

# REPORT ON OPERATIONS



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

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

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

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

## EXTERNAL RISKS

### RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

### RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

**RISKS ASSOCIATED WITH COMPETITION**

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

**RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS**

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

**RISKS ASSOCIATED WITH SEGMENT REGULATIONS**

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

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

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

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

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

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

**RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT**

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

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

**RISKS ASSOCIATED WITH INTERNATIONALIZATION**

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

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

**RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS**

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

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

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

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

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

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

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

**LIQUIDITY RISK**

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

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

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

**EXCHANGE RATE AND INTEREST RATE RISK**

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

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

The interest rate risk to which the Group is exposed derives from bank loans; to mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as "cash flow hedges".

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

# REVIEW OF THE GROUP'S ECONOMIC AND FINANCIAL POSITION

## FOREWORD

The financial statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated financial statements as at 31 December 2017 to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

## TREND OF THE PERIOD

The Reply Group closed 2017 with a consolidated turnover of 884.4 million Euros, an increase of 13.3% compared to 780.7 million Euros in 2016.

The EBITDA was 123.2 million Euros (106.4 million Euros in 2016), while the EBIT was at 113.9 million Euros (99.6 million Euros in 2016).

The Group net profit was at 77.9 million Euros, an increase of 15.3% compared to 67.5 million Euros recorded in 2016.

As at 31 December 2017, the Group's net financial position was positive, at 57.0 million Euros (28.8 million Euros at the end of 2016). As at September 30, 2017, the net financial position was positive, at 66.0 million Euros.

In 2017, Reply established itself as one of the key players in digital transformation by providing a complete service aligned with companies' new needs and by being increasingly committed to the digitalization of each service or physical asset.

The investments made in the main areas on which companies base their future development, such as Artificial Intelligence, Virtual and Augmented Reality and 3D combined with the ability to provide customers with the best skills to deal with components of basic innovation, such as Cloud Computing, the Internet of Things and Big Data, are able to ensure a distinctive positioning of Reply on the market.

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

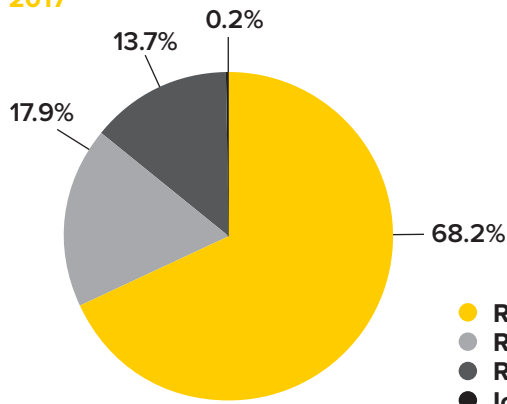
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

<b>(THOUSAND EUROS)</b>	<b>2017</b>	<b>%</b>	<b>2016</b>	<b>%</b>
<b>Revenues</b>	<b>884,434</b>	<b>100.0</b>	<b>780,739</b>	<b>100.0</b>
Purchases	(15,269)	(1.7)	(16,969)	(2.2)
Personnel	(431,555)	(48.8)	(379,713)	(48.6)
Services and other costs	(312,253)	(35.3)	(277,071)	(35.5)
Other operating (costs)/income	(2,113)	(0.2)	(569)	(0.1)
<b>Operating costs</b>	<b>(761,190)</b>	<b>(86.1)</b>	<b>(674,322)</b>	<b>(86.4)</b>
<b>Gross operating income (EBITDA)</b>	<b>123,244</b>	<b>13.9</b>	<b>106,417</b>	<b>13.6</b>
Amortization, depreciation and write-downs	(12,353)	(1.4)	(11,669)	(1.5)
Other non recurring (expenses)/income	2,982	0.3	4,846	0.6
<b>Operating income (EBIT)</b>	<b>113,873</b>	<b>12.9</b>	<b>99,594</b>	<b>12.8</b>
(Loss)/gain on investments	(585)	(0.1)	(668)	(0.1)
Financial income/(expenses)	(2,978)	(0.3)	(1,520)	(0.2)
<b>Income before taxes</b>	<b>110,310</b>	<b>12.5</b>	<b>97,405</b>	<b>12.5</b>
Income taxes	(31,765)	(3.6)	(29,698)	(3.8)
<b>Net income</b>	<b>78,545</b>	<b>8.9</b>	<b>67,707</b>	<b>8.7</b>
Non controlling interests	(674)	(0.1)	(163)	-
<b>Group net income</b>	<b>77,871</b>	<b>8.8</b>	<b>67,544</b>	<b>8.7</b>

