FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

INCOME STATEMENT (*)

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

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF FINANCIAL POSITION (*)

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

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

STATEMENT OF CHANGES IN EQUITY

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

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

STATEMENT OF CASH FLOWS

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

DETAIL OF CASH AND CASH EQUIVALENTS

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

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

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

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The 2016 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions implementing Article 9 of Legislative Decree No. 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

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

the IFRS, as well as for the 2005 Income Statement and the Statement of Assets and Liabilities as at 31 December 2005, as re-presented according to the IFRS and published in the special section of these Financial Statements.

GENERAL PRINCIPLES

The Financial Statements were prepared under the historical cost convention, modified as required for the measurement of certain financial instruments. The criterion of *fair value* was adopted as defined by IAS 39.
The consolidated Financial Statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist relative to its ability to continue as a going concern.
These Financial Statements are expressed in Euros and are compared to the Financial Statements of the previous year prepared in accordance with the same principles.
These Financial Statements have been drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.
The fiscal year consists of a twelve (12) month period and closes on the 31 December each year.

FINANCIAL STATEMENTS

The Financial Statements include statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.
The income statement format adopted by the company classifies costs according to their nature, which is deemed to properly represent the company's business.
The Statement of financial position is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.
The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
It is further noted that, to comply with the indications provided by Consob Resolution No. 15519 of 27 July 2006 *"Provisions as to the format of Financial Statements"*, in addition to mandatory tables, specific supplementary Income Statement and Balance Sheet formats have been added that report significant amounts of positions or transactions with related parties indicated separately from their respective items of reference.

TANGIBLE ASSETS

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

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

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

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

GOODWILL

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

OTHER INTANGIBLE ASSETS

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.
Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably.
Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.
Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their *fair value* can be measured reliably.
In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.
Development costs can be capitalized on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

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

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

These assets are amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization is determined on a straight line basis over the relevant useful lives.
When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognized to the statement of income in the period in which they are incurred.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

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

IMPAIRMENT

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

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

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

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

EQUITY INVESTMENTS

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

CURRENT AND NON CURRENT FINANCIAL ASSETS

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

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

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

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

TRANSFER OF FINANCIAL ASSETS

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

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

extent of its residual involvement with such financial asset.

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

TRADE PAYABLES AND RECEIVABLES AND OTHER CURRENT ASSETS AND LIABILITIES

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

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

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

CASH AND CASH EQUIVALENTS

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

TREASURY SHARES

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

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

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

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

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

- Equity instruments
  Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.
- Non current financial liabilities
  Liabilities are stated according to the amortization cost.

DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER HEDGING TRANSACTIONS

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

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and sufficient documentation that the hedge is highly effective and that its effectiveness can be reliably measured. The hedge must be highly effective throughout the different financial reporting periods for which it was designated.
All derivative financial instruments are measured in accordance with IAS 39 at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to Company commitments and forecasted transactions are recognized directly in Shareholder's equity, while the ineffective portion is immediately recorded in the Income Statement. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

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

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

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

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

SHARE-BASED PAYMENT PLANS

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

PROVISIONS AND RESERVES FOR RISKS

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

EARNINGS PER SHARE

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

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

USE OF ESTIMATIONS

The preparation of the Financial Statements and relative notes under IFRS requires that management makes estimates and assumptions that have effect on the measurement of assets and liabilities and on disclosures related to contingent assets and liabilities at the reporting date. The actual results could differ from such estimates. Estimates are used to accrue provisions for risks on receivables, to measure development costs, to measure contract work in progress, employee benefits, income taxes and other provisions. The estimations and assumptions are reviewed periodically and the effects of any changes are recognized immediately in income.

CHANGES IN ESTIMATIONS AND RECLASSIFICATIONS

There were no changes of estimates or reclassifications during the 2015 reporting period.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS ADOPTED FROM 1 JANUARY 2016

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual Improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

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

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

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

IAS 24 Related Party Disclosures

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

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

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

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

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

Annual Improvements 2012-2014 Cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

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

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.
These amendments do not have any impact on the Company.

