

# REPORT ON OPERATIONS



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

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

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

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

## EXTERNAL RISKS

### RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

### RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

**RISKS ASSOCIATED WITH COMPETITION**

The ICT market is highly competitive. Competitors could expand their market share squeezing out and consequently reduce the Group's market share. Moreover the intensification of the level of competition is also linked with possible entry of new entities endowed with human resources and financial and technological capacities in the Group's reference sectors, offering largely competitive prices which could condition the Group's activities and the possibility of consolidating or amplifying its own competitive position in the reference sectors, with consequent repercussions on business and on the Group's economic, earnings and financial situation.

**RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS**

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

**RISKS ASSOCIATED WITH SEGMENT REGULATIONS**

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

**INTERNAL RISKS****RISKS ASSOCIATED WITH KEY MANAGEMENT**

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

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

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

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

**RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT**

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

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

**RISKS ASSOCIATED WITH INTERNATIONALIZATION**

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

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

**RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS**

The Group develops solutions with a high technological content of significant value; the underlying related contracts can provide for the application of penalties in relation to timeliness and the qualitative standards agreed upon. The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.

The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount deemed to be adequate in respect of the actual risk. Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardized.

**FINANCIAL RISKS****CREDIT RISK**

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

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

**LIQUIDITY RISK**

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

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

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

**EXCHANGE RATE AND INTEREST RATE RISK**

The 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 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 2015 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 the 2015 financial year with a consolidated turnover of €705.6 million, an increase of 11.6% compared to €632.2 million in the 2014 financial year.

The EBITDA amounted to €98.7 million (€85.1 million in 2014), while the EBIT was established at €90.6 million (€80.7 million in 2014).

The Group's net result amounted to €56.7 million (€47.9 million in 2014).

Following the results achieved in the course of 2015, Reply's Board of Directors has decided to propose distribution of a €1.00 per share dividend at the next Shareholders' Meeting, which will become payable on 11st May 2016, with the coupon detachment date fixed at 9th May 2016 (record date 10th May 2016).

The net financial position of the Group on 31 December 2015, is positive by €28.2 million, a substantial improvement compared to €16.3 million on 31 December 2014. In September 2015, the net financial position was positive by €40.2 million.

Reply has established itself in 2015, not only in terms of technological innovation, but also in the main areas of transformation that all companies are introducing to compete on the markets, characterized by continuous interactions and exchanges between the physical and virtual worlds.

This transformation is no longer confined to the digital domain, but its effects are also radically changing processes, production systems, logistics chains, services and material products.

Reply is now considered, to all intents and purposes, one of the leaders in Europe, having a unique mix of skills, ranging from Strategic to the Design of digital technologies (Cloud Computing, Big Data, eCommerce, Digital Experience).

However, it is important – now more than ever – that Reply does not become complacent. Reply must grasp and understand the daily evolution and expansion of technology for processing algorithms and data, their transformation into relevant business information and their use in the automation of processes and decisions, as well as making "smart" products. For this reason, in the coming months Reply will continue to invest in order to strengthen further in the areas of Immersive Reality, the Internet of Things, Industry 4.0 and Machine Learning.

## 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:

<b>(THOUSAND EUROS)</b>	<b>2015</b>	<b>%</b>	<b>2014</b>	<b>%</b>
Revenues	705,601	100	632,184	100
Purchases	(14,049)	(2.0)	(12,227)	(1.9)
Personnel	(349,721)	(49.6)	(308,452)	(48.8)
Services and other costs	(240,495)	(34.1)	(222,415)	(35.2)
Other operating (costs)/income	(2,601)	(0.4)	(3,972)	(0.6)
<b>Operating costs</b>	<b>(606,865)</b>	<b>(86.0)</b>	<b>(547,065)</b>	<b>(86.5)</b>
<b>Gross operating income (EBITDA)</b>	<b>98,736</b>	<b>14.0</b>	<b>85,119</b>	<b>13.5</b>
Amortization, depreciation and write-downs	(9,371)	(1.3)	(8,021)	(1.3)
Other unusual (costs)/income	1,192	0.2	3,565	0.6
<b>Operating income (EBIT)</b>	<b>90,558</b>	<b>12.8</b>	<b>80,663</b>	<b>12.8</b>
(Loss)/gain on investments	440	0.1	-	-
Financial income/(expenses)	(2,067)	(0.3)	(1,396)	(0.2)
<b>Income before taxes</b>	<b>88,930</b>	<b>12.6</b>	<b>79,267</b>	<b>12.5</b>
Income taxes	(31,502)	(4.5)	(30,646)	(4.8)
<b>Net income</b>	<b>57,428</b>	<b>8.1</b>	<b>48,621</b>	<b>7.7</b>
Non-controlling interests	(680)	(0.1)	(712)	(0.1)
<b>Group net income</b>	<b>56,748</b>	<b>8.0</b>	<b>47,909</b>	<b>7.6</b>

Group key events of 2015 are summarized below:

**October 2015:** Triplesense Reply, the digital agency of the Reply group, put in an impressive performance at the prestigious Annual Multimedia Award 2016 by winning gold in the category Content Marketing/Publishing.

