CONSOLIDATED FINANCIAL STATEMENT AS AT 31 DECEMBER 2018

CONSOLIDATED INCOME STATEMENT (*)

(THOUSAND EUROS)	NOTE	2018	2017
Revenues	5	1,035,793	884,434
Other income		14,996	17,672
Purchases	6	(20,513)	(15,269)
Personnel	7	(508,652)	(431,555)
Services and other costs	8	(379,730)	(329,924)
Amortization, depreciation and write-downs	9	(13,848)	(12,353)
Other operating and non-recurring (cost)/income	10	4,364	869
Operating income		**132,410**	**113,873**
(Loss)/gain on investments	11	6,862	(585)
Financial income/(expenses)	12	(55)	(2,978)
Income before taxes		**139,217**	**110,310**
Income taxes	13	(38,230)	(31,765)
Net income		**100,987**	**78,545**
Non controlling interest		(1,075)	(674)
Group net result		**99,913**	**77,871**
Earnings per share and diluted	*14*	*2.67*	*2.08*

(*) Pursuant to Consob Regulation No. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 35.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSAND EUROS)	NOTE	2018	2017
Profit of the period (A)		**100,987**	**78,545**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) from employee benefit plans		634	79
Total Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1):	25	**634**	**79**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		(1,338)	28
Gains/(losses) on exchange differences on translating foreign operations		1,090	(2,155)
Total Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax (B2):		**(249)**	**(2,127)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	25	**385**	**(2,049)**
Total comprehensive income (A)+(B)		**101,373**	**76,496**
Total comprehensive income attributable to:			
Owners of the parent		100,298	75,822
Non-controlling interests		1,075	674

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

(THOUSAND EUROS)	NOTE	31/12/2018	31/12/2017
Tangible assets	15	44,452	21,552
Goodwill	16	243,236	166,132
Other intangible assets	17	14,201	15,525
Equity investments	18	47,512	29,201
Other financial assets	19	5,255	6,385
Deferred tax assets	20	27,299	24,661
Non current assets		**381,955**	**263,457**
Inventories	21	77,061	93,651
Trade receivables	22	434,389	357,082
Other receivables and current assets	23	53,642	45,726
Financial assets	19	997	2,042
Cash and cash equivalents	24	128,060	109,195
Current assets		**694,149**	**607,697**
TOTAL ASSETS		**1,076,104**	**871,154**
Share Capital		4,863	4,863
Other reserves		380,521	318,670
Net result of the period		99,913	77,871
Group shareholders' equity	**25**	**485,297**	**401,404**
Non controlling interest	25	1,315	668
NET EQUITY		**486,612**	**402,072**
Due to minority shareholders and Earn-out	26	45,295	22,275
Financial liabilities	27	24,247	14,102
Employee benefits	28	37,738	31,838
Deferred tax liabilities	29	17,128	18,539
Provisions	30	7,021	13,635
Non current liabilities		**131,430**	**100,388**
Financial liabilities	27	38,258	40,105
Trade payables	31	123,387	100,150
Other current liabilities	32	296,109	228,165
Provisions	30	308	274
Current liabilities		**458,061**	**368,693**
TOTAL LIABILITIES		**589,492**	**469,082**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,076,104**	**871,154**

(*) 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 35.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(THOUSAND EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	TRANSLATION RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	NON-CONTROLLING INTERESTS	TOTAL
On 1 January 2017	**4,863**	**(25)**	**72,836**	**272,007**	**(62)**	**(9,016)**	**(3,586)**	**520**	**337,537**
Dividends distributed	-	-	-	(10,729)	-	-	-	(821)	(11,550)
Total profit (loss	-	-	-	77,871	28	(2,155)	79	674	76,496
Other changes	-	-	-	(707)	-	-	-	296	(411)
On 31 December 2017	**4,863**	**(25)**	**72,836**	**338,442**	**(34)**	**(11,171)**	**(3,508)**	**668**	**402,072**

(THOUSAND EUROS)	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVES	EARNING RESERVES	CASH FLOW HEDGE RESERVE	TRANSLATION RESERVE	RESERVE FOR ACTUARIAL GAINS/(LOSSES)	NON-CONTROLLING INTERESTS	TOTAL
On 1 January 2018	**4,863**	**(25)**	**72,836**	**338,442**	**(34)**	**(11,171)**	**(3,508)**	**668**	**402,072**
Dividends distributed	-	-	-	(13,093)	-	-	-	(650)	(13,743)
Total profit (loss	-	-	-	99,913	(1,338)	1,090	634	1,075	101,373
Other changes	-	-	-	(3,312)	-	-	-	222	(3,090)
On 31 December 2018	**4,863**	**(25)**	**72,836**	**421,950**	**(1,372)**	**(10,081)**	**(2,874)**	**1,315**	**486,612**

CONSOLIDATED STATEMENT OF CASH FLOWS

(THOUSAND EUROS)	2018	2017
Group net income	99,913	77,871
Income taxes	38,230	31,765
Amortization and depreciation	13,848	12,353
Other non-monetary expenses/(income)	(12,166)	(5,862)
Change in inventories	16,589	(35,000)
Change in trade receivables	(62,651)	(17,888)
Change in trade payables	8,527	7,414
Change in other assets and liabilities	49,695	24,816
Income tax paid	(31,765)	(21,826)
Interest paid	(696)	(612)
Interest collected	311	171
Net cash flows from operating activities (A)	**119,835**	**73,202**
Payments for tangible and intangible assets	(30,050)	(14,729)
Proceeds/(payments) for financial assets	1,090	(2,165)
Payments for the acquisition of subsidiaries net of cash acquired	(65,219)	(15,918)
Net cash flows from investment activities (B)	**(94,179)**	**(32,812)**
Dividends paid	(13,751)	(11,550)
Proceed from financial liabilities	45,000	-
Repayment of financial liabilities	(20,821)	(19,245)
Other changes	-	291
Net cash flows from financing activities (C)	**10,428**	**(30,504)**
Net cash flows (D) = (A+B+C)	**36,084**	**9,887**
Cash and cash equivalents at the beginning of period	86,398	76,511
Cash and cash equivalents at period end	122,481	86,398
Total change in cash and cash equivalents (D)	**36,084**	**9,887**

DETAIL OF CASH AND CASH EQUIVALENTS

(THOUSAND EUROS)	2018	2017
Cash and cash equivalents at beginning of period:	**86,398**	**76,511**
Cash and cash equivalents	109,195	92,550
Bank overdrafts	(22,798)	(16,039)
Cash and cash equivalents at period end:	**122,481**	**86,398**
Cash and cash equivalents	128,060	109,195
Bank overdrafts	(5,578)	(22,798)