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

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

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

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

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

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

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

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

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

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

NOTE 3 - RISK MANAGEMENT

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

CREDIT RISK

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

LIQUIDITY RISK

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

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

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

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

NOTE 4 - OTHER INFORMATION

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

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

FISCAL CONSOLIDATION

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

NOTE 5 - REVENUE

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

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

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

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

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

NOTE 6 - OTHER INCOME

Other revenues that as at 31 December 2016 amounted to 7,999,405 Euros (6,120,821 Euros at 31 December 2015) mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies, and include expenses for social events, telephone and training courses.

NOTE 7 - PURCHASES

Detail is as follows:

(EUROS)	2016	2015	CHANGE
Software licenses	10,502,020	5,838,205	4,663,815
Hardware	5,249,071	2,477,880	2,771,191
Other	542,387	425,765	116,622
Total	**16,293,478**	**8,741,850**	**7,551,628**

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

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

NOTE 8 - PERSONNEL EXPENSES

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

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

Detail of personnel by category is provided below:

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

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

NOTE 9 - SERVICES AND OTHER COSTS

Service and other costs comprised the following:

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

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

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

NOTE 10 - AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

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

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

NOTE 11 - OTHER UNUSUAL OPERATING INCOME/(EXPENSES)

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

NOTE 12 - GAIN/(LOSSES) ON EQUITY INVESTMENTS

Detail is a follows:

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

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

Detail is as follows:

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

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

NOTE 13 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

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

Interest income from subsidiaries refers to the interest yielding cash pooling accounts of the Group companies included in the centralized pooling system.
Interest expenses refer to the interest expenses on the use of credit facilities with Intesa Sanpaolo and Unicredit. The item Other mainly includes losses on exchange rate differences amounting to 6,464 thousand Euros and gains on exchange rate differences amounting to 181 thousand Euros arising from the translation of balance sheet items not recorded in Euros.

NOTE 14 - INCOME TAXES

The details are provided below:

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

IRES THEORETICAL RATE

The following table provides the reconciliation between the IRES theoretical rate and the fiscal theoretical rate:

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

Temporary differences, net refer to:

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

CALCULATION OF TAXABLE IRAP

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

Temporary differences, net refer to:

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

NOTE 15 - EARNINGS PER SHARE

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

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

NOTE 16 - TANGIBLE ASSETS

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

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

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

Change in Tangible assets during 2016 is summarized below:

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

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

NOTE 17 - GOODWILL

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

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

NOTE 18 - OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

NOTE 19 - EQUITY INVESTMENTS

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

(EUROS)	BALANCE AT 31/12/2015	ACQUISITIONS AND SUBSCRIPTIONS	DISPOSAL	WRITE DOWNS	OTHER	BALANCE AT 31/12/2016	INTEREST
logistics Reply S.r.l.	1,049,168					1,049,168	100.00%
Air Reply S.r.l.	378,500		180,000			558,500	85.00%
Aktive Reply S.r.l.	512,697					512,697	100.00%
Arlanis Reply S.r.l.	588,001					588,001	100.00%
Arlanis Reply AG	1,005,000				(1,005,000)	-	0.00%
Atlas Reply S.r.l.	356,576					356,576	100.00%
Avantage Ltd	9,483,485					9,483,485	100.00%
Bitmama S.r.l.	217,020	4,000,000	220,000	(220,000)		4,217,020	100.00%
Blue Reply S.r.l.	527,893					527,893	100.00%
Breed Reply Ltd.	12,477					12,477	100.00%
Breed Reply Investment Ltd.	103					103	80.00%
Bridge Reply S.r.l.	6,001					6,001	60.00%
Business Reply S.r.l.	268,603					268,603	100.00%
Cluster Reply S.r.l.	2,610,033				(69,184)	2,540,849	100.00%
Cluster Reply Roma S.r.l.	227,000				69,184	296,184	100.00%
Concept Reply GMBH	25,000	18,000			(43,000)	-	0.00%
Consorzio Reply Public Sector	32,501					32,501	36.70%
Consorzio Reply Energy	1,000					1,000	25.00%
Data Reply S.r.l.	140,000				177,662	317,662	100.00%
Discovery Reply S.r.l.	1,311,670					1,311,670	100.00%
e*finance Consulting Reply S.r.l.	3,076,386					3,076,386	100.00%
Ekip Reply S.r.l.	30,000					30,000	100.00%
Eos Reply S.r.l.	155,370					155,370	80.70%
Forge Reply S.r.l.	12,000		1,020,000	(1,020,000)		12,000	100.00%
Go Reply S.r.l.	200,000	1,720,000				1,920,000	100.00%
Hermes Reply Polska zoo	10,217					10,217	100.00%
Hermes Reply S.r.l.	199,500					199,500	100.00%
Inessence Reply GmbH	17,500				(17,500)	-	0.00%
IrisCube Reply S.p.A.	6,724,953					6,724,953	100.00%
Lem Reply S.r.l.	400,012		395,000	(395,000)		400,012	100.00%
Like Reply S.r.l.	132,317		695,000	(695,000)		132,317	100.00%
Live Reply GmbH	52,500				(52,500)	-	0.00%
Open Reply S.r.l.	1,417,751					1,417,751	100.00%
Pay Reply S.r.l.	10,000					10,000	100.00%
Portaltech Reply S.r.l.	104,500		210,000	(210,000)		104,500	100.00%
Portaltech Reply GmbH	2,017,000				(2,017,000)	-	0.00%
Power Reply S.r.l.	2,500,850					2,500,850	100.00%
Protocube Reply S.r.l.	-	287,000	280,000	(280,000)		287,000	55.00%

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

(*) For this company an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting of such options reflect management's best estimate at the closing date.

ACQUISITIONS AND SUBSCRIPTIONS

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

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

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

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

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

FINANCIAL LOAN REMISSION

The amounts are referred to the waiver of financial loan receivables from some subsidiaries in order to increase their equity position.

WRITE-DOWNS

The amounts recorded reflect losses on some equity investments that are deemed not to be recoverable.

OTHER

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

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

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

NOTE 20 - NON CURRENT FINANCIAL ASSETS

Detail is as follows:

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

Guarantee deposits are mainly related to deposits on lease contracts.

Financial receivables from subsidiaries are referred to loans granted to the following companies:

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

NOTE 21 - DEFERRED TAX ASSETS

This item amounted to 3,017,480 Euros at 31 December 2016 (1,234,807 Euros at 31 December 2015), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductible items.

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

The decision to recognize deferred tax assets is taken by assessing critically whether the conditions exist for the future recoverability of such assets on the basis of expected future results.

There are no deferred tax assets on losses carried forward.

NOTE 22 – TRADE RECEIVABLES

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

Detail is as follows:

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

Reply manages business relationships on behalf of some of its major clients. This activity is reflected in the item Third Party Receivables which increased by 15,679,740 Euros.

Receivables from subsidiaries are related to services that the Parent Company Reply S.p.A. carries out in favor of the subsidiary companies at normal market conditions.

Trade receivables are all due within 12 months and do not include significant overdue balances.

In 2016 the provision for doubtful accounts was increased by 15,666 Euros following a specific risk analysis of all the trade receivables.