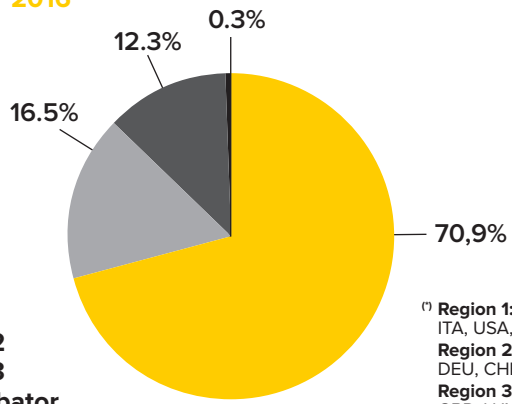


## REVENUES BY REGION (\*)

2017



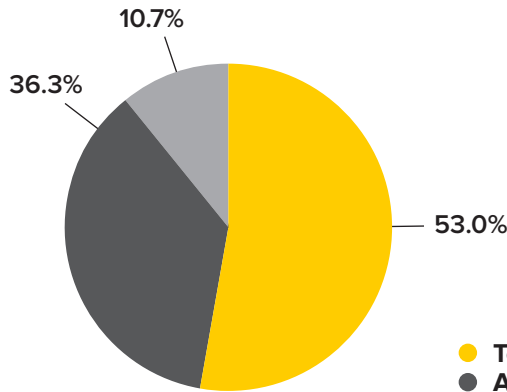
2016



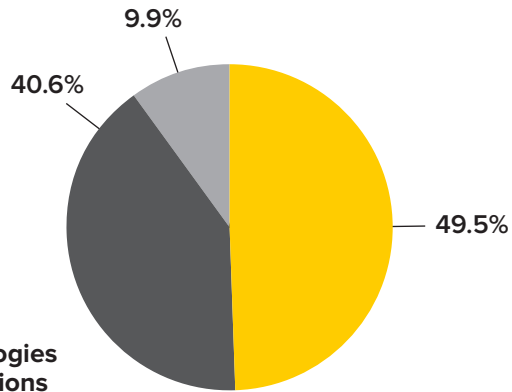
(\*) **Region 1:**  
ITA, USA, BRA, POL, ROU  
**Region 2:**  
DEU, CHE, CHN, HR  
**Region 3:**  
GBR, LUX, BEL, NLD, FRA, BLR