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION	NOTE 1	General information
	NOTE 2	Accounting principles and basis of consolidation
	NOTE 3	Risk management
	NOTE 4	Consolidation
INCOME STATEMENT	NOTE 5	Revenue
	NOTE 6	Purchases
	NOTE 7	Personnel
	NOTE 8	Services and other costs
	NOTE 9	Amortization, depreciation and write-downs
	NOTE 10	Other operating and non-recurring income/(expenses)
	NOTE 11	(Loss)/gain on investments
	NOTE 12	Financial income/(expenses)
	NOTE 13	Income taxes
	NOTE 14	Earnings per share
STATEMENT OF FINANCIAL POSITION - ASSETS	NOTE 15	Tangible assets
	NOTE 16	Goodwill
	NOTE 17	Other intangible assets
	NOTE 18	Equity Investments
	NOTE 19	Financial assets
	NOTE 20	Deferred tax assets
	NOTE 21	Work-in-progress
	NOTE 22	Trade receivables
	NOTE 23	Other receivables and current assets
	NOTE 24	Cash and cash equivalents
STATEMENT OF FINANCIAL POSITION - LIABILITIES AND EQUITY	NOTE 25	Shareholders' equity
	NOTE 26	Due to minority shareholders and Earn-out
	NOTE 27	Financial liabilities
	NOTE 28	Employee benefits
	NOTE 29	Deferred tax liabilities
	NOTE 30	Provisions
	NOTE 31	Trade payables
	NOTE 32	Other current liabilities
OTHER INFORMATION	NOTE 33	Segment Reporting
	NOTE 34	Additional disclosures to financial instruments and risk management policies
	NOTE 35	Transactions with related parties
	NOTE 36	Emoluments to Directors, Statutory Auditors and Directors with Key responsibilities
	NOTE 37	Guarantees, commitments and contingent liabilities
	NOTE 38	Events subsequent to 31 December 2018
	NOTE 39	Approval of the Consolidated financial statements and authorization to publish

NOTE 1 - GENERAL INFORMATION

Reply [MTA, STAR: REY] specializes in the implementation of solutions based on new communication channels and digital media. Reply, consisting of a network of specialist companies, supports important European industries belonging to the Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration segments, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply offers consultancy, system integration and application management and business process outsourcing (www.reply.com).

NOTE 2 - ACCOUNTING PRINCIPLES AND BASIS OF CONSOLIDATION

COMPLIANCE WITH INTERNATIONAL ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union. The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"). Following the coming into force of European Regulation No. 1606 of July 2002, starting from 1 January, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared in accordance with Consob regulations regarding the format of financial statements, in application of Art. 9 of Legislative Decree 38/2005 and other CONSOB regulations and instructions concerning financial statements.

GENERAL PRINCIPLES

The consolidated financial statement is prepared on the basis of the historic cost principle, modified as requested for the appraisal of some financial instruments for which the fair value criterion is adopted in accordance with IFRS 9.

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 with regards its ability to continue as a going concern.

These consolidated financial statements are expressed in thousands of Euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.
Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

FINANCIAL STATEMENTS

The consolidated 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 Group classifies costs according to their nature, which is deemed to properly represent the Group'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 should be noted that in order to comply with the indications contained in Consob Resolution no. 15519 of 27 July 2006 "as to the format of the financial statements", additional statements: income statement and statement of financial position have been added showing the amounts of related party transactions.

BASIS OF CONSOLIDATION

SUBSIDIARIES

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.
Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Non controlling interest is stated separately with respect to the Group's net equity. Such Non controlling interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post-acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.
Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

BUSINESS COMBINATIONS

Acquisition of subsidiary companies is recognized according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company. In addition, any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognized according with IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance with IFRS 5, which are recognized and measured at fair value less selling costs.
The positive difference between the acquisition costs and Group interest of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.

Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognized.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

INVESTMENTS IN ASSOCIATE COMPANIES

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.
Where a group company transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.
With regard to investments in associated companies held, either directly or indirectly through venture capital or similar entities, in order to realize capital gains, these are carried at fair value. This treatment is permitted by IAS 28 "Investments in Associates", which requires that these investments are excluded from its scope and are designated, from the time of initial recognition, at fair value through profit or loss and accounted for in accordance with IFRS 9 " financial instruments: recognition and Measurement "and any change therein is recognized in profit and loss.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

All significant intercompany balances and transactions and any unrealized gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the company's interest in those entities.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at

the balance sheet date are translated at the exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the income statement.

CONSOLIDATION OF FOREIGN ENTITIES

All assets and liabilities of foreign consolidated companies with a functional currency other than the Euro are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment. Average rates of exchange are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recorded in the relevant functional currency of the foreign entity and are translated using the period end exchange rate. In the context of IFRS First-time Adoption, the cumulative translation difference arising from the consolidation of foreign operations was set at nil, as permitted by IFRS 1; gains or losses on subsequent disposal of any foreign operation only include accumulated translation differences arising after 1 January 2004.

The following table summarizes the exchange rates used in translating the 2018 and 2017 financial statements of the foreign companies included in consolidation:

	AVERAGE 2018	ON 31 DECEMBER 2018	AVERAGE 2017	ON 31 DECEMBER 2017
GBP	0.88471	0.89453	0.87615	0.88723
Brazilian Real	4.3085	4.444	3.6041	3.9729
Rumanian Leu	4.654	4.6635	4.5687	4.6585
Belarusian Ruble	2.4057	2.473	2.1837	2.3659
US Dollar	1.181	1.145	1.1293	1.1993
Chinese Yuan	7.8081	7.8751	7.6264	7.8044
Polish Zloty	4.2615	4.3014	4.2563	4.177
Kuna	7.4182	7.4125	7.4644	7.44

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.
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:

Buildings	3%
Equipment	30%
Plants	40%
Hardware	40%
Furniture and fittings	24%

The recoverable value of such assets is determined through the principles set out in IAS 36 and outlined in the paragraph “Impairment” herein.
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.
Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as a debt. The assets are amortized over their estimated useful life or over the duration of the lease contract if lower.
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 Group’s interest at the time of acquisition, after having recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their fair value.

Goodwill is not amortized but is (tested for impairment) annually or more frequently if 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.
On disposal of a subsidiary or associate, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

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 Group'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 in the statement of income in the period in which they are incurred.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

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; in accordance with IAS 36 criteria, 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 Group 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 Group 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 at 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.
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.

Where the 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.

INVESTMENTS IN OTHER COMPANIES

nvestments in other companies that are available-for-sale financial assets are measured at fair value, when this can be reliably determined. Gains or Losses arising from change in fair value are recognized in Other comprehensive income/(losses) until the assets are sold or are impaired, at that time, the cumulative Other comprehensive income/(losses) are recognized in the Income Statement. Investments in other companies for which fair value is not available are stated at cost less any impairment losses.
Dividends received are included in Other income/(expenses) from investments.

In the event of write-down for impairment, the cost is recognized in the income statement; the original value is restored in subsequent years if the assumptions for the write-down no longer exist.

The risk resulting from possible losses beyond equity is entered in a specific provision for risks to the extent to which the Parent Company is committed to fulfil its legal or implicit obligations towards the associated company or to cover its losses.

CURRENT AND NON CURRENT FINANCIAL ASSETS

Financial assets are recognized in the Group's balance sheet when the Group 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 Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured and amortized at cost according to the prevailing market interest rate method, less any impairment loss recognized to

reflect irrecoverable amounts.