ASSIGNMENT OF RECEIVABLES

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

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

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

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

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

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

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

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

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

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

NOTE 24 - CURRENT FINANCIAL ASSETS

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

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

NOTE 25 - CASH AND CASH EQUIVALENTS

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

NOTE 26 - SHAREHOLDERS' EQUITY

SHARE CAPITAL

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

TREASURY SHARES

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

CAPITAL RESERVES

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

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

EARNINGS RESERVE

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

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

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

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

NOTE 27 - PAYABLES TO MINORITY SHAREHOLDERS

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

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

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

NOTE 28 - FINANCIAL LIABILITIES

Detail is as follows:

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

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

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

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

Following and summarized by main features the ongoing contracts entered into for such a purpose:

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

- On 25 November 2013 Reply S.p.A entered into a line of credit with Unicredit S.p.A for a total amount amounting to 25,000,000 Euros to be used by 31 December 2015. The loan is reimbursed on a half-year basis deferred to commence on 31 May 2016 and will expire on 31 December 2018. The residual loan amounted to 12,106 thousands Euros at 31 December 2016.
- On 31 March 2015 Reply S.p.A. entered into a line of credit with Intesa Sanpaolo S.p.A. for a total amount of 30,000,000 Euros detailed as follows:
  - Tranche A, amounting to 10,000,000 Euros, entirely used for the reimbursement of the credit line dated 13 November 2013. The loan is reimbursed on a half-year basis to commence on 30 September 2016. The residual loan amounted to 7,000 thousands Euros at 31 December 2016.
  - Tranche B, amounting to 20,000,000 Euros, to be used by 30 September 2016.The loan will be reimbursed on a half-year basis to commence on 31 March 2017. Such credit line was entirely used at 31 December 2016 and the residual loan amounted to 20,000 thousands Euros.
- On 8 April 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 10,000,000 Euros entirely used for the reimbursement of the credit line dated 19

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

- On 30 September 2015 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 25,000,000 Euros to be used by 30 September 2018. The loan will be reimbursed on a half basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500 thousands Euros at 31 December 2016.
- On 28 July 2016 Reply S.p.A. entered into a line of credit with Intesa San Paolo S.p.A. for a total amount of 49,000,000 thousands Euros to be used by 30 June 2018. The loan will be reimbursed on a half basis deferred to commence on 30 September 2018 and will expire on 30 September 2021. The credit line is not be used at 31 December 2016.
- On 21 September 2016 Reply S.p.A. entered onto an Interest Rate Swap contract with Intesa San Paolo S.p.A. with effect from 31 March 2017 and will expire on 31 March 2020.

As contractually defined, such ratios are as follows:

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

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

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

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

NET FINANCIAL POSITION

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

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

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

NOTE 29 - EMPLOYEE BENEFITS

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

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

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

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

The assumptions adopted can be summarized as follows:

DEMOGRAPHIC ASSUMPTIONS

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2016: 2.50% frequency of turnover in 2016: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

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

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

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

NOTE 30 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2016 amounted to 1,121,147 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

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

NOTE 31 - TRADE PAYABLES

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

Detail is as follows:

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

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

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

NOTE 32 - OTHER CURRENT LIABILITIES

Detail is as follows:

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

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

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

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

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

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

NOTE 33 – PROVISIONS

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

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

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

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

NOTE 34 - TRANSACTIONS WITH RELATED PARTIES

With reference to CONSOB communications no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2015 Financial Statements related to such transactions are summarized below.
Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiaries and associate companies are carried out at normal market conditions.

Reply S.p.A. main economic and financial transactions

(THOUSAND EUROS)	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	WITH SUBSIDIARY AND ASSOCIATE COMPANIES	WITH RELATED PARTIES	NATURE OF TRANSACTION
FINANCIAL TRANSACTIONS	**31/12/2016**		**31/12/2015**		
Financial receivables	67,299	-	51,950	-	Financial loans
Guarantee deposits	-	80	-	80	Guarantee deposits
Transaction accounts, net	(1,979)	-	16,638	-	Transaction accounts held by the Parent company
Trade receivables and other	135,683	-	114,026	-	Royalties, administration services, marketing, quality management services and office rental
Trade payables and other	195,851	-	169,787	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other payables	-	2,300	-	2,400	Compensation paid to Directors and Key Management
ECONOMIC TRANSACTIONS	**2016**		**2015**		
Revenues from Royalties	21,692		19,541		Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	28,288	-	26,854	7	Administrations services, marketing, quality management and office rental
Revenues from management services	6,793	-	7,129	-	Strategic management services
Costs for professional services	331,065	-	292,140	-	Services carried out in relation to contracts signed by the Parent company and subsequently committed to subsidiary companies
Other services	1,370	420	1,214	420	Services related to office rental and office of the secretary
Personnel	-	5,224	-	5,276	Emoluments to Directors and Key Management
Interest income, net	4,562	-	3,183	-	Interest on financial loans: 3 month Euribor + spread of 3 percentage points