## REVENUES BY BUSINESS LINES

2017

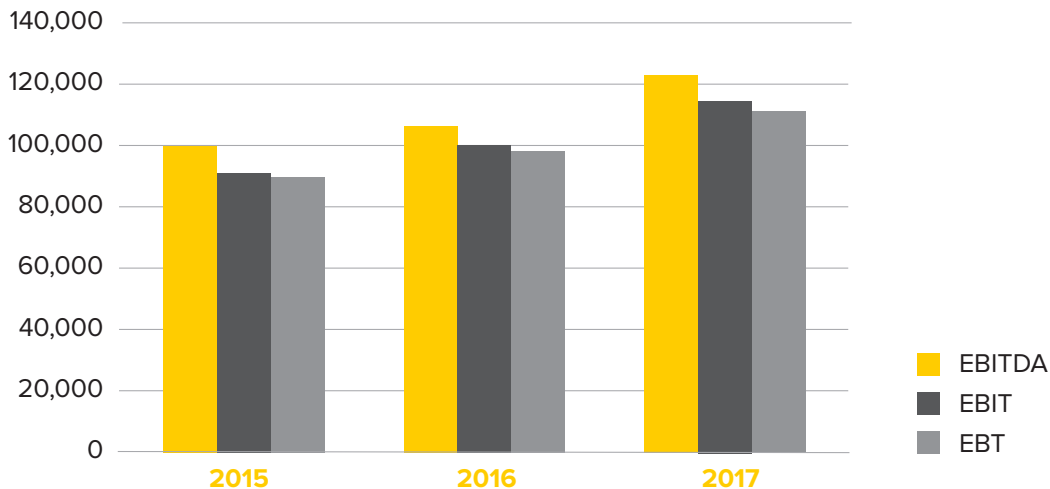


2016



Annual Financial Report 2017

## TREND IN KEY ECONOMIC INDICATORS (THOUSAND EUROS)



## ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2017, compared to 31 December 2016:

<b>(THOUSAND EUROS)</b>	<b>31/12/2017</b>	<b>%</b>	<b>31/12/2016</b>	<b>%</b>	<b>CHANGE</b>
Current operating assets	496,459		442,655		53,804
Current operating liabilities	(328,589)		(282,251)		(46,338)
<b>Working capital, net (A)</b>	<b>167,870</b>		<b>160,404</b>		<b>7,466</b>
Non current assets	263,457		232,441		31,016
Non current liabilities	(86,286)		(84,067)		(2,219)
<b>Fixed capital (B)</b>	<b>177,171</b>		<b>148,374</b>		<b>28,797</b>
<b>Invested capital, net (A+B)</b>	<b>345,041</b>	<b>100.0</b>	<b>308,779</b>	<b>100.0</b>	<b>36,263</b>
Shareholders' equity (C)	402,072	116.5	337,537	109.3	64,535
<b>NET FINANCIAL POSITION (A+B-C)</b>	<b>(57,030)</b>	<b>(16.5)</b>	<b>(28,758)</b>	<b>(9.3)</b>	<b>(28,272)</b>

Net invested capital on 31 December 2017, amounting to 345,041 thousand Euros, was funded by Shareholders' equity for 402,072 thousand Euros and by available overall funds of 57,030 thousand Euros.

The following table provides a breakdown of net working capital:

<b>(THOUSAND EUROS)</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>CHANGE</b>
Work in progress	93,651	58,651	35,000
Trade receivables	357,082	339,194	17,888
Other current assets	45,726	44,810	916
<b>Current operating assets (A)</b>	<b>496,459</b>	<b>442,655</b>	<b>53,804</b>
Trade payables	100,150	92,735	7,414
Other current liabilities	228,439	189,515	38,924
<b>Current operating liabilities (B)</b>	<b>328,589</b>	<b>282,251</b>	<b>46,338</b>
<b>Working capital, net (A-B)</b>	<b>167,870</b>	<b>160,404</b>	<b>7,466</b>
<i>% return on investments</i>	<i>19.0%</i>	<i>20.5%</i>	

## NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

<b>(THOUSAND EUROS)</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>CHANGE</b>
Cash and cash equivalents, net	86,398	76,511	9,887
Current financial assets	2,042	2,925	(883)
Due to banks	(16,365)	(18,893)	2,528
Due to other providers of finance	(942)	(738)	(204)
<b>Short-term financial position</b>	<b>71,133</b>	<b>59,805</b>	<b>11,328</b>
Non current financial assets	-	4	(4)
Due to banks	(13,381)	(29,985)	16,604
Due to other providers of finance	(721)	(1,066)	345
<b>M/L term financial position</b>	<b>(14,102)</b>	<b>(31,047)</b>	<b>16,944</b>
<b>Total net financial position</b>	<b>57,030</b>	<b>28,758</b>	<b>28,272</b>

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

<b>(THOUSAND EUROS)</b>	<b>31/12/2017</b>
Cash flows from operating activities (A)	73,302
Cash flows from investment activities (B)	(32,812)
Cash flows from financial activities (C)	(30,504)
<b>Change in cash and cash equivalents (D) = (A+B+C)</b>	<b>9,887</b>
Cash and cash equivalents at beginning of period (*)	76,511
Cash and cash equivalents at year end <sup>(1)</sup>	86,398
<b>Total change in cash and cash equivalents (D)</b>	<b>9,887</b>

<sup>(1)</sup> Liquid assets and cash equivalents net are net of current account overdrafts

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

## ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

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

# SIGNIFICANT OPERATIONS IN 2017

## ACQUISITION OF COMSYSTO GMBH

At the end of December 2016, an agreement was signed for the acquisition of the 100% share capital of comSysto GmbH, a company incorporated under German law based in Munich for an initial cash consideration of 6 million Euros. The agreement became effective in January 2017.

The company is specialized in Agile solutions on Open Source technology.