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 Group removes financial assets from its balance sheet when, and only when, the contractual rights to the cash flows from the assets expire or the Group transfers the financial asset. In the case of transfer of the financial asset

- if the entity substantially transfers all the risks and rewards of ownership of the financial asset, the Group removes the asset from the balance sheet and recognizes separately as assets or liabilities any rights and obligations created or retained with the transfer;
- if the Group substantially retains all the risks and rewards of ownership of financial assets, it continues to recognize the financial asset;
- if the Group neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset, it determines whether or not it has retained control of the financial asset. In this case:
  - if the Group has not retained control, it removes the asset from its balance sheet and separately recognizes as assets or liabilities any rights and obligations created or retained in the transfer;
  - if the Group has retained control, it continues to recognize the financial asset to the extent of its residual involvement in the 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 assets is recognized in the income statement.

WORK IN PROGRESS

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as

proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities. Product inventories are stated at the lower of cost and net realizable value. Cost comprises direct material and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

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

The item cash and cash equivalents includes cash, banks, 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. The original cost of treasury shares and proceeds of any subsequent sale are presented as movements in equity.

FINANCIAL LIABILITIES AND EQUITY INVESTMENTS

Financial liabilities and equity instruments issued by the Group 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 Group'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

In accordance with IFRS 9, 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 IFRS 9 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 the Group's contractual commitments and forecast transactions are recognized directly in Shareholders' equity, while any ineffective portion is recognized immediately 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.
Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly related to the underlying contractual obligation and the latter are not stated at fair value with recognition of 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 Consolidated 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.
For Italian companies with less than 50 employees, severance pay (“TFR”) remains a “post-employment benefit”, of the “defined benefit plan” type, whose already matured amount must be planned to estimate the amount to settle at the time of annulment of working relations and

subsequently updated, using the “Projected unit credit method”. Such actuarial methodology is based on an assumption of demographic and financial nature in order to carry out a reasonable estimate of the amount of benefits that each employee had already matured based on his employment performances.
Through actuarial valuation, current service costs are recognized as “personnel expenses” in the Income Statement and represent the amount of rights matured by employees at the reporting date, and the interest cost is recognized as “Financial gains or losses” and represents the figurative expenditure 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 without being ever included in the consolidated income statement.

PENSION PLANS

According to local conditions and practices, some employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.

In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.
The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the Income Statement is determined on an actuarial basis using the “ongoing single premiums” method. The portion of net cumulative actuarial gains and losses which exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.

The post-employment benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, arising from the application of the corridor method and past service costs to be recognized in future years, reduced by the fair value of plan assets.

SHARE-BASED PAYMENT PLANS

The Group 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 over the "vesting period". The fair value of the option, measured at the granting date, is measured through actuarial calculations, taking into account the terms and conditions of the options granted. Following the exercise of the options assigned in previous years, the Group has no more stock option plans.
For cash-settled share-based payment transactions, the Group measures the goods and services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with the changes in value recognized in profit or loss for the period.

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 Group 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 Group and the revenue can be measured reliably.
Revenue from sales and services is recognized when control over the goods or services is transferred to the customer.
Revenues from sales of products are recognized when control over the goods is 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.

GOVERNMENT GRANTS

Government grants are recognized in the financial statements when there is reasonable assurance that the company concerned will comply with the conditions for receiving such grants and that the grants themselves will be received. Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.

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 Group 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.

DIVIDENDS

Dividends are entered in the accounting period in which distribution is approved.

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 goodwill and due for Earn-out, 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 ACCOUNTING PRINCIPLES

The accounting principles newly adopted by the Group and their outcomes are described in the subsequent paragraph "Accounting principles, amendments and interpretations applied since 1 January 2018". There have been no further changes other than those described in the aforementioned paragraph.

CHANGES IN ACCOUNTING ESTIMATES AND RECLASSIFICATIONS

At the reporting date, there are no significant estimates regarding the unforeseeable outcome of future events and other causes of uncertainty that might result in significant adjustments being made to the value of assets and liabilities in the coming year.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED SINCE JANUARY 1ST, 2018

The Group adopted for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.
The nature and the impact of each amendment is described below:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.
There is no effect of adopting IFRS 15 over the Group.

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.
Revenue from sales and services is recognized when control over the goods or services is transferred to the customer.
Revenues from sales of products are recognized when control over the goods is 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.

Work in progress mainly comprise construction contracts; when the result of a specific order can be reliably estimated, proceeds and costs referable to the related order are indicated as proceeds and costs respectively in relation to the state of progress of activities on the date of closure of the financial statement, based on the relationship between costs sustained for

activities taking place up to the date of the financial statement and total costs estimated from the order, except for that which is not considered as representative of the state of progress of the order.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued; the exceeding amounts are accounted as liabilities.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.
There are no effects of adopting IFRS 15 over the Group.

a) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

› Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Loans included under Other non-current financial assets.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognized under accumulated OCI, was reclassified to Retained earnings.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognized in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-

financial host contracts has not changed from that required by IAS 39.

b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group's debt instruments at FVOCI comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 did not result in a significant impact in impairment allowances of the Group's debt financial assets.

c) Hedge accounting

The Group applied hedge accounting prospectively. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing

hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's financial statements.
Under IAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of IFRS 9, the Net gain or loss on cash flow hedges was presented under 'Other comprehensive income not to be reclassified to profit or loss in subsequent periods'. This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the presentation of comparative figures.

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

AMENDMENTS TO IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

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 Group's accounting policy for cash-settled share based payments is

consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

AMENDMENTS TO IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES - CLARIFICATION INVESTEES AT FAIR VALUE THROUGH PROFIT OR LOSS IS AN INVESTMENT-BY-INVESTMENT CHOICE THAT MEASURING

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable when they become effective.

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.
The Group will apply these amendments when they become effective.

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 will be effective for annual periods beginning on or after 1 January 2019. Anticipated application is allowed, but not before the entity has adopted IFRS 15. A lessee may choose to apply IFRS 16 using a retrospective approach or a modified retrospective approach. Transitional rules provided by IFRS 16 require some facilities.
The main impacts on the consolidated financial statements of the Group, which are still being assessed and refined, may be summarized as follows:

- Statements of financial position: higher non-current assets due to the recognition of “Right of Use” as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be recognized between 82 and 92 million euros during the transition.
- Separate income statements: a positive impact on EBITDA, due to the different nature, description, and classification of expenses (the amortization of “user rights for the asset” and “financial expense for interest” instead of “Lease and rental costs – payments for operating leases”, as per IAS 17), between 2.0 and 2.5 percentage points. Furthermore, the combination of the straight-line amortization of “user rights for the asset” and the application of the effective interest rate method for lease liabilities will result in higher total income statement expenses in the first few years, compared to IAS 17, and decreasing total expenses in the last years of the lease.
- Statements of Cash Flows: lease payments for the principal of the debt repayment will be reclassified from "Cash flows from operating activities" to "Cash flows from financing activities".