**September 2015:** Reply wins the "SAP and Google Glass Challenge" for its successful development of an enterprise wearable app.

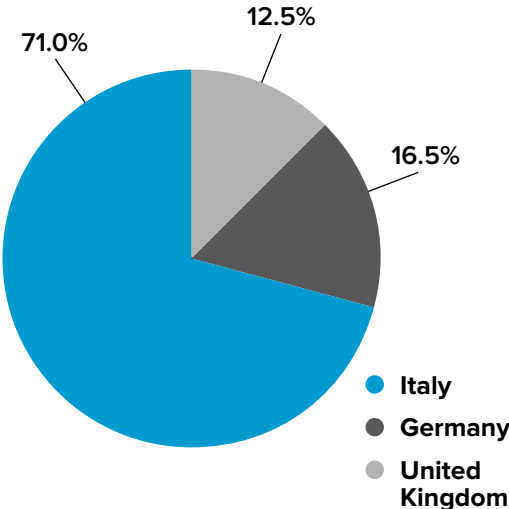
**February 2015:** Business Reply and Technology Reply has been named "Cloud Partners of the Year" by Oracle.



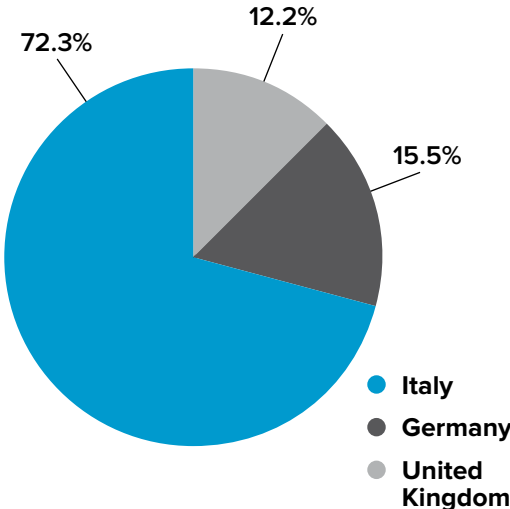
**February 2015:** Breed Reply, Reply's advanced incubator that funds and supports the development of Internet of Things (IoT) start-ups in Europe and the USA, announces that Term Sheets have been signed with two start-ups in the sectors of Smart Home and Energy: Cocoon and Greeniant.