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

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

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

TYPES OF FINANCIAL RISKS AND CORRESPONDING HEDGING ACTIVITIES

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

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

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

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

CREDIT RISK

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

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

LIQUIDITY RISK

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

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

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

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

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

CURRENCY RISK

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

INTEREST RATE RISK

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

SENSITIVITY ANALYSIS

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

rate financial instruments (for which the impact is assessed in terms of *fair value*) from floating rate financial instruments (for which the impact is assessed in terms of cash flows). Floating rate financial instruments include principally cash and cash equivalents and part of debt.
A hypothetical, unfavorable and instantaneous change of 50 *basis points* in short-term interest rates at 31 December 2016 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 643 thousand Euros. This analysis is based on the assumption that there is a general and instantaneous change of 50 basis points in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

FAIR VALUE HIERARCHY LEVELS

Evaluation techniques on three levels adopted for the measurement of fair value. Fair value hierarchy attributes maximum priority to prices quoted (not rectified) in active markets for identical assets and liabilities (Level 1 data) and the non-observable minimum input priority (Level 3 data). In some cases, the data used to assess the fair value of assets or liabilities could be classified on three different levels of the fair value hierarchy. In such cases, the evaluation of fair value is wholly classified on the same level of the hierarchy in which input on the lowest level is classified, taking account its importance for the assessment.
The levels used in the hierarchy are:

- Level 1 inputs are prices quoted (not rectified) in markets active for identical assets and liabilities which the entity can access on the date of assessment;
- Level 2 inputs are variable and different from the prices quoted included in Level 1 observable directly or indirectly for assets or liabilities;
- Level 3 inputs are variable and not observable for assets or liabilities.

The following table presents the assets and liabilities which were assessed at fair value on 31 December 2016, according to the fair value hierarchical assessment level.

(THOUSANDS EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Financial securities		-	-	-
Total Assets		**-**	**-**	**-**
Derivative financial liabilities (IRS)	28	-	62	
Liabilities to minority shareholders and earn out	27	-	-	2,364
Total Liabilities		**-**	**62**	**2,364**

To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes). The latter, in the calculation of their estimates made use of data observed on the market directly (interest rates) or indirectly (interest rate interpolation curves observed directly): consequently for the purposes of IFRS7 the fair value used by the Company for the exploitation of hedging derivatives contracts in existence at the end of the financial year re-enters under the hierarchy profile in level 2.
The fair value of Liabilities to minority shareholders and earn out was determined by Group management on the basis of the sales purchase agreements for the acquisition of the company's shares and on economic parameters based on budgets and plans of the purchased company. As the parameters are not observable on stock markets (directly or indirectly) these liabilities fall under the hierarchy profile in level 3.
As at 31 December 2016, there have not been any transfers within the hierarchy levels.

NOTE 36 - SIGNIFICANT NON-RECURRING TRANSACTIONS

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

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

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

NOTE 38 - GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

GUARANTEES

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

COMMITMENTS

It is reported that:

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

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

following it expiring from the two months subsequent to the final ruling of the qualified court or the publication of a binding agreement between the parties. During the said period, the former Reply Deutschland shareholders can freely decide on whether to obtain the corresponding amount in cash or whether to remain shareholders of Reply.

CONTINGENT LIABILITIES

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

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

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

NOTE 40 - EVENTS SUBSEQUENT TO 31 DECEMBER 2016

No significant events have occurred subsequent to 31 December 2016.

