

REPORT ON OPERATIONS

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

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

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

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

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

RISKS ASSOCIATED WITH COMPETITION

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

RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS

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

RISKS ASSOCIATED WITH SEGMENT REGULATIONS

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

INTERNAL RISKS**RISKS ASSOCIATED WITH KEY MANAGEMENT**

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

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

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

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

RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT

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

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

RISKS ASSOCIATED WITH INTERNATIONALIZATION

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

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

RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS

The Group develops solutions with a high technological content of significant value; the underlying related contracts can provide for the application of penalties in relation to timeliness and the qualitative standards agreed upon.

The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.

The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount deemed to be adequate in respect of the actual risk.

Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardized.

FINANCIAL RISKS**CREDIT RISK**

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

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

LIQUIDITY RISK

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

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

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

EXCHANGE RATE AND INTEREST RATE RISK

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

The exposure to interest rate risk arises from the need to fund operating activities and M&A investments, as well as the necessity to deploy available liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions. The interest rate risk to which the Group is exposed derives from bank loans; to mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as "cash flow hedges".

The use of such instruments is disciplined by written procedures in line with the Group's risk management strategies that do not contemplate derivative financial instruments for trading purposes.

REVIEW OF THE GROUP'S ECONOMIC AND FINANCIAL POSITION

FOREWORD

The financial statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated financial statements as at 31 December 2016 to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

TREND OF THE PERIOD

The Reply Group closed 2016 with a consolidated turnover of €780.7 million, an increase of 10.6% compared to €705.6 million in 2015.

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

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

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

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

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

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

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

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

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

Group key events of 2016 are summarized below:

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

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

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

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

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

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

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

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

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

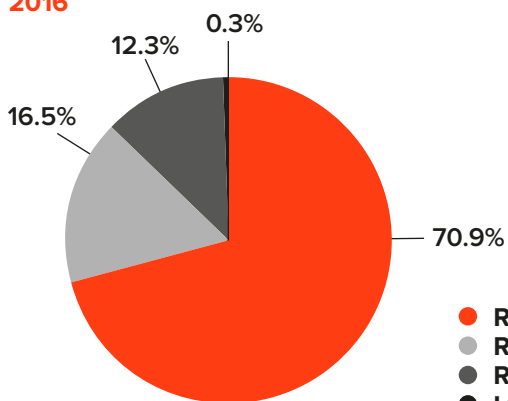
February 2016: Reply is opening its first Design Thinking Lab for the development of innovative solutions in the area of digital transformation and Industry 4.0 in Guetersloh - Germany.

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

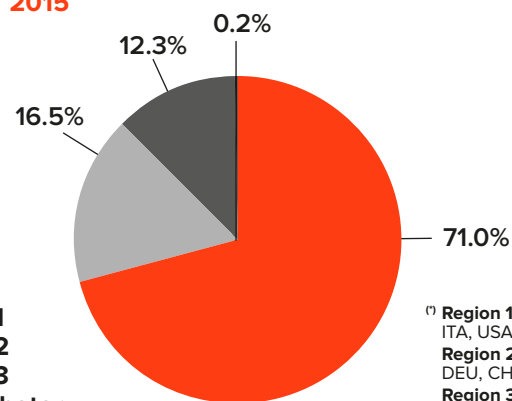
February 2016: Portaltech Reply, the Reply Group company specializing in providing e-commerce implementation and Multichannel consulting services, has been recognized as "Global Service Delivery Partner of the Year" by SAP Hyb