**REVENUE BY GEOGRAPHICAL AREA**

**2015**

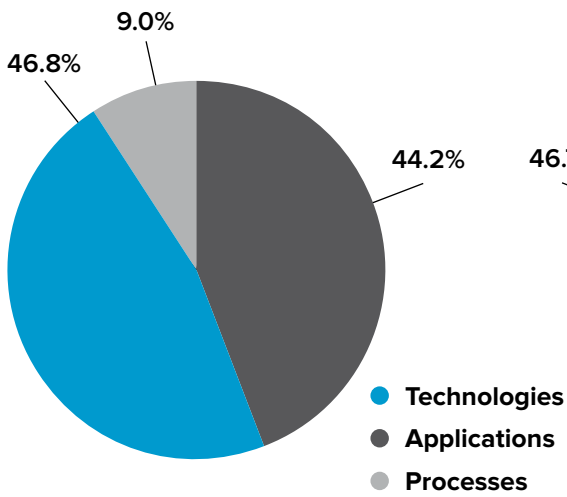


**2014**

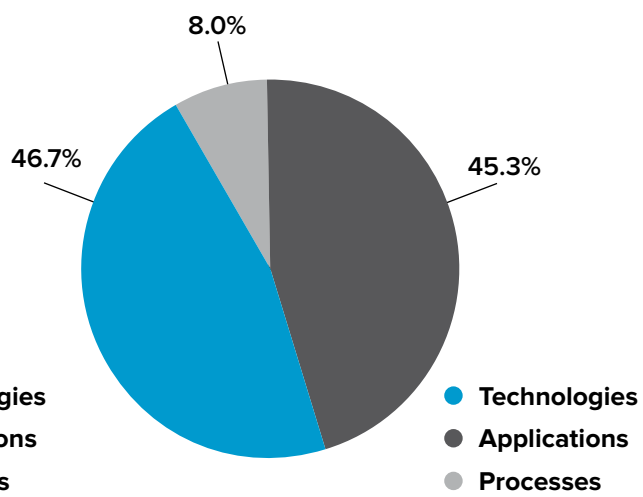


### REVENUE BY BUSINESS LINES

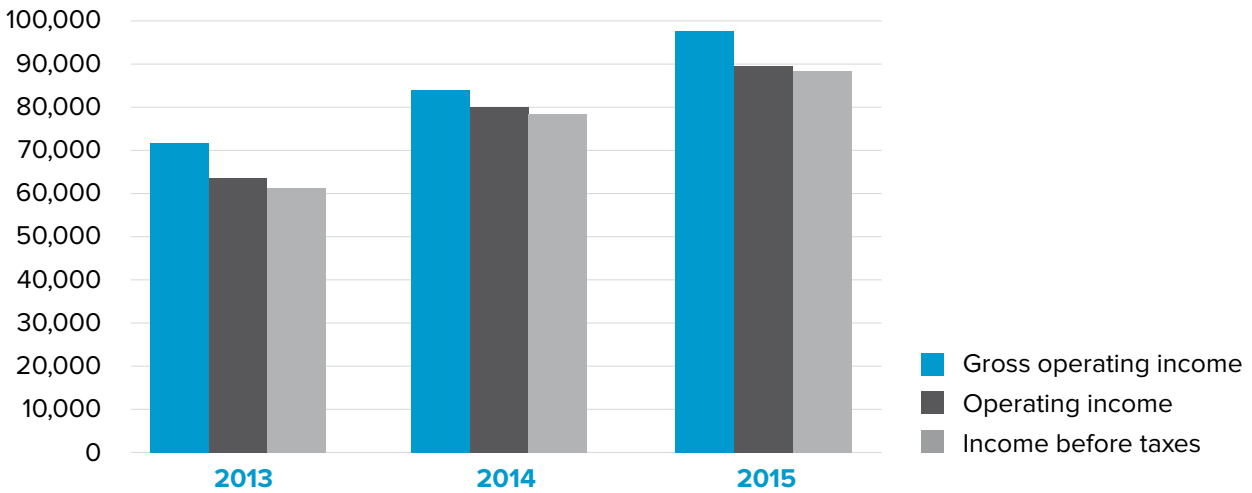
2015



2014



### TREND IN THE PRINCIPLE ECONOMIC INDICATORS (THOUSAND EUROS)



## ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2015, compared to 31 December 2014:

<b>(THOUSAND EUROS)</b>	<b>31/12/2015</b>	<b>%</b>	<b>31/12/2014</b>	<b>%</b>	<b>CHANGE</b>
Current operating assets	401,151		353,927		47,225
Current operating liabilities	(238,585)		(219,586)		(19,000)
<b>Working capital, net (A)</b>	<b>162,566</b>		<b>134,341</b>		<b>28,225</b>
Noncurrent assets	191,259		170,351		20,908
Noncurrent liabilities	(85,932)		(68,161)		(17,771)
<b>Fixed capital (B)</b>	<b>105,327</b>		<b>102,190</b>		<b>3,137</b>
<b>Invested capital, net (A+B)</b>	<b>267,893</b>	<b>100.0</b>	<b>236,531</b>	<b>100.0</b>	<b>31,362</b>
Shareholders' equity (C)	296,079	110.5	252,843	106.9	43,235
<b>NET FINANCIAL POSITION (A+B-C)</b>	<b>(28,186)</b>	<b>(10.5)</b>	<b>(16,313)</b>	<b>(6.9)</b>	<b>(11,874)</b>

Net invested capital on 31 December 2015, amounting to 267,893 thousand Euros, was entirely funded by Shareholders' equity for 296,079 thousand Euros and by available overall funds of 28,186 thousand Euros.

The following table provides a breakdown of net working capital:

<b>(THOUSAND EUROS)</b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>CHANGE</b>
Work in progress	57,929	40,801	17,128
Trade receivables	302,250	285,465	16,785
Other current assets	40,973	27,661	13,312
<b>Current operating assets (A)</b>	<b>401,151</b>	<b>353,927</b>	<b>47,225</b>
Trade payables	77,686	83,360	(5,674)
Other current liabilities	160,899	136,225	24,674
<b>Current operating liabilities (B)</b>	<b>238,585</b>	<b>219,586</b>	<b>19,000</b>
<b>Working capital, net (A-B)</b>	<b>162,566</b>	<b>134,341</b>	<b>28,225</b>
<i>% return on investments</i>	23.0%	21.3 %	

## NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

<b>(THOUSAND EUROS)</b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>CHANGE</b>
Cash and cash equivalents, net	70,109	50,745	19,363
Current financial assets	2,289	2,245	45
Due to banks	(10,786)	(6,348)	(4,438)
Due to other providers of finance	(466)	(671)	205
<b>Short-term financial position</b>	<b>61,147</b>	<b>45,972</b>	<b>15,175</b>
Non current financial assets	908	1,371	(462)
Due to banks	(33,008)	(29,994)	(3,014)
Due to other providers of finance	(860)	(1,036)	175
<b>M/L term financial position</b>	<b>(32,960)</b>	<b>(29,659)</b>	<b>(3,301)</b>
<b>Total net financial position</b>	<b>28,186</b>	<b>16,313</b>	<b>11,874</b>

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

<b>(THOUSAND EUROS)</b>	<b>31/12/2015</b>
Cash flows from operating activities (A)	44,334
Cash flows from investment activities (B)	(25,328)
Cash flows from financial activities (C)	357
<b>Change in cash and cash equivalents (D) = (A+B+C)</b>	<b>19,363</b>
Cash and cash equivalents at beginning of period <sup>(1)</sup>	50,745
Cash and cash equivalents at year end <sup>(1)</sup>	70,109
<b>Total change in cash and cash equivalents (D)</b>	<b>19,363</b>

<sup>(1)</sup>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.

# SIGNIFICANT OPERATIONS IN 2015

## BREED REPLY

Reply launched in October 2014 Breed Reply a new Reply advanced incubator for funding, accelerating and supporting the growth and establishment of ideas and start-ups around IoT across Europe and the USA.

Breed Reply, based in London and with offices in Italy and Germany, offers three fundamental services: funding at "seed" and "early stage" level; considerable support with significant know how transfer of business, managerial and technological expertise; and thanks to Reply's ecosystem, medium-term involvement to establish start-ups in their market.

Breed Reply will offer the start-ups the opportunity to present their ideas and projects through IoT

Best in Breed, an initiative that aims to identify the most innovative ideas in IoT space.

Among the 150 plus applications received from all over the world through the initiative "IoT Best in Breed-2", Breed Reply has selected several startups for their highly innovative solutions, outstanding management and market potential:

- **Gymcraft** ([www.gymcraft.es](http://www.gymcraft.es)) is a sports-tech company, innovatively combining the mediums of fitness and gaming to build the sports virtual experience of the future. Gymcraft's fitness-games are experienced through 2d-monitor or in full immersion VR-goggles, while using any normal fitness machines. Gymcraft pushes the boundaries of virtual reality standards, providing users with a real-time, interactive, fitness experience, while performing their favorites sporting activities.
- **Xmetrics** ([www.swim-xmetrics.com](http://www.swim-xmetrics.com)), a company that offers innovative devices for swimmers Xmetrics uses sensors, electronic components and software via mobile devices, to enhance the training sessions of professional and amateur swimmers, analyzing their main biometric parameters and their real time performance.
- **Cocoon** (<https://cocoon.life>) is a UK based start-up that has created a smart home security system that senses unusual activity throughout the house in real time, without the need for any additional sensors or professional installation. It avoids false alarms by learning what's normal for home, only sending alerts and high quality video straight to your smartphone via the mobile app. Cocoon received a London Design Award and has been listed in Forbes as one of the top new businesses to keep an eye on in 2015.

- **enModus** ([www.enmodus.com](http://www.enmodus.com)) is a Smart Buildings technology company, enabling the monitoring, control and internet connectivity of any device that is mains powered. Wattwave is the enModus patented powerline technology that leverages the existing cabling infrastructure in a building, and offers a unique solution to the problem of long range, low cost, scalable communications in buildings. Together with an open Cloud based platform for remote management and monitoring, the end-to-end solution delivers cost savings, productivity gains and an enhanced building experience in the Smart Lighting Control (SLC) and Building Energy Management (BEM) sectors.
- **Inova Design** ([www.inovadesign.co.uk](http://www.inovadesign.co.uk)) is a technology company, specializing in the design, development and commercialization of novel body sensing solutions to optimize performance and prevent illness. Their product offers the measurement of all vital physiological parameters along with motion monitoring in a single miniature ear-based device which is non-invasive and provides continuous real-time data wirelessly to the end user. Inova's patented technology has a host of applications including sport, healthcare and defense.

# REPLY ON THE STOCK MARKET

2015 has been another outstanding year for Reply in the capital markets. On December 31, 2015 the Reply share stood at Euro 125.20, 107% up compared to Euro 60.90 at the end of 2014. With this development Reply was among the Top-5 performers of the Italian MidCap index. In parallel this share price development induced a remarkable improvement of the Reply valuation. Today the Reply share is traded at a premium compared to most of its relevant listed competitors. The macroeconomic climate was volatile enough in 2015. Topics like Greece, the refugee crisis, the impact of China growth rates on the European economies or the future policy of the European Central Bank had some transitory impact on the share price development of Reply. But shortly after these turbulences the story of Reply came again to the fore. The markets are facing a revolution: The digital transformation will affect every company and every person; it is changing the way how business is done and our daily lives. Reply is well positioned to seize the exciting opportunities deriving from this development. We invite our shareholders to continue to follow Reply. Like our customers you can benefit from Reply's ability to offer extremely innovative paradigms in terms of technology, processes and business models.