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

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

ANNEXED TABLES

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

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

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

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

REPLY S.P.A.
EQUITY INVESTMENTS IN SUBSIDIARIES WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION NO. 6064293 OF 28 JULY 2006)

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

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

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

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

Legend
A: for share capital increase
B: for coverage of losses
C: distribution to shareholders

DISCLOSURES PURSUANT TO ARTICLE 149-DUODECIES BY CONSOB

The following table, prepared in accordance with Art. 149-*duodecies* of the Regolamento Emittenti issued by Consob, reports the amount of fees charged in 2016 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network. There were no services provided by entities belonging to its network.

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

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

ATTESTATION OF THE FINANCIAL STATEMENTS

in accordance with Article 154-bis of Legislative Decree 58/98

The undersigned, Mario Rizzante, in his capacity as Chairman and Chief Executive Officer, and Giuseppe Veneziano, Director responsible for drawing up Reply S.p.A.'s financial statements, hereby attest, pursuant to the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- suitability with respect to the Company's structure and
- the effective application

of the administration and accounting procedures applied in the preparation of the financial statements for the year ended 2016.

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

The undersigned also certify that:

3.1 the Financial Statements

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

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

Turin, 15 March 2017

Chairman
and Chief Executive Officer
Mario Rizzante

Director in charge
of signing the financial statements
Giuseppe Veneziano

REPORT ON THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

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

Dear Shareholders,
pursuant to Article 153 of Legislative Decree No. 58/1998, as well as in compliance with outstanding laws and regulations, the Board of Statutory Auditors is reporting to the Shareholders' meeting on the supervisory activity performed, and any omissions or censurable acts that emerged and can make proposals with respect to the approval of the Financial Statements.
During the course of the financial year ended 31 December 2016, we complied with the duties set forth in Article 149 of Legislative Decree No. 58/1998 and we are providing the following information with reference to the recommendations contained in the Consob communications issued up to the present day concerning the Regulations for Issuers:

1. THE MOST SIGNIFICANT OPERATIONS FROM AN ECONOMIC, FINANCIAL AND EARNINGS STANDPOINT.

We obtained timely and adequate information from the Directors with respect to the most significant operations from an economic, financial and earnings standpoint carried out by the Company and/or by its subsidiaries in 2016 or subsequent to the end of the financial year, among which we note:

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

consideration of 225 thousand euros;

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

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

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

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

2. ANY UNUSUAL AND/OR ATYPICAL TRANSACTIONS, INCLUDING INTRA-GROUP OR WITH RELATED PARTIES.

On the basis of meetings held with the Directors and with representatives of the Independent Auditing firm, it did not appear that any atypical or unusual transactions occurred during the financial year, nor following the year ended.
With reference to intra-group transactions, we advise that:

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

Transactions with related parties in 2016, which took place in accordance with market conditions, are related to Emoluments to Directors and Key Management and to "office services, in particular to the office situated in Corso Francia, 110 Turin, provided by Alika S.r.l., Reply S.p.A.'s direct parent company. For these operations the Procedure for Related party

transactions was not applied as these transactions are exempt as defined by art. 4.1 and 4.4. of the Procedure.
Such situation also exist as at the date of this report.

3. INFORMATION PROVIDED IN THE REPORT ON THE OPERATION ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRA-GROUP TRANSACTIONS AND THOSE WITH RELATED PARTIES.

The information provided by the Directors in the Report on Operations accompanying the Financial Statements as at 31 December 2016 and in the Notes to the Consolidated Financial Statements of the Reply Group and to the Financial Statements as at 31 December 2016 regarding the most significant transactions from an economic, financial and earnings standpoint, as well as transactions with subsidiaries, associated companies and related parties, are adequate.
The Report does not reveal that any atypical and/or unusual transactions occurred during the year or after it ended.