The process of implementing the new accounting standard requires significant updates and modifications on the IT systems, modification and updating of the control and compliance models and of their processes. The impacts are based on the results of the analyses at the date of these financial statements and may change as the implementation process is still ongoing.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts

the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is

recognized in profit or loss.
An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.
The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.
These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.
The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those

amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

NOTE 3 - RISK MANAGEMENT

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 companies are monitored and centrally managed under the control of the Group Treasury. The aim is to guarantee the efficiency and effectiveness of the management of current and perspective capital resources (maintaining an adequate level of reserves of liquidity and availability of funds via a suitable amount of committed credit lines).
The difficult economic situation of the markets and of financial markets necessitates special attention being given to the management of the liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through

operations and 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.

NOTE 4 - CONSOLIDATION

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

Change in consolidation compared to 31 December 2017 are related to:

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

products on social channels.

Change in the consolidation does not significantly affect the Group's revenues and profits before tax on 31 December 2018 (approximately 3.5% and 2.0% respectively on revenues and profits before tax).

Furthermore, the list of the Reply Group's companies and equity investments, presented as an annex herein, also includes in consolidation the following newly incorporated companies with respect to 31 December 2018:

- Sprint Reply S.r.l., a company incorporated in the month of December 2017 under Italian law of which Reply S.p.A. holds 100% of the share capital;
- Go Reply GmbH, a company incorporated in the month of January 2018 under German law in which the subsidiary Reply AG holds 100% of the share capital;
- Portaltech Reply Sud GmbH, a company incorporated in the month of January 2018 under German law in which the subsidiary Reply AG holds 100% of the share capital;
- Envision Reply S.r.l., a company incorporated in the month of March 2018 under Italian law of which Reply S.p.A. holds 88% of the share capital.

NOTE 5 - REVENUE

Revenues from sales and services, including changes in work in progress on orders, amounted to 1,035,793 thousand Euros (884,434 thousand Euros in 2017).
This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.

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

REGION (*)	2018	2017
Region 1	68.5%	68.2%
Region 2	19.8%	17.9%
Region 3	11.5%	13.7%
IoT Incubator	0.2%	0.2%
Total	**100.0%**	**100.0%**

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

Disclosure required by IFRS 8 (“Operating segment”) is provided in Note 33 herein.

NOTE 6 - PURCHASES

Detail is as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
Software licenses for resale	12,109	8,982	3,127
Hardware for resale	2,686	933	1,752
Other	5,718	5,353	364
Total	**20,513**	**15,269**	**5,244**

Purchases of Software licenses and Hardware licenses for resale are recognized net of any change in inventory.

The item Other includes the purchase of fuel for 2,801 thousand Euros and the purchase of consumption material for 1,259 thousand Euros.

NOTE 7 - PERSONNEL

Detail is as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
Payroll employees	472,132	405,656	66,475
Executive Directors	36,520	25,899	10,621
Total	**508,652**	**431,555**	**77,097**

The increase in the cost of employees, amounting to 77,097 thousand Euros, is attributable to the total registered increase in the Group's business and in the increase in employees.

Detail of personnel by category is provided below:

(NUMBER)	2018	2017	CHANGE
Directors	262	234	28
Managers	847	726	121
Staff	6,497	5,496	1,001
Total	**7,606**	**6,456**	**1,150**

On 31 December 2018 the Group had 7,606, employees compared with 6,456 at the end of 2017.

Change in consolidation brought an increase of 520 employees.

The average number of employees in 2018 was 7,041 marking an increase with respect to 6,291 in the previous year.

Payroll employees comprise mainly electronic engineers and economic, computer science, and business graduates from the best Universities.

NOTE 8 - SERVICES AND OTHER COSTS

Services and other costs comprised the following:

(THOUSAND EUROS)	2018	2017	CHANGE
Commercial and technical consulting	227,064	200,952	26,112
Travelling and professional training expenses	37,269	30,922	6,347
Other services costs	65,016	54,365	10,651
Office expenses	27,776	24,979	2,797
Lease and rentals	8,547	8,370	176
Other	14,059	10,336	3,723
Total	**379,730**	**329,924**	**49,806**

The change in Services and other costs, amounting to 49,806 Euros, is attributable to an overall increase in the Group's business.

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

Office expenses include services rendered by third parties for 492 thousand Euros and related parties for 1,098 thousand Euros, in connection to service contracts for the use of premises, domiciliation and provision of secretarial services, and rent charged by third parties for 18,220 thousand Euros. This item also includes utility expense for 4,960 thousand Euros.

NOTE 9 - AMORTIZATION, DEPRECIATION AND WRITE DOWNS

Depreciation of tangible assets, calculated on the basis of economic-technical rates determined in relation to the residual useful lives of the assets, resulted in an overall charge as at 31 December 2018 of 8,379 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

Amortization of intangible assets for the year ended 2018 amounted to an overall loss of 5,469 thousand Euros. Details of depreciation are provided in the notes to tangible assets.

NOTE 10 - OTHER OPERATING AND NON-RECURRING INCOME/ (EXPENSES)

Other operating and non-recurring income amounted to 4,364 thousand Euros (869 thousand Euros in 2017) and refer to:

- other operating income amounting to 2,942 thousand Euros in relation to write-offs of provision and write-off of provisions made to adjust asset items;
- other non-recurring items amounting to positive 1,422 thousand Euros in relation to the fair value adjustment of the liability referred to the deferred consideration for the acquisition of shareholdings in subsidiary companies (Business combination).

NOTE 11 - (LOSS)/GAIN ON INVESTMENTS

This item amounting to positive 6,862 thousand Euros is related to:

- the fair value of investments resulting in a gain of 11,450 thousand Euros;
- impairment of investments in the amount of 4,588 thousand Euros.

NOTE 12 - FINANCIAL INCOME/(EXPENSES)

Detail is as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
Financial income	361	401	(40)
Interest expenses	(1,224)	(816)	(408)
Other	808	(2,563)	3,371
Total	**(55)**	**(2,978)**	**2,923**

Financial gains mainly include interest on bank accounts amounting to 311 thousand Euros.
Interest expenses mainly include expenses related to loans for M&A operations.

The item Other includes:

- the Exchange rate differences from the translation of balance sheet items not stated in Euros in a net income of 30 thousand Euros;
- the net changes in fair value of Convertible Loans including capitalized interest amounting to 1,024 thousand Euros;
- the changes in fair value of financial liabilities pursuant to IFRS 9 in a net loss of 158 thousand Euros.

NOTE 13 - INCOME TAXES

Income taxes for the financial year ended 2018 amounted to 38,230 thousand Euros and is detailed as follows:

(THOUSAND EUROS)	2018	2017	CHANGE
IRES and other taxes	38,412	35,668	2,743
IRAP (Italy)	5,812	5,376	435
Current taxes	**44,223**	**41,045**	**3,179**
Deferred tax expenses	452	794	(342)
Deferred tax income	(5,997)	(9,841)	3,844
Deferred taxes	**(5,545)**	**(9,046)**	**3,501**
Previous year taxes	(448)	(233)	(215)
Total income taxes	**38.230**	**31.765**	**6.465**

The tax burden on the result before taxes was equivalent to 27.5% (28.8% in the financial year of 2017).