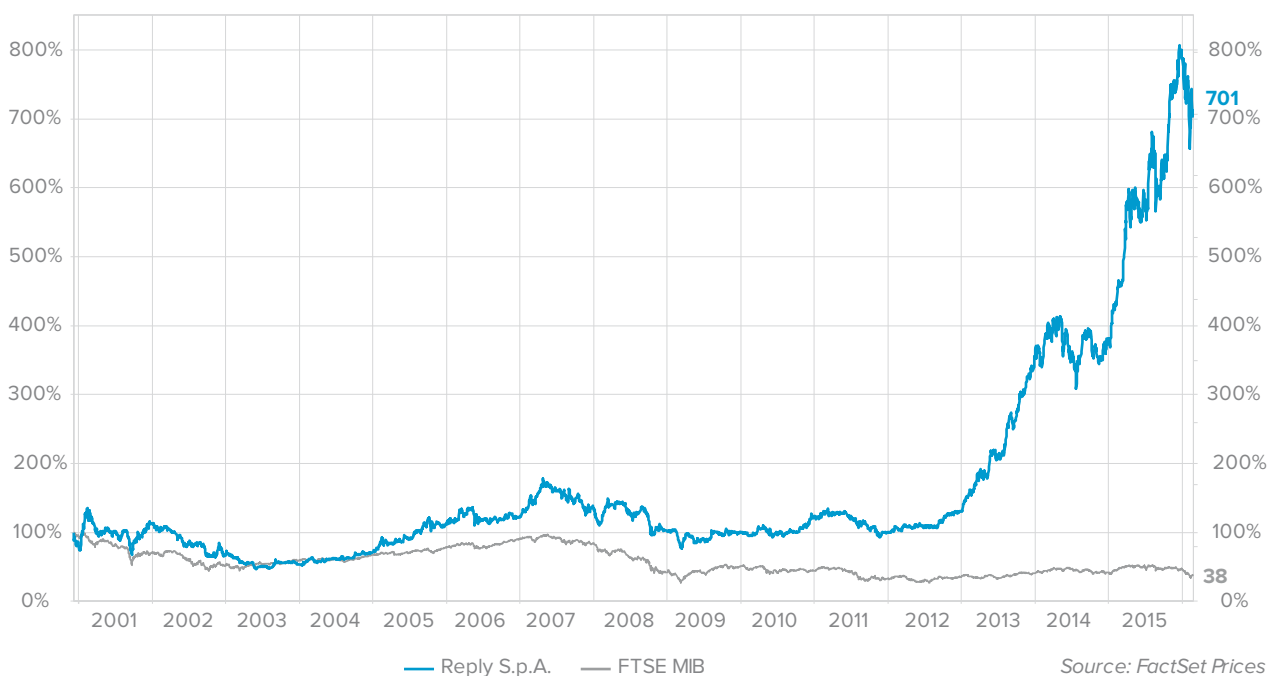
## REPLY SHARE PERFORMANCE

Until Mid of March the Italian stock market and the Reply share price rose quite in parallel. Until mid of April we saw the first significant outperformance of the Reply share before entering a



phase of lateral development. Following the New York and Boston roadshow in June and the communication of the half-year results Reply entered another strong growth phase bringing the share price performance to +79%. It took until mid of October until the Reply share recovered from the market turbulences that resulted from worries about the situation of the Chinese economy. Finally the share entered an upward corridor that led to the year-high of Euro 129.2 on Dec. 17, 2015 and brought the market capitalization of Reply in excess of Euro 1 billion. With only some minor corrections Reply closed the financial year 2015 with a share price of Euro 125.90 and a market capitalization of Euro 1.2 billion.

During the year Reply outperformed the Italian MIB index by 94% and the STAR index by 67%. Significant outperformance is also to be noted when comparing with the listed Reply competitors.



Since the Reply IPO on December 6, 2000 the Italian main index MIB lost more than 60% of its starting value. In 2015 Reply added another 400% points to the share price performance. With 788% the share price nearly octuplicated since the IPO on an indexed base. A shareholder, who invested 100 Euro at that time, at the end of 2015 owned 788 Euro, not considering the dividends that were paid during those years.