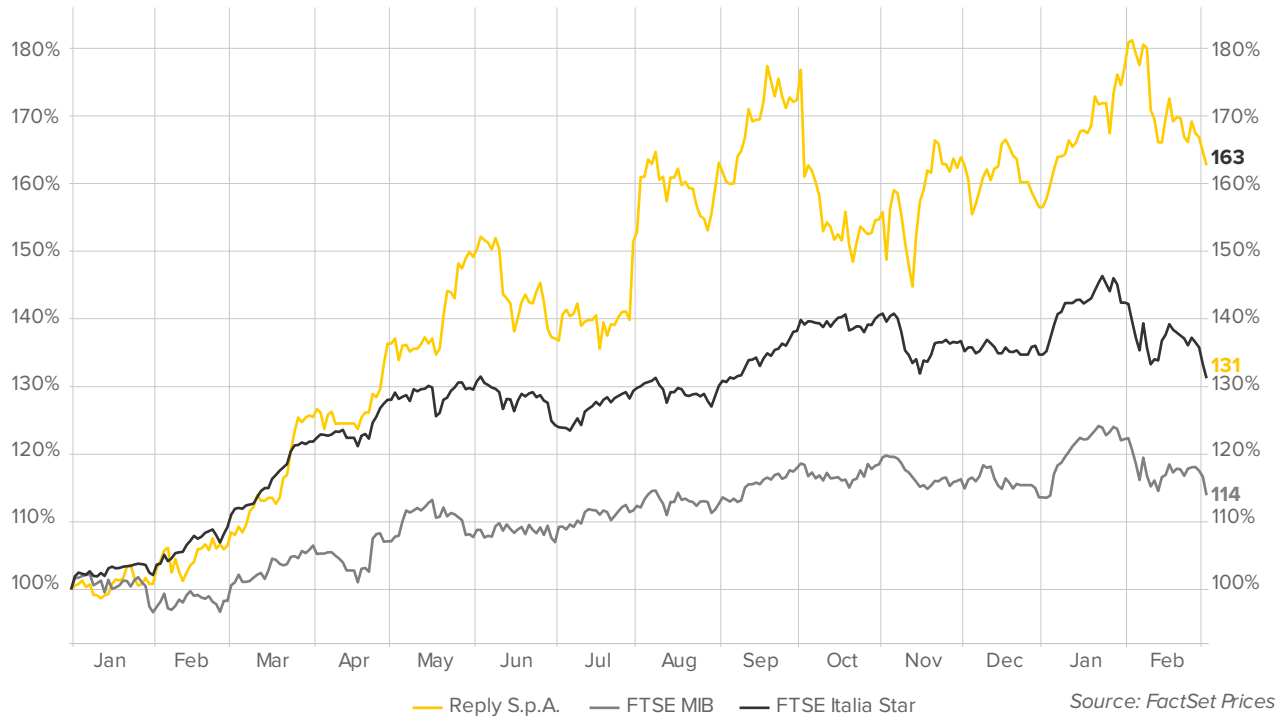
# REPLY ON THE STOCK MARKET

The world is radically transforming under the disruptive spur of Internet of Things, Virtual Reality, Artificial Intelligence and the Cloud paradigm. Digital innovation will more and more arise from a blend of business and technology that cannot be framed into traditional models. Reply's goal - in an increasingly global and multinational marketplace - is to be a benchmark in technology and consulting for companies that are considering innovation and new business models as strategic means to compete on the market. Reply's strength is its ability to interpret innovation by making it functional to businesses' requirements.