REVENUES BY REGION ⁽¹⁾

2016



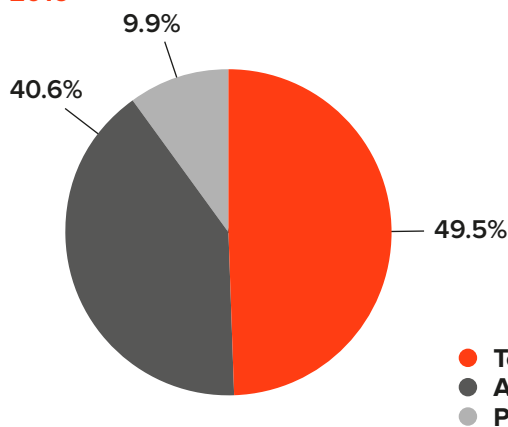
2015



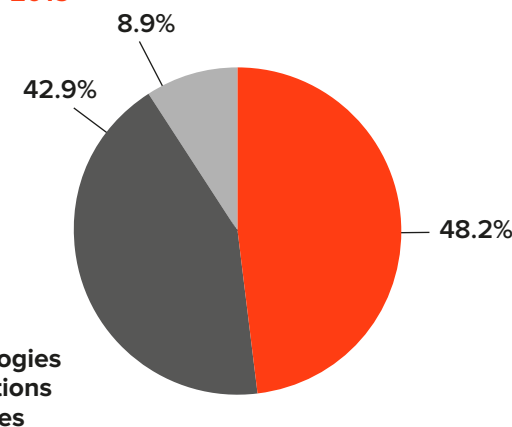
⁽¹⁾ **Region 1:**
ITA, USA, BRA, POL, ROU
Region 2:
DEU, CHE, CHN
Region 3:
GBR, LUX, BEL, NLD, FRA, BLR

REVENUES BY BUSINESS LINES

2016



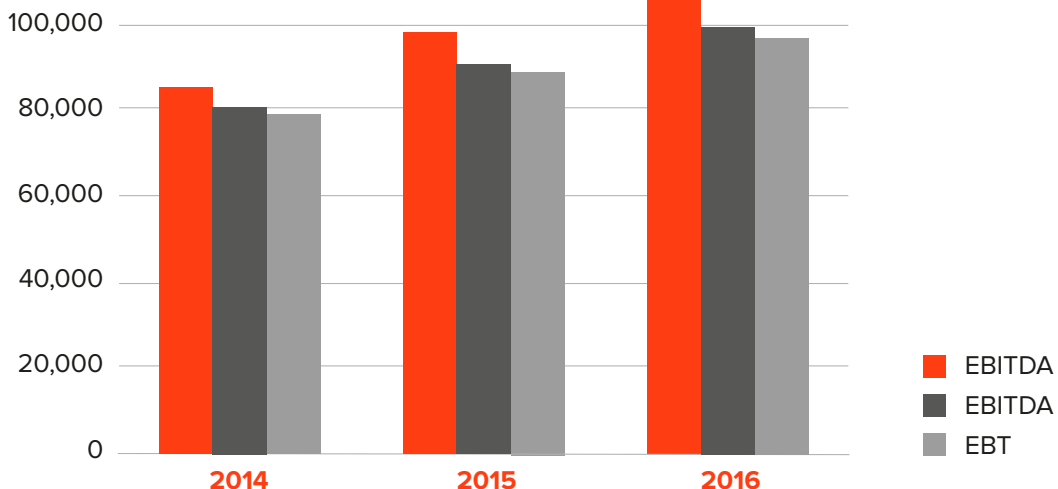
2015



● **Technologies**
● **Applications**
● **Processes**

Report on Operations

TREND IN KEY ECONOMIC INDICATORS (THOUSAND EUROS)



ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2016, compared to 31 December 2015:

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

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

The following table provides a breakdown of net working capital:

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

NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

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

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

(THOUSAND EUROS)	31/12/2016
Cash flows from operating activities (A)	79,497
Cash flows from investment activities (B)	(67,909)
Cash flows from financial activities (C)	(5,186)
Change in cash and cash equivalents (D) = (A+B+C)	6,402
Cash and cash equivalents at beginning of period ⁽¹⁾	70,109
Cash and cash equivalents at year end ⁽¹⁾	76,511
Total change in cash and cash equivalents (D)	6,402

⁽¹⁾ Liquid assets and cash equivalents net are net of current account overdrafts

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

ALTERNATIVE PERFORMANCE INDICATORS

In addition to conventional financial indicators required by IFRS, presented herein are some alternative performance measures, in order to allow a better understanding of the trend of economic and financial management.

These indicators, that are also presented in the periodical Interim management reports must not, however, be considered as replacements to the conventional indicators required by IFRS.

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

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

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

SIGNIFICANT OPERATIONS IN 2016

ACQUISITION OF WM360 LIMITED

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

ACQUISITION OF PROTOCUBE S.R.L.

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

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

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

ACQUISITION OF XISTER

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

Attention to design, propensity for leading-edge ideas and a focus on campaign results constitute the heart of Xister, a company able to attract great creative talents with highly specialized skills in digital communication. Recently, Xister was awarded two international gold medals in the “emerging platform” and “technical innovation” categories at the prestigious Promax international awards in marketing and design held in New York, in recognition of its “The Brain Show” project for National Geographic in Washington.