## CAPITAL MARKET POSITION

Reply once again reached new levels in the capital markets. Since Q3 2015 the market capitalization of Reply exceeded Euro 1 billion. The liquidity situation of the Reply share further improved 31% year-on-year in 2015. This development is the bottom line of the strong share price increase and a further reduction of the number of traded shares (-19% compared to 2014). Further progress was made in terms of valuation. We characterized 2014 with “closing the valuation gap” compared to relevant competitors in the IT services space. 2015 showed further growth in all important valuation ratios. In each ratio Reply is now traded at a premium compared to the median valuations of our peer group. Analysts consider this premium justified because of the long lasting superior profitability and growth story of Reply.

## DIVIDEND

Internal financing is an important source for Reply to fund the investments in new startup companies and new technologies, considered relevant for the future offering portfolio. Nevertheless Reply shareholders participate in the positive, sustainable course of business. In 2015 Reply achieved earnings per share of Euro 6.07, an increase of 18% compared to 2014. Apart from the strong operational progress this development is also due to the substantial revision of the Italian corporate tax system which became effective in 2015. For the financial year 2015 the corporate bodies of Reply propose to the shareholders’ meeting to approve the payment of a dividend of EUR 1.00 (dividend 2014: Euro 0.85). Referred to the share price of Reply at the end of 2015 this means a dividend yield of 0.8%. Because of the very strong development of the share price the dividend yield is lower than last year’s 1.4%. Assuming the approval of the shareholders’ meeting Reply will pay to its shareholders a dividend total of Euro 9.3 million. In 2014 Euro 7.95 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.

		2015	2014	2013	2012	2011
<b>Share price</b>						
Year-end	Euro	125.9	60.90	56.90	20.99	16.02
High for the year	Euro	129.2	67.90	56.90	21.00	21.49
Low for the year	Euro	58.45	47.70	20.92	15.89	14.86
<b>Trading</b>						
Number of shares traded (year)	# thousand	2,862.0	3,586.0	3,705.0	1,497.3	1,403.1
Number of shares traded (day)	# thousand	11.0	13.8	14.7	5.9	5.5
Trading volume (year)	Euro million	279.5	212.7	123.9	27.3	26.6
Trading volume (day)	Euro million	1.083	0.844	0.492	0.108	0.104
<b>Capital structure</b>						
Number of shares	# thousand	9,352.9	9,352.9	9,307.9	9,222.9	9,222.9
Share capital	Euro million	4.864	4.863	4.840	4.796	4.796
Free Float	%	42.0	43.1	42.1	41.8	42.3
Market capitalization	Euro million	1,177.5	569.6	529.6	193.6	147.8
<b>Allocation of net income</b>						
Earnings per share	Euro	6.07	5.12	3.7	2.94	2.62
Dividend <sup>1)</sup>	Euro	1.00	0.85	0.70	0.57	0.50
Dividend payment	Euro million	9.352	7.950	6.515	5.257	4.611
Dividend yield <sup>2)</sup>	%	0.8%	1.4%	1.2%	2.7%	3.1%

<sup>1)</sup> Amount proposed for shareholder approval for 2015

<sup>2)</sup> Related to year-end closing price

## THE SHAREHOLDER BASE

Based on the last information on the Reply shareholders' register (September 2015) the free float of the share amounted to 42.0%. 58% of the Reply shares are owned by the founders of Reply. Institutional shareholders further increased their holdings to 33.3%. Accordingly the shares in the hands of retail shareholders stood at 8.7%.

The retail shareholders base of Reply is by far dominated by Italian (60%) and German (19%) shareholders. Significant movements were observed in the institutional shareholders base.

American investors with 29% of all institutional shareholdings now are on top of the list, followed by German (21%), British (15%) and French (13%) investors. Interestingly Italian funds own only 6% in Reply.

## **ANALYSTS**

Unchanged 4 analysts from Italy and Germany are covering the Reply share. Reflecting the share price development ratings were set to “outperform” or “neutral” rating. During the Equity Forum in Frankfurt Reply got in touch with a German capital markets magazine who recommended buying Reply. The target price was set to Euro 140. All Reply analysts on average currently see a target price of Euro 121.

## **DIALOG WITH THE CAPITAL MARKETS**

In 2015 Reply further increased its activities with the capital markets to keep shareholders informed. During 15 conferences and 4 road shows Reply actively explained its equity story. Special emphasis was laid on the opening of the US markets where Reply in 2015 conducted a road show in New York and Boston, followed by a New York investor conference with very positive feedback. As well the activities with French investors were further expanded. The effects on the institutional shareholders base are clearly visible now. With Barcelona and Lyon Reply opened 2 other important locations for its IR conference program.