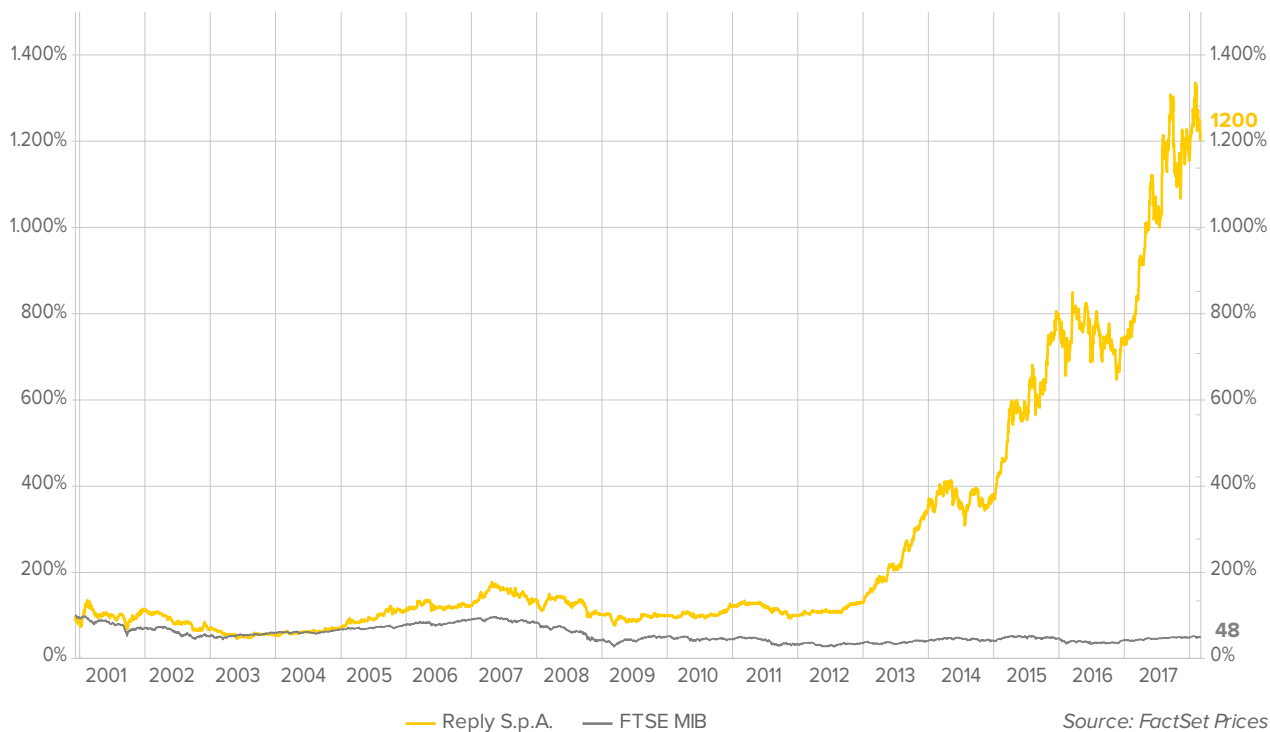
For years we will be in a phase where innovation and growth lead the way: for our clients accelerating digitalization is the key to successfully growing businesses, strengthening relationships with customers and optimizing the business processes. Reply has for years and continues to significantly invest in specific solutions and expertise, to help businesses deal with the most substantial transformation. Reply is fully committed to creating sustainable value and to continuing the successful, long-term development of the company and is convinced that the shareholders can derive substantial value from the opportunities ahead and the competitive advantage of Reply.

## REPLY SHARE PERFORMANCE

2017 has been a fantastic year for the equity markets showing record highs in equity combined with a lot of resiliency. Economic growth is robust and above the long-term average, not just in some parts of the world, but globally. Inflation remains low and interest rates are low for the foreseeable future. European markets were widely supported by a decrease in political uncertainty, with centrist politicians winning in both the Netherlands and France, which saw international institutional enthusiasm rise across the continent. Macroeconomic data was very positive on the continent, with unemployment at 8.8% in the Eurozone, its lowest since 2009. Meanwhile the Eurozone Economic sentiment indicator was at its highest since October 2000. The positive economic framework and the excellent positioning of Reply clearly affected its share price during 2017. From March onwards the Reply share entered a steady upward trend, outperforming every relevant index and the share price development of peers. Following the implementation of a share split and a private placement of 7.7% of the Reply shares by Iceberg, the main shareholder of Reply, the share price saw a gradual correction. From November onwards, the share reentered the continuous upward development bringing the market capitalization to 1.7 billion Euros at the end of the year. Reply outperformed the Italian MIB index by 43 percentage points; compared to the STAR and the Italian Mid Cap index the performance was 22 percentage points and 25 percentage points respectively better.



Taking December 6, 2000, the date of the Reply IPO as a reference, the Italian main index MIB performed unsatisfactorily. It lost more than 50% of its starting value and never recovered substantially from the lows reached during the financial crisis. In the same period Reply increased its IPO value by more than 1,100%. In 2017 Reply further increased the value creation adding 411 percentage points to the outperformance versus the MIB.



## CAPITAL MARKET POSITION

Financial year 2017 was also characterized by the measures Reply took to improve the liquidity of the share following the repeated requests of existing and potential shareholders, more specifically:

### 1. Share Split

On Oct. 16, 2017 a share split in the ratio of 1:4 became effective, reducing the nominal value of a Reply share from 0.52 Euro to 0.13 Euro while leaving the share capital of the company unchanged.

The Company's constant growth has brought the shares to record an extremely positive trend over time achieving a significant rise in market value compared to the initial listing price leading to the Share split proposal.

### 2. Double Voting Rights

An extraordinary Shareholders' Meeting in September 2017 also approved the introduction of double voting rights in accordance with the current legislative and regulatory framework. Specifically, the new By-laws provide for the assignment – subject to the verification of the appropriate pre-requirements by the administrative body - of two votes for each ordinary



share held by the same shareholder for an ongoing period of at least 24 months from the date of entry in a specific list created by Reply. The goal of this instrument - leaving behind the traditional 'one share, one vote' principle - is to stimulate medium to long-term equity investments and to reward 'loyal shareholders'.