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

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

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

5. COMPLAINTS PURSUANT TO ARTICLE 2408 OF THE ITALIAN CIVIL CODE.

No complaints have been acknowledged pursuant to Article 2408 of the Italian Civil Code in 2014 and at present.

6. FILED COMPLAINTS/LAWSUITS.

The Company's Directors did not advise us of any complaints filed against the Company in the financial year, nor subsequent to the date it ended.

7. THE GRANTING OF ANY FURTHER APPOINTMENTS TO THE INDEPENDENT AUDITOR AND RELATIVE COSTS.

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

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

The consideration for such appointment was 1 thousand Euros;

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

The consideration for such appointment was 18 thousand Euros.

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

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

9. INDICATION OF WHETHER OPINIONS WERE ISSUED IN ACCORDANCE WITH LAW DURING THE FINANCIAL YEAR.

During the financial year the opinions requested by the Board of Statutory Auditors were issued as provided by law.

10. INDICATION OF THE FREQUENCY AND NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND BOARD OF STATUTORY AUDITORS.

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

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

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

12. SIGNIFICANT ISSUES THAT EMERGED DURING THE MEETINGS HELD WITH THE INDEPENDENT AUDITOR PURSUANT TO ARTICLE 150(3) OF LEGISLATIVE DECREE 58/1998.

During the meetings held with representatives of the Independent Auditors, no significant issues emerged that are worthy of mention.

13. THE COMPANY'S COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTED COMPANIES' CORPORATE GOVERNANCE COMMITTEE.

Commencing from 2000, the Company adheres to the Corporate Governance Code promoted by Borsa Italiana S.p.A., and revised in July 2015.
On 15 March 2017 the Board of Directors approved the annual Report on Corporate Governance and Ownership Structure prepared pursuant to Article 123 bis of Legislative Decree 58/1998.

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

The Board's supervisory activity was carried out through:

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

The Board confirmed that the organizational requirements were met to comply with the relevant Company by-laws, laws and regulations, in the constant evolution and search for improvement.
In particular, we advise the Shareholders that:

- We have monitored the conformity of the Procedure for Transactions with Related Parties, approved by Reply S.p.A.'s Board of Directors on 11 November 2010 and subsequently approved on 4 May 2015, according to the standards indicated in the Regulations approved by Consob by means of Resolution No. 17221 of 12 March 2010 and subsequent modifications, as well as compliance with it;
- We controlled the correct application of the criteria adopted by the Board of Directors in evaluating the existence of the conditions of independence of the "independent Directors";

- We monitored, when requested, compatibility with legal restrictions on services other than the audit of the annual and consolidated accounting records provided by the Independent Auditor to Reply S.p.A. and to its subsidiaries;
- We controlled compliance with the limit on the accumulation of appointments pursuant to Article 144-terdecies of the Consob Issuers' Regulation No. 11971 as well as whether the members of the Board of Statutory Auditors possess the same pre-requisites of independence required for Directors;
- We did not receive any reports of the Supervisory Body's violation of the Organizational and Management Model pursuant to Legislative Decree 231/01;
- We verified compliance with the laws on "Market abuse" and "Protection of savings" in matters of corporate disclosures of information and "Internal Dealings" based on the information provided by the Company. In this respect, the Internal Dealing Procedure was updated in accordance to the EU Regulation no. 596/2014 and was approved by the Board of Directors on August 2, 2016.

On the basis of the principles mentioned and the information acquired during the audits and participation at meetings with the persons responsible for administration and the internal control, we reached the following conclusions:

1) ADMINISTRATION

The Board of Statutory Auditors, having participated at the meetings of the Board of Directors, on the basis of the information obtained at such time, acknowledges that it has verified, with the exclusion of control of the merits of the opportunity and economic convenience of the choices made by such body, that the transactions performed and being carried out by the Company are based on principles of proper administration, conform to law and the By-laws, do not conflict with the resolutions of the Shareholders' meetings or compromise the integrity of the Company's assets.