In terms of the number of brokers, Reply is working with, 2015 saw some focalization. 7 brokers are now closely 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 2015 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 2015 the Parent Company had 87 employees (96 employees in 2014). Reply S.p.A. also carries out commercial fronting activities for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group’s overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Revenue from fronting operations of the Income Statement set forth below. The Parent Company’s income statement is summarized as follows:

<b>(THOUSAND EUROS)</b>	<b>2015</b>	<b>2014</b>	<b>CHANGE</b>
Revenues from operating activities	52,095	45,694	6,401
Income from fronting activities	280,938	252,614	28,324
Purchases, services and other expenses	(313,490)	(281,822)	(31,668)
Personnel and related expenses	(17,994)	(17,703)	(291)
Other unusual operating (expenses)/income	(3,750)	(2,989)	(761)
Amortization, depreciation and write-downs	(472)	(672)	200
<b>Operating income</b>	<b>(2,674)</b>	<b>(4,878)</b>	<b>2,204</b>
Financial income/(expenses)	3,407	2,526	881
Gain on equity investments	39,577	34,951	4,626
Loss on equity investments	(1,640)	(7,460)	5,820
<b>Income before taxes</b>	<b>38,671</b>	<b>25,140</b>	<b>13,531</b>
Income taxes	(1,757)	(1,209)	(548)
<b>NET INCOME</b>	<b>36,914</b>	<b>23,932</b>	<b>12,983</b>

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 19,541 thousand Euros (14,752 thousand Euros in the financial year 2014);
- shared service activities in favor of its subsidiaries for 23,606 thousand Euros (22,571 thousand Euros in the financial year 2014);
- management services for 7,806 thousand Euros (7,605 thousand Euros in the financial year 2014).

Operating income 2015 marked a negative result of 2,674 thousand Euros after having deducted amortization expenses of 472 thousand Euros (of which 151 thousand Euros referred to intangible assets and 321 thousand Euros to tangible assets). Financial income/(expenses) amounted to 3,407 thousand Euros, and included interest income for 3,187 thousand Euros and interest expenses for 1,102 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net positive exchange rate differences amounting to 1,316 thousand Euros. Income from equity investments which amounted to 39,577 thousand Euros refers to dividends received from subsidiary companies in 2015. 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 2015, amounted to 36,914 thousand Euros after income taxes of 1,757 thousand Euros.

## FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2015, compared to that as at 31 December 2014, is provided below:

<b>(THOUSAND EUROS)</b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>CHANGE</b>
Tangible assets	765	1,095	(330)
Intangible assets	1,586	953	632
Equity investments	133,596	130,081	3,514
Other fixed assets	1,235	1,522	(287)
Non financial liabilities - L/T	(13,388)	(8,956)	(4,433)
<b>Fixed capital</b>	<b>123,793</b>	<b>124,696</b>	<b>(904)</b>
<b>Net working capital</b>	<b>22,144</b>	<b>4,572</b>	<b>17,573</b>
<b>INVESTED CAPITAL</b>	<b>145,937</b>	<b>129,268</b>	<b>16,669</b>
Shareholders' equity	192,907	163,936	28,971
Net financial position	(46,970)	(34,668)	(12,302)
<b>TOTAL SOURCES</b>	<b>145,937</b>	<b>129,268</b>	<b>16,669</b>

The net invested capital on 31 December 2015, amounting to 145,937 thousand Euros, was entirely funded by Shareholders' equity in the amount of 192,907 thousand Euros and available overall funds of 46,970 thousand Euros.

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

## NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2015, compared to 31 December 2014, is detailed as follows:

<b>(THOUSAND EUROS)</b>	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>CHANGE</b>
Cash and cash equivalents, net	20,557	4,193	16,364
Financial loans to subsidiaries	57,779	49,849	7,929
Receivables from factor	744	960	(216)
Due to banks	(10,475)	(6,285)	(4,190)
Due to subsidiaries	(41,141)	(26,868)	14,273
<b>Net financial position short term</b>	<b>27,463</b>	<b>21,849</b>	<b>5,615</b>
Long term financial assets	52,112	42,487	9,625
Due to banks	(32,606)	(29,668)	(2,938)
<b>Net financial position long term</b>	<b>19,506</b>	<b>12,819</b>	<b>6,688</b>
<b>Total net financial position</b>	<b>46,970</b>	<b>34,668</b>	<b>12,302</b>

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

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

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

(THOUSAND EUROS)	31/12/2015		31/12/2014	
	NET EQUITY	NET RESULT	NET EQUITY	NET RESULT
<b>Reply S.p.A.'s separate financial statements</b>	<b>192,907</b>	<b>36,914</b>	<b>163,936</b>	<b>23,932</b>
Results of the subsidiary companies	161,236	68,655	143,235	53,955
Carrying value of investments in consolidated companies	(52,791)	-	(50,107)	-
Elimination of dividends from subsidiary companies	-	(39,629)	-	(37,698)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(4,623)	(8,512)	(4,222)	8,432
Non-controlling interests	(653)	(680)	(936)	(712)
<b>Net Group consolidated financial statement</b>	<b>296,079</b>	<b>56,748</b>	<b>251,908</b>	<b>47,910</b>

# CORPORATE GOVERNANCE

The Corporate Governance system adopted by Reply adheres to the Corporate Governance Code for Italian Listed Companies issued by Borsa Italiana S.p.A. in March 2006, which was updated in July 2015, with the additions and amendments related to the specific characteristics of the Group.