Lastly, Iceberg, the main shareholder of Reply, sold 7.7% of the shares to the market in a private placement. This operation increased the free float of Reply to 52.8%. The development of the trading volume in the Reply share clearly shows the benefit of the aforementioned operations. The number of traded shares increased by 58% and the trading volume – also reflecting the very positive development of the share price – more than doubled to Euro 591 million. Capital market valuations of the Reply share now clearly reflect the constant positive business development. Reply at the end of 2017 was traded at a premium of circa 40% (enterprise value/revenue, enterprise value/EBITDA) compared to a peer group of well-known IT service providers and advertising agencies.

## **DIVIDEND**

Performance-based compensation is an essential pillar of the partnership-oriented business model of Reply. Each year this principle is balanced with the need of internal financing as a means to fund the investments of Reply (in new startup companies and new technologies). In 2017 Reply achieved earnings per share of Euro 2.08, an increase of 14% compared to 2016. For the financial year 2017 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 0.35 (dividend 2016: Euro 0.2875). Referred to the share price of Reply at the end of 2017 this corresponds to a dividend yield of 0.8%. Due to a reduced share price in conjunction with the operational progress of 2017 this yield is higher than the 2016 value by 1.0%.

The following table gives an overview of the main parameters of the Reply share and the substantial developments during the last 5 years.

		2017	2016	2015	2014	2013
<b>Share price</b>						
Year-end	Euro	46.17	29.50	31.48	15.23	14.23
High for the year	Euro	53.50	34.08	32.30	16.98	14.48
Low for the year	Euro	28.93	25.03	14.61	11.93	5.23
<b>Trading</b>						
Number of shares traded (year)	# thousand	14.894,2	9.419,3	11.448,2	14.344,0	14.819,8
Number of shares traded (day)	# thousand	571	361	43.9	55.2	58.8
Trading volume (year)	Euro million	590.6	282.6	279.5	212.7	123.9
Trading volume (day)	Euro million	2.289	1.095	1.083	0.844	0.492
<b>Capital structure</b>						
Number of shares	# thousand	37.411,4	9.352,9	9.352,9	9.352,9	9.307,9
Share capital	Euro million	4.864	4.864	4.863	4.863	4.840
Free Float	%	52.8	42.0	42.0	43.1	42.1
Market capitalization	Euro million	1.727,3	1.103,6	1.177,5	569,6	529,6
<b>Allocation of net income</b>						
Earnings per share	Euro	2.08	1.81	1.52	1.28	0.93
Dividend <sup>1)</sup>	Euro	0.350	0.2875	0.2500	0.2125	0.1750
Dividend payment	Euro million	13.092	10.755	9.353	7.950	6.515
Dividend yield <sup>2)</sup>	%	0.8%	1.0%	0.8%	1.4%	1.2%

For comparison purposes all figures related to the nominal value of the Reply share have been rebased in order to reflect the share split conducted in 2017

<sup>1)</sup> Amount proposed for shareholder approval for 2017

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

## THE SHAREHOLDERS BASE

Following the private placement of Iceberg, the free float of the share amounted to 53%; 50% of the Reply shares are owned by the founders of Reply, Institutional shareholders owned 41% at the end of 2017, while retail shareholders owned 9% of the shares. In the institutional shareholders' base American investors continued to make up the largest regional group (33% of institutional holdings). French investors now rank number 2, owning around 21%.

## **ANALYSTS**

The analyst coverage of Reply increased substantially in 2017. Currently 5 Italian analysts are commenting the Reply share rating the share price to “outperform” or “neutral”. All Reply analysts on average have set a target price of Euro 51.

## **DIALOG WITH THE CAPITAL MARKETS**

An active and open communication policy ensuring prompt and continuous flow of information is a major component of the Reply IR strategy. Reply has maintained high level of activities with the capital markets throughout 2017. During 17 conferences and 6 roadshows Reply actively explained its equity story. Following the introduction of the tax-incentivized share savings plan PIR in Italy Reply saw a substantial increase of interest from Italian investors. Special emphasis was laid on the Spanish market where Reply attended 2 conferences in Madrid and Barcelona. Brussel was another new location that Reply addressed via a roadshow with the help of a French broker. The number of brokers who were involved in the IR activities of Reply was slightly increased in 2017.

# THE PARENT COMPANY REPLY S.p.A.

## INTRODUCTION

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2017 to which reference should be made, prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.