With this acquisition, Reply confirms its position as an Italian digital agency leader in Europe in the development of marketing strategies and of integrated and multi-channel communication solutions.

ACQUISITION OF LYNX RECRUITMENT LTD.

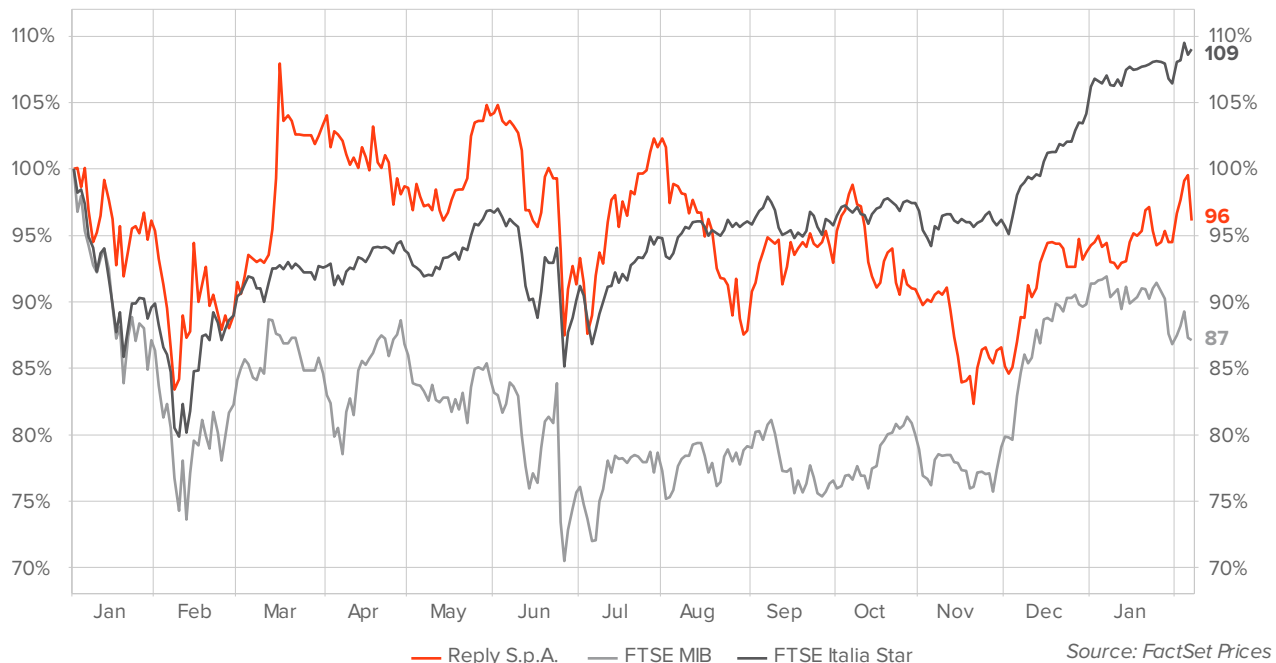
In July 2016 Lynx Recruitment Ltd., a company incorporated under English law, was acquired by Reply Ltd. that holds 100% of the share capital. The company offers recruitment and selection services of temporary and permanent staff.

REPLY ON THE STOCK MARKET

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

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

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



outflow since the financial crisis in 2008 (according to an HSBC analysis). Especially Italy, Spain and Germany were hit by this development, whereas Norway, Switzerland and the UK posted relatively low negative flows.

The decline of the oil price and ongoing concerns about the economic situation in China affected the share price of Reply in the beginning of 2016. It started the year with Euro 125.90 and fell during the first weeks to Euro 105 on 8 February. Subsequently the share price – with strong underlying trading volumes – steadily increased to its year-high of Euro 135.90 on 16 March, shortly after the communication of the results of financial year 2015.

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



Taking December 6, 2000, the date of the Reply IPO, as a reference the Italian main index MIB performed dissatisfying. It lost more than 60% of its starting value and never recovered substantially from the lows reached during the financial crisis. In the same period Reply increased its IPO value by more than 600%. In 2016 Reply stabilized the value creation adding another 4 percentage points to the outperformance versus the MIB.