The reconciliation between the tax charges recorded in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rate in effect in Italy, is the following:

PROFIT/(LOSS) BEFORE TAXES FROM CONTINUING OPERATIONS	**139,217**	
Theoretical income taxes	33,412	24.0%
Effect of fiscal permanent differences	(1,973)	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	978	
Other differences	1	
Current and deferred income tax recognized in the financial statement excluding IRAP	**32,418**	**23.3%**
IRAP current and deferred	5,812	4.2%
Current and deferred income recognized in the financial statements	**38,230**	**27.5%**

In order to render the reconciliation between income taxes recognized in the financial statements and theoretical income taxes more meaningful, IRAP tax is not taken into consideration since it has a taxable basis that is different from the result before tax of continuing operations. Theoretical income taxes are therefore calculated by applying only the tax rate in effect in Italy ("IRES"), equal to 24.0%, on the result before tax of continuing operations.

NOTE 14 - EARNINGS PER SHARE

The basic and diluted earnings per share as at 31 December 2018 was calculated on the basis of the Group's net result amounting to 99,913 thousand Euros (77,871 thousand Euros as at 31 December 2017) divided by the weighted average number of shares, net of treasury shares, as at 31 December 2018 which amounted to 37,407,400 (37,407,400 as at 31 December 2017).

(EUROS)	**2018**	**2017**
Group net result	99,913,000	77,871,000
Average no. shares	37,407,400	37,407,400
Earnings per share	2.67	2.08

NOTE 15 - TANGIBLE ASSETS

Tangible assets as at 31 December 2018 amounted to 44,452 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Buildings	18,480	2,067	16,413
Plant and machinery	3,868	3,419	448
Hardware	6,134	4,877	1,258
Other	15,970	11,189	4,781
Total	**44,452**	**21,552**	**22,900**

Change in tangible assets during 2018 is summarized below:

(THOUSAND EUROS)	BUILDINGS	PLANT AND MACHINERY	HARDWARE	OTHER	TOTAL
Historical Cost	4,469	10,900	31,807	24,958	72,134
Accumulated depreciation	(2,402)	(7,480)	(26,931)	(13,769)	(50,581)
31/12/2017	**2,067**	**3,419**	**4,877**	**11,189**	**21,552**
Historical Cost					
Increases	16,566	1,736	4,269	7,203	29,774
Disposals	-	(104)	(549)	(1,024)	(1,677)
Change in consolidation	-	190	1,802	2,067	4,059
Other changes	6	-	(69)	(47)	(111)
Accumulated depreciation					
Depreciation	(154)	(1,448)	(3,613)	(3,164)	(8,379)
Utilized	-	63	435	228	726
Change in consolidation	-	-	(1,213)	(482)	(1,694)
Other changes	(5)	11	196	(1)	201
Historical Cost	21,041	12,722	37,260	33,157	104,180
Accumulated depreciation	(2,561)	(8,854)	(31,126)	(17,187)	(59,728)
31/12/2018	**18,480**	**3,868**	**6,134**	**15,970**	**44,452**

During the financial year the Group carried out total investments 29,774 thousand Euros (10,871 thousand Euros at 31 December 2017).

The item Buildings mainly includes the net value of a building owned by the group amounting to 4,073 thousand Euros, located in Gutersloh, Germany. In 2018 the Group has invested approximately 2,304 thousand Euros to extend the office spaces.

In the month of April 2018 Reply finalized the acquisition of the real estate complex located in Turin and called “ex Caserma De Sonnaz” in the amount of 13,100 thousand Euros. The property, after proper innovation, will be used to host the offices of the Group.

Increase in the item Plant and machinery mainly refers to purchases of general devices and to plant systems for the offices in which the Group operates. In addition, this item includes financial leases for 315 thousand Euros.

Change in the item Hardware is due to investments made by companies included in Region 1 for 1,892 thousand Euros, 1,834 thousand Euros for purchases made by the companies included in Region 2 and 543 thousand Euros for purchases made by the companies included in Region 3. Furthermore, this item includes financial leases for 137 thousand Euros (389 at 31 December 2017).

The item Other as at 31 December 2018 mainly includes improvements to third party assets and office furniture. The increase of 7,203 thousand Euros mainly refers to the purchase of furniture and fittings for 3,235 thousand Euros and to improvements made to the offices where the Group’s companies operate for 2,539 thousand Euros. Such item also includes a financial leasing for furniture for a net value amounting to 793 thousand Euros (1,399 thousand Euros at 31 December 2017).

Other changes mainly refer to translation differences.

As at 31 December 2018 tangible assets were depreciated by 57.3% of their value, compared to 70.1% at the end of 2017.

NOTE 16 - GOODWILL

This item includes goodwill arising from consolidation of subsidiaries and the value of business branches purchased against payment made by some Group companies.

Goodwill in 2018 developed as follows:

(THOUSAND EUROS)	
Beginning balance	**166,132**
Increases	75,259
Other changes	2,371
Impairment	-
Total	**243,762**
Exchange rate differences	(526)
Ending balance	**243,236**

Increase in Goodwill compared to 31 December 2017 owes to:

- the acquisition of Valorem, a company incorporated under American law (Region 1) by Reply Inc.;
- the acquisition of Modcomp GmbH, and its subsidiaries CSPi GmbH (now named Spike GmbH) and MCG Systems AG, companies incorporated under German law, acquired by the subsidiary Reply AG;
- the acquisition of Elbkind GmbH, a company incorporated under German law, acquired by the subsidiary Reply AG.

The following table summarizes the calculation of goodwill and the aggregate book value of the companies as at the acquisition date.

(THOUSAND EUROS)	FAIR VALUE (*)
Tangible and intangible assets	5,374
Trade receivables and other current assets	14,656
Cash and cash equivalents	3,807
Financial liabilities, net	36
Trade payables and other current liabilities	(14,710)
Deferred tax liabilities, net	437
Net assets acquires	**9,600**
Transaction value	84,859
Goodwill	**75,259**

(*) book value is equal to fair value

At 31 December 2018 no impairment indicators were emerged.

Goodwill was allocated to the cash generating units ("CGU"), identified in the Region in which the Group operates. Moreover, the breakdown reflects the business management of the Group by Top Management and is summarized as follows:

(THOUSAND EUROS)	AT 31/12/2017	INCREASES	OTHER MOVEMENTS	TRANSLATION DIFFERENCES	AT 31/12/2018
Region 1	48,252	39,351	2,371	-	89,974
Region 2	63,984	35,908	-	-	99,892
Region 3	53,895	-	-	(526)	53,369
Total	**166,132**	**75,259**	**2,371**	**(526)**	**243,236**

Reply has adopted a structured and periodic planning and budgeting system aimed at defining objectives and business strategies in order to draft the annual budget.

The impairment model adopted by the Reply Group is based on future cash flows calculated using the Discounted cash flow analysis.

In applying this model, Management uses different assumptions, which are applied to the single CGU over two years of extrapolation subsequent to the annual budget, in order to estimate:

- Increase in revenues,
- Increase in operating costs,
- Investments,
- Change in net capital.