## RECLASSIFIED INCOME STATEMENT

The Parent Company Reply S.p.A. mainly carries out the operational co-ordination and the technical and quality management services for the Group companies as well as the administration, finance and marketing activities. As at 31 December 2017 the Parent Company had 88 employees (87 employees in 2016). Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group’s overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Revenue from fronting operations of the Income Statement set forth below.

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

<b>(THOUSAND EUROS)</b>	<b>2017</b>	<b>2016</b>	<b>CHANGE</b>
Revenues from operating activities	63,996	56,264	7,732
Pass-through revenues	324,995	319,688	5,307
Purchases, services and other expenses	(361,620)	(355,085)	(6,534)
Personnel and related expenses	(19,822)	(20,177)	355
Other unusual and operating (expenses)/income	(3,000)	1,781	(4,781)
Amortization, depreciation and write-downs	(973)	(732)	(242)
<b>Operating income</b>	<b>3,576</b>	<b>1,739</b>	<b>1,837</b>
Financial income/(expenses)	2,972	(2,900)	5,872
Gain on equity investments	108,140	20,189	87,951
Loss on equity investments	(12,230)	(2,189)	(10,041)
<b>Income before taxes</b>	<b>102,459</b>	<b>16,839</b>	<b>85,620</b>
Income taxes	(391)	425	(816)
<b>NET INCOME</b>	<b>102,068</b>	<b>17,263</b>	<b>84,804</b>

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 25,401 thousand Euros (21,692 thousand Euros in the financial year 2016);
- shared service activities carried out for its subsidiaries for 27,866 thousand Euros (24,492 thousand Euros in the financial year 2016);
- management services for 7,972 thousand Euros (7,498 thousand Euros in the financial year 2016).

Operating income 2017 marked a positive result of 3,576 thousand Euros after having deducted amortization expenses of 973 thousand Euros (of which 673 thousand Euros referred to intangible assets and 337 thousand Euros to tangible assets). Financial income amounted to 2,972 thousand Euros and included interest income for 6,951 thousand Euros and interest expenses for 572 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net negative exchange rate differences amounting to 1,226 thousand Euros. Income from equity investments which amounted to 108,140 thousand Euros refers to dividends received from subsidiary companies in 2017. Losses on equity investments refer to write-downs and losses reported in the year by some subsidiary companies that were considered to be unrecoverable. Net income for the year ended 2017, amounted to 102,068 thousand Euros after income taxes of 391 thousand Euros

## FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2017, compared to that as at 31 December 2016, is provided below:

<b>(THOUSAND EUROS)</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>CHANGE</b>
Tangible assets	478	723	(245)
Intangible assets	2,183	2,206	(22)
Equity investments	143,260	149,356	(6,096)
Other fixed assets	4,714	3,118	1,596
Non financial liabilities - L/T	(13,501)	(10,743)	(2,758)
<b>Fixed capital</b>	<b>137,134</b>	<b>144,660</b>	<b>(7,526)</b>
<b>Net working capital</b>	<b>22,191</b>	<b>2,797</b>	<b>19,394</b>
<b>INVESTED CAPITAL</b>	<b>159,325</b>	<b>147,457</b>	<b>11,868</b>
Shareholders' equity	292,110	200,742	91,369
Net financial position	(132,785)	(53,285)	(79,501)
<b>TOTAL SOURCES</b>	<b>159,325</b>	<b>147,457</b>	<b>11,868</b>

The net invested capital on 31 December 2017, amounting to 159,325 thousand Euros, was funded by Shareholders' equity in the amount of 292,110 thousand Euros from Shareholders' equity and available overall funds of 132,785 thousand Euros.

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

## NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2017, compared to 31 December 2016, is detailed as follows:

<b>(THOUSAND EUROS)</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>CHANGE</b>
Cash and cash equivalents, net	42,075	35,361	6,714
Financial loans to subsidiaries	82,843	62,430	20,413
Loans to third party	-	738	(738)
Due to banks	(16,250)	(18,778)	2,528
Due to subsidiaries	(43,139)	(64,428)	21,289
<b>Net financial position short term</b>	<b>65,530</b>	<b>15,324</b>	<b>50,205</b>
Long term financial assets	80,327	67,299	13,028
Due to banks	(13,071)	(29,339)	16,267
<b>Net financial position long term</b>	<b>67,256</b>	<b>37,960</b>	<b>29,295</b>
<b>Total net financial position</b>	<b>132,785</b>	<b>53,285</b>	<b>79,501</b>