CAPITAL MARKET POSITION

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

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

DIVIDEND

Performance-based compensation is an essential pillar of the partnership-oriented business model of Reply. Like employees the Reply shareholders shall – in form of dividends - participate in the sustainable operational performance of the group. Each year this principle is balanced with the need of internal financing as a means to fund the investments of Reply (in new startup companies and new technologies). In 2016 Reply achieved earnings per share of Euro 7.22, an increase of 19% compared to 2015. For the financial year 2016 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 1.15 (dividend 2015: Euro 1.00). Referred to the share price of Reply at the end of 2016 this corresponds to a dividend yield of 1.0%. Due to a reduced share price in conjunction with the operational progress of 2015 this yield is higher than the 2015 value of 0.8%. Assuming the

approval of the shareholders' meeting Reply will pay to its shareholders a dividend sum of Euro 10.76 million. In 2015 Euro 9.35 million were distributed. The subsequent table gives an overview on the main parameters of the Reply share and their substantial developments during the last 5 years.

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

¹⁾ Amount proposed for shareholder approval for 2016

²⁾ Related to year-end closing price

THE SHAREHOLDER BASE

According to the Reply shareholders' register the free float of the share amounted unchanged to 42%. 58% of the Reply shares are owned by the founders of Reply. As well the distribution between institutional and retail shareholders was quite stable with 33% and 9% of all shares respectively. In the institutional shareholders' base American investors made up the largest

regional group (30% of institutional holdings), while the stake of British investors fell slightly to 15%. Also the relationship with French investors was further extended. Today 3 out of the top 10 institutional investors are coming from France.

ANALYSTS

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

DIALOG WITH THE CAPITAL MARKETS

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

THE PARENT COMPANY REPLY S.P.A.

INTRODUCTION

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2016 to which reference should be made, prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.

RECLASSIFIED INCOME STATEMENT

The Parent Company Reply S.p.A. mainly carries out the operational co-ordination and the technical and quality management services for the Group companies as well as the administration, finance and marketing activities. As at 31 December 2016 the Parent Company had 87 employees (87 employees in 2015). Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group’s overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Revenue from fronting operations of the Income Statement set forth below. The Parent Company’s income statement is summarized as follows:

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

Revenues from operating activities mainly refer to charges for:

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

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

FINANCIAL STRUCTURE

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

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

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

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

NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2016, compared to 31 December 2015, is detailed as follows:

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

The aforementioned Report is available on the Corporate Governance section of the website www.reply.com. - Investors – Corporate Governance.

The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. www.borsaitaliana.it.

The Board of Directors, on an annual basis and at the proposal of the Remuneration Committee, establishes a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders’ Meeting called to approve the 2016 financial statements.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

Reply dedicates resources to Research and Development activities in order to project and define highly innovative products and services as well as possible applications of evolving technologies. In this context, Reply has developed its own platforms:

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

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

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

HUMAN RESOURCES

Human resources constitute a primary asset for Reply which bases its strategy on the quality of products and services and places continuous attention on the growth of personnel and in-depth examination of professional necessities with consequent definitions of needs and training courses.

The Reply Group is comprised of professionals originating from the best universities and polytechnics. The Group intends to continue investing in human resources by bonding special relations and collaboration with major universities with the scope of attracting highly qualified personnel.

The people who work at Reply are characterized by enthusiasm, expertise, methodology, team spirit, initiative, the capability of understanding the context they work in and of clearly communicating the solutions proposed. The capability of imagining, experimenting and studying new solutions enables more rapid and efficient innovation.

The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.

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

SECURITY PLANNING DOCUMENT

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

TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

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

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

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

TREASURY SHARES

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

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

FINANCIAL INSTRUMENTS

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

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

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

EVENTS SUBSEQUENT TO 31 DECEMBER 2016

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

OUTLOOK ON OPERATIONS

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

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

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

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

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

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

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

(EUROS)	31/12/2016
Share Capital	4,863,486
Share premium reserve	23,302,692
Legal reserve	972,697
Reserve for treasury shares on hand	24,502
Other reserves	154,314,874
Total share capital and reserves	183,478,251
Net income	17,263,478
Total	200,741,730

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2016 showing a net result of 17,263,478 Euros, proposes that the shareholders resolve:

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

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

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

Turin, 15 March 2017

For the Board of Directors

The Chairman

Mario Rizzante