The recoverable value of the CGU, to which the single goodwill is referred, is determined as the highest between the fair value less any selling costs (net selling price) and the present value of the estimated future cash flows expected from the continuous use of the good (value in use). If the recoverable value is higher than the carrying amount of the CGU there is no impairment of the asset; in the contrary case, the model indicates a difference between the carrying amount and the recoverable value as the effect of impairment.

The following assumptions were used in calculating the recoverable value of the Cash Generating Units:

ASSUMPTION	REGION 1	REGION 2	REGION 3
Terminal value growth rates:	1%	1%	1%
Discount rate, net of taxes:	8.42%	5.91%	7.13%
Discount rate, before taxes:	11.09%	8.44%	8.80%
Multiple of EBIT	10.0	10.0	10.0

As to all CGUs subject to the impairment tests at 31 December 2018 no indications emerged that such businesses may have been subject to impairment.
The positive difference between the value in use thus estimated on the accounting value of the net invested capital on 31 December 2018 of the CGU is equal to 274.2% for Region 1, 223.1% for Region 2 and 49.7% for Region 3.

Reply has also developed a sensitivity analysis of the estimated recoverable value. The Group considers that the growth rate of revenues and the discount rate are key indicators in estimating the fair value and has therefore determined that:

- a decrease of up to 30% of the revenue growth;
- an increase of 100 basis points in the discount rate.

This analysis would not lead to an excess of the carrying value of the CGU compared to its recoverable value, which tends to be significantly higher.

Finally, it is appropriate to note that the estimates and budget data to which the above mentioned parameters have been applied are those determined by management on the basis of past performance and expectations of developments in the markets in which the Group operates. Moreover, estimating the recoverable amount of the Cash-Generating Units requires discretion and the use of estimates by Management. The Group cannot guarantee that there will be no goodwill impairment in future periods. Circumstances and events which could potentially cause further impairment losses are constantly monitored by Reply management.

NOTE 17 - OTHER INTANGIBLE ASSETS

Net intangible assets as at 31 December 2018 amounted to 14,201 thousand Euros (15,525 thousand Euros on 31 December 2017) and are detailed as follows:

(THOUSAND EUROS)	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE 31/12/2018
Development costs	28,524	(23,940)	4,584
Software	26,270	(22,459)	3,811
Trademark	537	-	537
Other intangible assets	7,944	(2,675)	5,270
Total	**63,275**	**(49,074)**	**14,201**

Change in intangible assets during 2018 is summarized in the table below:

(THOUSAND EUROS)	NET BOOK VALUE 31/12/2017	INCREASES	AMORTIZATION	CHANGE IN CONSOLIDATION	OTHER CHANGES	NET BOOK VALUE 31/12/2018
Development costs	6,032	1,615	(3,063)	-	-	4,584
Software	3,242	1,381	(1,566)	568	186	3,811
Trademark	537	-	-	-	-	537
Other intangible assets	5,716	136	(841)	436	(178)	5,270
Total	**15,525**	**3,132**	**(5,469)**	**1,004**	**8**	**14,201**

Development costs refer to software products and are accounted for in accordance with provisions of IAS 38.
The item Software mainly refers to software licenses purchased and used internally by the Group companies. This item includes 817 thousand Euros related to software development for internal use.
The item Trademark mainly refers to the value of the “Reply” trademark granted on 9 June 2000 to the Parent Company Reply S.p.A. (at the time Reply Europe Sàrl), in connection with the share capital increase that was resolved and subscribed to by the Parent Company. Such amount is not subject to systematic amortization.
The item Other intangible assets is related to the consolidation difference (Purchase price allocation) following several Business combinations related to previous years.

NOTE 18 - EQUITY INVESTMENTS

The item Equity investments amounts to 47,512 thousand Euros and includes for 9 thousand Euros several subsidiary companies that were not consolidated as they were not operational at the closing date and for 47,503 to investments in start-up companies in the IoT field made by the Investment company Breed Investments Ltd.

Note that the investments in equity investments mainly held through an Investment Entity are designated at fair value and accounted for in accordance with IFRS 9 “Financial Instruments: Recognition and Measurement”. The fair value is determined using the International Private Equity and Venture Capital valuation guideline (IPEV) and any change therein is recognized in profit (loss) in the period in which they occurred.
Detail is as follows:

(THOUSAND EUROS)	VALUE AT 31/12/2017	NEW INCREASES 2018	FOLLOW-ON INVESTMENTS	NET FAIR VALUE ADJUSTMENTS	DECREASES	CONVERTIBLE LOANS CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2018
Investments	29,186	5,644	5,007	6,862	(1,125)	1,994	(66)	47,503

NEW INCREASES 2018

The increases of the period are related to:

TAG SENSORS (1,071 thousand Euros)

Tag Sensors have developed the first low-cost, full visibility solution that ensures and proves that temperature sensitive foods and pharmaceutical products have been stored and transported within the temperature limits, from production to consumption. Through optimal monitoring, data analysis, and management of temperatures and other variables of perishable goods during transportation, TAG Sensors enables food and pharmaceutical corporations to improve quality control and better prevent spoilage.

METRON SAS (1,870 thousand Euros)

The digitalization of industries and the development of fully distributed energy systems foster the emergence of the Internet of Energy. METRON opens the way for this new paradigm by helping industrial clients leverage untapped industrial data and connect to decentralized energy resources. METRON Energy Virtual Assistant analyses data generated by industrial systems in real-time and offers a deep understanding of complex energy patterns. Factories become energy transparent: advanced optimizations are operated directly by the platform according to the context and tangible energy savings ensure robust paybacks in all industries.

CAGE EYE (1,472 THOUSAND EUROS)

CageEye, headquartered in Oslo, has developed a technology that combines a hydroacoustic system that measures the behavior and appetite level of the biomass (fish) with continuous extensive analytics, enabling farmers to make informed decisions based on new insights; the easy-to-install solutions, developed in collaboration with the Norwegian Institute of Marine Research, delivers automated, appetite-controlled feeding that can substantially reduce feed waste - a significant cost for producers. Some of the world's leading salmon producers in Norway are already benefiting from the system and CageEye has identified opportunities to expand the use of the technology in Canada, Chile, Tasmania and Scotland, as well as with other aquaculture species.

UBIRCH (1,231 THOUSAND EUROS)

Ubirch, based in Cologne and Berlin, has built a process that enables a continuous chain of security and confidentiality for the collection, handling, and storage of data. This chain begins with an extreme lightweight blockchain client that can be operated on any IoT sensor, even on batteries. Each sensor that runs this protocol has a private key that generates a digital signature for every measurement that is being transmitted, thus both identity and integrity of the IoT data can be verified by anyone on the receiver side. The Ubirch solution, which is hardware agnostic, enables a wide range of IoT applications for infrastructures, buildings, machines, and devices with clients in the insurance, telecoms and manufacturing industries.

FOLLOW-ON INVESTMENTS

The increase is related to follow-on investments already existing at December 31, 2017.