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

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

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

(THOUSAND EUROS)	31/12/2017		31/12/2016	
	NET EQUITY	NET INCOME	NET EQUITY	NET INCOME
Reply S.p.A.'s separate financial statements	292,110	102,068	200,742	17,264
Results of the subsidiary companies	178,972	84,537	211,675	77,365
Carrying value of investments in consolidated companies	(66,344)	-	(68,576)	-
Elimination of dividends from subsidiary companies	-	(109,064)		(23,354)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(1,999)	1,005	(5,784)	(3,567)
Non controlling interests	(668)	(674)	(520)	(163)
<b>Net Group consolidated financial statement</b>	<b>402,072</b>	<b>77,871</b>	<b>337,537</b>	<b>67,544</b>

# CORPORATE GOVERNANCE

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

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

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

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

The Board of Directors, on an annual basis and at the proposal of the Remuneration Committee, establishes a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders’ Meeting called to approve the 2017 financial statements.



# DISCLOSURE OF NON-FINANCIAL INFORMATION

The company, in accordance with the provisions of article 5 (3) (b) of Legislative Decree No 254/2016, has prepared the consolidated disclosure of a non-financial nature which constitutes a separate report. The consolidated declaration of non-financial data 2017, drafted in accordance with the "GRI Standards" reporting standard, is available on the Group website [www.reply.com](http://www.reply.com).

# OTHER INFORMATION

## RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

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

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

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

## HUMAN RESOURCES

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

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

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

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

At the end of 2017 the Group had 6,456 employees compared to 6,015 in 2016.

## GENERAL DATA PROTECTION REGULATION (GDPR)

In view of the application commencing May 2018 of the new European regulation on the protection of personal data (EU 679/16), a specific compliance program is under way, including the appointment of a Group Data Protection Officer (DPO) and Region officer.

## TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

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

The company in the notes to the financial statements and consolidated financial statements

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

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

## **TREASURY SHARES**

At the balance sheet date, the Parent Company holds 4,028 treasury shares amounting to 24,502 Euros, nominal value equal to 524 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount.

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

## **FINANCIAL INSTRUMENTS**

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

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

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

# EVENTS SUBSEQUENT TO 31 DECEMBER 2017

No significant events have occurred since year ended December 31, 2017.

## OUTLOOK ON OPERATIONS

Financial year 2017 has marked the year of the definitive affirmation of the digital revolution. Massive access to the network, the diffusion of mobile technologies and "intelligent" equipment, the consequent availability of a huge amount of information, the economy of sharing, the dematerialization of processes, three-dimensional printing and solutions in the cloud, are at the basis of a rapid and continuous redefinition of production and distribution maps, made possible by the decline of entry barriers and the emergence of new collaborative ecosystems and innovation.

In this new context Reply, through the exploitation of the investments made in previous years, has managed to position itself among the main players of this transformation with a complete offer aligned to the new needs of the companies, increasingly engaged in digitizing any service or physical good.

Today Reply is among the leaders, both in terms of partnership portfolio and as a network of customers and this allows the group to look with reasonable optimism and serenity to the future months.

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

The financial statements at year ended 2017 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 102,067,710 Euros and net shareholders' equity amounting to 292,110,492 Euros thus formed:

<b>(EUROS)</b>	<b>31/12/2017</b>
Share Capital	4,863,486
Share premium reserve	23,302,692
Legal reserve	972,697
Reserve for treasury shares on hand	24,502
Other reserves	160,879,405
Total share capital and reserves	190,042,782
Net income	102,067,710
<b>Total</b>	<b>292,110,492</b>

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2017 showing a net result of 102,067,710 Euros, proposes that the shareholders resolve:

- to approve the financial statement (Separate Statements) of Reply S.p.A. which records net profit for the financial year of 102,067,710 Euros;
- to approve the motion to allocate the net result of 102,067,710 as follows:
  - › a unit dividend to shareholders amounting to 0,35 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 9 May 2018, coupon cutoff date 7 May 2018 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 8 May 2018;
  - › approving the proposal of attribution to Directors entrusted with operative positions as regards a shareholding in the profits of the Parent Company in accordance with Article 22 of the articles of association, to be established for an overall amount of 2,950,000.00 Euros, corresponding to approximately 2.3% of the consolidated gross operative margin 2017, (before allocation of the shareholding in profits for Directors invested with operative

positions) calculated at 126,194 thousand Euros, which will be paid taking into account the related reserve funds in the financial statement in compliance with that foreseen in the main IAS/FRS international accounts, ratifying as the related allocation in the statement requires.

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*Turin, 13 March 2018*

For the Board of Directors

The Chairman

**Mario Rizzante**