2) ORGANISATIONAL STRUCTURE

Within the scope of the responsibilities bestowed on us by the rules set forth in Legislative Decree 58/1998 and in compliance with the Governance Rules of the Board of Statutory Auditors, we met periodically with the Directors of the Independent Auditor and the organizational department, to gather the necessary information.
This allowed the Board of Statutory Auditors to thoroughly supervise the Company's organizational structure and to arrive at a judgment of overall adequacy with respect to its size.

3) INTERNAL CONTROL SYSTEM

Within the Board of Directors there is a Committee for Internal Control and Risk Management, a Remuneration and Nominating Committee, and a Committee for Transactions with Related Parties, whose activities are carried out according to a program in line with the needs of the Company.

The participation of the Director in charge of the Internal Control, as well as our participation at the meetings of the Internal Control and Risk Management Committee, allowed us to coordinate our functions as the Internal Control and Audit Committee, assumed pursuant to Article 19 of Legislative Decree 39/2010, with the activities of the Internal Control and Risk Management Committee, and, in particular, to carry out the supervisory activities provided by Article 19 of Legislative Decree No. 39/2010.

On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

We received from EY S.p.A. the notice issued pursuant to Article 17(9)a) of Legislative Decree 39/2010, as well as the report set forth in Article 19(3) of Legislative Decree No. 39/2010 which states that no fundamental issues emerged during the audit, nor significant gaps in the Internal Control System in relation to the financial reporting process.

On the basis of our analysis and the audits conducted, the overall system appears to be substantially fair and reliable.

4) ADMINISTRATIVE- ACCOUNTING SYSTEM

Our assessment of the administrative-accounting procedures is positive, and they also appear to be imposed on the companies belonging to the Group.

We therefore deem that the administrative-accounting system is suitable to represent and monitor management, the presentation of the data for the reporting period, the identification, prevention and management of financial and operational risks, and any fraud that could damage the Company.

The Chairman and the Director in charge of drawing up the Company’s Financial Statements have issued, pursuant to Article 81-ter of Consob Regulation No. 11971/1999 and subsequent modifications and supplements, the attestation required by Article 154-bis(5) of TUF (Legislative Decree 58/1998).

15. ANY PROPOSALS TO MAKE TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/1998.

In relation both to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998 and the general supervisory obligation pursuant to Article 149(1) of such Decree, as well as the agenda of the Shareholders' meeting which includes discussion of the Financial Statements for the reporting period, the Board of Statutory Auditors states that it has supervised compliance with the procedural rules and law with respect to their preparation.
We note that the Financial Statements as at 31 December 2016 were prepared in compliance with European Regulation No. 1606/2002 of 19 July 2002, in compliance with International Financial Reporting Standards (IAS/IFRS).

On the basis of the controls made directly and the information exchanged with the Independent Auditor, and also in view of the latter's report pursuant to Article 14 of Legislative Decree 39/2010 which expresses a judgment without reservations, the Board of Statutory Auditors has no comments or proposals with respect to the Financial Statements or Report on Operations and the proposals set forth therein, which it consequently considers, to the extent of its specific expertise, should meet your approval.
Similarly, with specific reference to the provision of the second paragraph of Article 153 of Legislative Decree 58/1998, the Board does not have any proposals to make with respect to the other matters within its scope of expertise.
With reference to the point on the agenda concerning the purchase and disposal of treasury shares, recalling disclosures made by the Directors, the Board states that the resolution proposed is in accordance with articles 2357, 2357-ter of the Italian Civil Code, in accordance with Article 132 of Legislative Decree 58/1998, as well as those of Art. 144-bis of Consob's Issuers Regulation no. 11971 of 14 May 1999.

Turin, 30 March, 2017

THE STATUTORY AUDITORS

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

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Building a better working world

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

To the Shareholders of Reply S.p.A.

Report on the financial statements

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

Directors' responsibility for the financial statements

The Directors of Reply S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on other legal and regulatory requirements

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

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

Turin, March 30, 2017

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

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