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

The aforementioned Report is available on the Corporate Governance section of the website [www.reply.eu](http://www.reply.eu). - Investors – Corporate Governance.

The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. [www.borsaitaliana.it](http://www.borsaitaliana.it).

The Board of Directors, on an annual basis and at the proposal of the Remuneration Committee, establishes a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders’ Meeting called to approve the 2015 financial statements.



# OTHER INFORMATION

## RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

Reply dedicates resources to Research and Development activities and concentrates development and evolution of its own platforms:

- Click Reply™
- Definio Reply™
- Discovery Reply™
- Hi Reply™
- Sideup Reply™
- Starbytes™
- TamTamy™

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

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

Research and development activities are fully described in the corporate information of “Reply Living Network”.

## 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 2015 the Group had 5,245 employees compared to 4,689 in 2014. During the year 1,264 were employed, 709 left the Group and 26 new entries owe to change in consolidation.

## SECURITY PLANNING DOCUMENT

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

## TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

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

The company in the notes to the financial statements and consolidated financial statements provides the information required pursuant to Art. 154-ter of the TUF [Consolidated Financial Act] as indicated by Consob Reg. no. 17221 of 12 March 2010, indicating that there were no significant transactions concluded during the period.

Information on transactions with related parties as per Consob communication of 28 July 2006 is disclosed at the Note to the consolidated financial statements and Notes to the financial statements.

## TREASURY SHARES

At the balance sheet date, the Parent Company holds 1,007 treasury shares amounting to 24,502 Euros, nominal value equal to 524 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount.

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

## FINANCIAL INSTRUMENTS

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

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

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

# EVENTS SUBSEQUENT TO 31 DECEMBER 2015

No significant events have occurred since year ended December 31, 2015.

## OUTLOOK ON OPERATIONS

2015 was a very successful year for Reply that has managed to succeed in an increasingly selective market and exposed to new forms of competition.

Reply is now a leader not only on technology but also on the major digital transformation processes that companies are introducing in order to compete in increasingly global markets, characterized by continuous interactions between the physical and the virtual world.

A transformation enabled by cloud, data, digital services and Internet of things: the new paradigms on which the entire world economy is shifting and that, in fact, are becoming the key enablers of each sector. From automotive to banking, from telecommunications to media, from manufacturing to healthcare, from communication to logistics, the "digital transformation" is revolutionizing processes, business models, products and services.

This new scenario is to Reply a huge growth opportunity that has one "skill set", which extends from digital creativity, the domain of the top "stack" technology; from strategic consulting to the design of architectures; from risk management to IT security.

Reply is now well positioned in the market, esteemed and appreciated by leading worldwide groups; but the context in which it operates is in continuous and profound change and therefore it is crucial not to stand still, but to grasp and interpret, almost daily, the evolution and expansion of technology.

Reply must continue to invest in new skills, challenging on a daily basis the results achieved so far, the quality of its work and commitment to be a group.

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

The financial statements at year end 2015 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 36,914,414 Euros and net shareholders' equity on 31 December 2015 amounted to 192,906,713 Euros thus formed:

<b>(EUROS)</b>	<b>31/12/2015</b>
Share Capital	4,863,486
Share premium reserve	23,302,692
Legal reserve	972,697
Reserve for treasury shares on hand	24,502
Other reserves	126,828,922
<b>Total share capital and reserves</b>	<b>155,992,299</b>
Net income	36,914,414
<b>Total</b>	<b>192,906,713</b>

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2015 showing a net result of 36,914,414 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 36,914,414 Euros;
- to approve the motion to allocate the net result of 36,914,414 as follows:
  - › a unit dividend to shareholders amounting to 1.00 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 11 May 2016, coupon cutoff date 9 May 2016 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 10 May 2016;
  - › approving the proposal of attribution to Directors entrusted with operative positions as regards a shareholding in the profits of the Parent Company in accordance with Article 22 of the articles of association, to be established for an overall amount of 2,400,000.00

Euros, corresponding to around 2.4% of the consolidated gross operative margin 2015, (before allocation of the shareholding in profits for Directors invested with operative positions) calculated at 101,136 thousand Euros, which will be paid taking into account the related reserve funds in the financial statement in compliance with that foreseen in the main IAS/FRS international accounts, ratifying as the related allocation in the statement requires.

*Turin, 15 March 2016*

For the Board of Directors

The Chairman

**Mario Rizzante**