NET FAIR VALUE ADJUSTMENTS

The net fair value adjustment amounting to 6,862 thousand Euros reflects the market values of the last rounds that took place in 2018 on investments already in portfolio.

CONVERTIBLE LOANS CONVERSION

The increase is related to the conversion of Convertible Loans in shares of several equity investments.

All fair value assessments shall be part of the hierarchy level 3.

NOTE 19 - FINANCIAL ASSETS

Current and non-current financial assets amounted to a total of 6,253 thousand Euros with compared to 8,427 thousand Euros as at 31 December 2017.

Detail is as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Receivables from insurance companies	3,127	3,242	(116)
Guarantee deposits	1,115	1,275	(160)
Financial receivables from not consolidated subsidiaries	300	-	300
Other financial assets	32	15	17
Convertible loans	982	1,853	(871)
Short term securities	697	2,042	(1,345)
Total	**6,253**	**8,427**	**(2,175)**

The item Receivables from insurance companies mainly refers to the insurance premiums paid against pension plans of some German companies and to directors' severance indemnities.

Convertible loans relate to the option to convert into shares of the following start-up company in the field of IoT, detail is as follows:

(THOUSAND EUROS)	VALUE AT 31/12/2017	INCREASES	CAPITALIZED INTERESTS	NET FAIR VALUE ADJUSTMENTS	DECREASES	EQUITY CONVERSION	EXCHANGE DIFFERENCES	VALUE AT 31/12/2018
Convertible loans	1,853	634	83	941	(502)	(1,994)	(32)	**982**

INCREASES

The amount is referred to new investments in convertible loans during the year.

NET FAIR VALUE EVALUATION

The net fair value adjustments reflect the market value of the activities.

CONVERSION IN EQUITY

The decrease is related to the conversion of the loans into equity investments inclusive of fair value adjustments.

Short term securities mainly refer to Time Deposit investments.

Note that the items Receivables from insurance companies, Convertible loans, guarantee deposits and Other financial assets are not shown in Net financial position.

NOTE 20 - DEFERRED TAX ASSETS

Deferred tax assets, amounting to 27,299 thousand Euros as at 31 December 2018 (24,661 thousand Euros as at 31 December 2017), include the fiscal charge corresponding to the temporary differences originating among the anti-tax result and taxable income relating to entries with deferred deductibility.

Detail of Deferred tax assets is provided at the table below:

(THOUSAND EUROS)	31/12/2017	ACCRUALS	UTILIZATION	OTHER MOVEMENTS	31/12/2018
Prepaid tax on costs that will become deductible in future years	6,355	942	(898)	901	7,300
Prepaid tax on greater provisions for doubtful accounts	7,508	978	(2,044)	-	6,442
Deferred fiscal deductibility of amortization	1,714	331	(245)	-	1,799
Consolidation adjustments and other items	9,085	7,517	(2,476)	(2,368)	11,758
Total	**24,661**	**9,768**	**(5,663)**	**(1,467)**	**27,299**

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 21 - WORK IN PROGRESS

Work in progress, amounting to 77,061 thousand Euros, is detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Contract work in progress	131,663	279,489	(147,826)
Advance payments from customers	(54,602)	(185,838)	131,236
Total	**77,061**	**93,651**	**(16,589)**

Any advance payments made by the customers are deducted from the value of the inventories, within the limits of the accrued consideration; the exceeding amounts are accounted as liabilities.

NOTE 22 - TRADE RECEIVABLES

Trade receivables as at 31 December 2018 amounted to 434,389 thousand Euros with a net increase of 77,306 thousand Euros.

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Domestic clients	324,047	271,043	53,004
Foreign trade receivables	120,511	89,519	30,992
Credit notes to be issued	(4,440)	(498)	(3,942)
Total	**440,118**	**360,064**	**80,054**
Allowance for doubtful accounts	(5,729)	(2,982)	(2,748)
Total trade receivables	**434,389**	**357,082**	**77,306**

Trade receivables are shown net of allowances for doubtful accounts amounting to 5,729 thousand Euros on 31 December 2018 (2,982 thousand Euros at 31 December 2017).

The Allowance for doubtful accounts developed in 2018 as follows:

(THOUSAND EUROS)	31/12/2017	ACCRUALS	UTILIZATION	REVERSAL	31/12/2018
Allowance for doubtful accounts	2,982	3,823	(537)	(539)	5,729

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2017, are summarized in the tables below:

AGING AT 31/12/2018

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	440,118	394,432	37,786	2,719	2,281	2,901	45,687
Allowance for doubtful accounts	(5,729)	(229)	(160)	(1,146)	(1,776)	(2,406)	(5,489)
Total trade receivables	**434,389**	**394,203**	**37,625**	**1,573**	**505**	**495**	**40,198**

AGING AT 31/12/2017

(THOUSAND EUROS)	TRADE RECEIVABLES	CURRENT	0 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL OVERDUE
Trade receivables	360,064	319,343	34,490	3,797	1,787	647	40,721
Allowance for doubtful accounts	(2,982)	-	(700)	(399)	(1,287)	(596)	(2,982)
Total trade receivables	**357,082**	**319,343**	**33,790**	**3,399**	**500**	**50**	**37,739**

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

Trade receivables are all collectible within one year.

NOTE 23 - OTHER RECEIVABLES AND CURRENT ASSETS

Detail is as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Tax receivables	21,486	24,227	(2,741)
Advances to employees	125	349	(224)
Accrued income and prepaid expenses	18,590	11,762	6,828
Other receivables	13,441	9,388	4,053
Total	**53,642**	**45,726**	**7,915**

The item Tax receivables mainly includes:

- credits to the Treasury for VAT (16,812 thousand Euros);
- income tax prepayments net of the allocated liability (1,722 thousand Euros);
- receivables for withholding tax (479 thousand Euros).

The item Other receivables mainly includes the contributions receivable in relation to research projects for 6,742 thousand Euros (6,653 thousand Euros at 31 December 2017).

NOTE 24 - CASH AND CASH EQUIVALENTS

The balance of 128,060 thousand Euros, with an increase of 18,864 thousand Euros compared with 31 December 2017, represents cash and cash equivalents as at the end of the year.

Changes in cash and cash equivalents are fully detailed in the Consolidated statement of cash flow.

NOTE 25 - SHAREHOLDERS' EQUITY

SHARE CAPITAL

On 31 December 2018 the share capital of Reply S.p.A, wholly undersigned and paid up, was amounting to 4,863,486 Euros and is composed of n. 37,411,428 ordinary shares with nominal value of 0.13 Euros each.

CAPITAL RESERVES

The value of the Treasury shares, amounting to 25 thousand Euros, refers to the shares of Reply S.p.A. held by the parent company, that at 31 December 2018 were equal to n. 4,028.

