy	90.00%
Solidsoft Reply Ltd.	London, United Kingdom	100.00%
Spark Reply S.r.l.	Turin, Italy	100.00%
Spark Reply GmbH	Germany	100.00%
Spike Reply GmbH	Colony, Germany	100.00%
Sprint Reply S.r.l.	Turin, Italy	100.00%
Storm Reply S.r.l. (*)	Turin, Italy	95.00%
Storm Reply GmbH	Guetersloh, Germany	100.00%
Syskoplan Reply S.r.l.	Turin, Italy	100.00%
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%
Tool Reply GmbH	Guetersloh, Germany	100.00%
TripleSense Reply GmbH	Frankfurt, Germany	100.00%
Twice Reply S.r.l.	Turin, Italy	100.00%
Twice Reply GmbH	Munich, Germany	100.00%
Valorem LLC (*)	Kansas City, USA	70.00%
Valorem Private Ltd	India	99.99%
Valorem GmbH	Zurich, Switzerland	100.00%
WM Reply Ltd	London, United Kingdom	100.00%
Whitehall Reply S.r.l.	Turin, Italy	100.00%
Xister Reply S.r.l. (*)	Turin, Italy	89.20%

Companies carried at fair value

Amiko Digital Health Limited	England	22.73%
CageEye AS	Norway	10.16%
Callsign Inc.	England	3.61%
Canard Drones Ltd.	Spain	24.06%
Connecterra BV	Belgium	23.06%
enModus Ltd.	England	19.18%
Food Marble Digestive Health Ltd.	England	23.45%
iNova Design Ltd.	England	34.68%
Iotic Labs Limited	England	18.31%
Kokoon Technology Ltd.	England	39.14%
Metron Sas	France	10.95%
RazorSecure Ltd.	England	32.06%
Senseye Ltd.	England	12.72%
Sensoria Inc.	USA	24.00%
Sentryo SAS	France	13.30%
TAG Sensors AS	Norway	19.06%
Ubirch GmbH	Germany	25.74%
We Predict Ltd.	England	16.64%
Wearable Technologies Ltd.	England	20.05%
Yellow Line Parking Ltd.	England	10.34%
Zeetta Networks Limited	England	29.28%

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

CORPORATE INFORMATION

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