CAPITAL RESERVES

On 31 December 2018 Capital reserves, amounting to 72,836 thousand Euros, were mainly comprised as follows:

- Share premium reserve amounting to 23,303 thousand Euros;
- Treasury share reserve amounting to 25 thousand Euros, relating to the shares of Reply

S.p.A held by the Parent Company;

- Reserve for the purchase of treasury shares amounting to 49,976 thousand Euros, formed via initial withdrawal from the share premium reserve. By means of a resolution of the Shareholders' Meeting of 23 April 2018 Reply S.p.A. re-authorized it, in accordance with and for the purposes of Article 2357 of the Italian Civil Code, the purchase of a maximum of 50 million Euros of ordinary shares, corresponding to 20% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

EARNING RESERVES

Earnings reserves amounted to 421,950 thousand Euros and were comprised as follows:

- Reply S.p.A.'s Legal reserve amounted to 973 thousand Euros;
- Retained earnings amounted to 321,065 thousand Euros (retained earnings amounted to 259,599 thousand Euros on 31 December 2017);
- Profits attributable to shareholders of the Parent Company amounted to 99,913 thousand Euros (77,871 thousand Euros as on 31 December 2017).

OTHER COMPREHENSIVE INCOME

Other comprehensive income can be analyzed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017
Other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax:		
Actuarial gains/(losses) from employee benefit plan	634	79
Total Other comprehensive income that will not be classified subsequently to profit or loss, net of tax (B1):	**634**	**79**
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges	(1,338)	28
Gains/(losses) from the translation of assets in foreign currencies	1,090	(2,155)
Total Other comprehensive income that may be classified subsequently to profit or loss, net of tax (B2):	**(249)**	**(2,127)**
Total other comprehensive income, net of tax (B) = (B1) + (B2):	**385**	**(2,049)**

SHARE BASED PAYMENT PLANS

There are no stock option plans resolved by the General Shareholders' meetings.

NOTE 26 - DUE TO MINORITY SHAREHOLDERS AND EARN-OUT

Due to minority shareholders and Earn-out owed on 31 December 2018 amount to 45,295 thousand Euros inclusive of an exchange difference amounting to 98 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2017	INCREASES	FAIR VALUE ADJUSTMENTS	PAYMENTS	EXCHANGE DIFFERENCES	31/12/2018
Payables to minority shareholders	10,118	16,901	(2,533)	(620)	(50)	23,817
Payables for earn-out	12,157	11,079	291	(2,001)	(48)	21,478
Total due to minority shareholders and Earn-out	**22,275**	**27,980**	**(2,242)**	**(2,621)**	**(98)**	**45,295**

The increase in this item amounting to 27,980 thousand Euros reflects the best estimate of the liability for the option to acquire the minority shares in future reporting periods, subject to the achievement of profitability parameters contractually defined and the best estimate of future considerations for earn-outs in relation to the original contracts signed.

In particular:

- Valorem LLC, a US-based company acquired in the month of April 2018, of which Reply Inc. holds 70% of the share capital.
- Modcomp GmbH, and its subsidiaries CSPI GmbH (now named Spike Reply GmbH) and MCG Systems AG, a company acquired in the month of July 2018 under German law specializing in Security Solutions.
- Elbkind GmbH, a company acquired in the month of November 2018 under German law and located in Hamburg, of which Reply AG holds 100% of the share capital.

The item Fair value adjustments in 2018 amounted to 2,242 thousand Euros with a balancing entry in Profit and loss, reflects the best estimate in relation to the deferred consideration originally posted at the time of acquisition.

Total payments made amounted to 2,621 thousand Euros and refer to the consideration paid in relation to the original contracts signed at the time of acquisition.

NOTE 27 - FINANCIAL LIABILITIES

Detail is as follows:

	31/12/2018			31/12/2017		
(THOUSAND EUROS)	**CURRENT**	**NON CURRENT**	**TOTAL**	**CURRENT**	**NON CURRENT**	**TOTAL**
Bank overdrafts	5,578	-	5,578	22,798	-	22,798
Bank loans	31,990	23,366	55,356	16,365	13,381	29,746
Total due to banks	**37,569**	**23,366**	**60,935**	**39,163**	**13,381**	**52,544**
Other financial borrowings	689	881	1,570	942	721	1,663
Total financial liabilities	**38,258**	**24,247**	**62,505**	**40,105**	**14,102**	**54,207**

The following illustrates the distribution of financial liabilities by due date:

	31/12/2018				31/12/2017			
(THOUSAND EUROS)	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**	**DUE IN 12 MONTHS**	**FROM 1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Bank overdrafts	5,578	-	-	5,578	22,798	-	-	22,798
FM&A loans	30,214	8,571	-	38,786	16,267	13,209	-	29,476
Mortgage loans	455	4,235	10,560	15,250	115	172	-	288
Other financial borrowings	689	881	-	1,570	942	722	-	1,663
Other	1,321	-	-	1,321	(17)	-	-	(17)
Total	**38,258**	**13,687**	**10,560**	**62,505**	**40,105**	**14,102**	**-**	**54,207**

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

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 30 June 2016 and is expired on 31 December 2018. Such loan is entirely reimbursed at 31 December 2018.
- 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 deferred to commence on 30 September 2015. Such credit line was used for 3,000 thousand Euros at 31 December 2018.
- › Tranche B, amounting to 20,000,000 Euros, to be used by 30 December 2016.The loan is reimbursed on a half-year basis deferred to commence on 31 March 2017. Such credit line was used for 8,571 thousand Euros at 31 December 2018.

- 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. On 17 February 2017 a reduction of the credit line to 1,500,000 was agreed and completely utilized, the loan will be reimbursed on a half year basis deferred to commence on 31 May 2019 and will expire on 30 November 2021. Such credit line was used for 1,500 thousand Euros at 31 December 2018.
- 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 thousand 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. Such credit line was used for 25,714 thousand Euros at 31 December 2018.
- On 17 February 2017 Reply S.p.A. entered into a line of credit with Unicredit S.p.A. for a total amount of 50,000,000 Euros to be used by 28 February 2018. As at December 31, 2018 this line had not been used.

Interest rates are also applied according to certain predetermined ratios (Covenants) of economic and financial nature calculated on the consolidated financial statements as at 31 December of each year and/or the consolidated interim report.

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 Mortgages refers to financing granted to Tool Reply GmbH, for the acquisition of the building where the German company has its registered office.
Reimbursement takes place via six monthly instalments (at 4.28%) with expiry on 30 September 2019.
It should be noted that during the year 2018 Tool Reply GmbH entered into a line of credit with

Commerzbank for a total amount of 2,500 thousand Euros to be used by 28 June 2018. The loan is reimbursed on a quarterly basis (at an interest rate of 0.99%).
It should also be noted that on 24 May 2018 Reply S.p.A. undersigned with Unicredit S.p.A. a mortgage loan secured by guarantee for the purchase and renovation of the property De Sonnaz for a total amount of 40,000 thousand Euros and for a maximum duration of 156 months (13 years). The mortgage is disbursed in relation to the progress of the work and within the maximum period of 36 months commencing June 1, 2018. On 25 May 2018 the first disbursement of 12,500 thousand Euros was made.

Other financial borrowings are related to financial leases determined according to IAS 17.

The item Others mainly refers to the evaluation of derivative hedging instruments. The underlying IRS amounted to 47,000 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 of the Reply Group at 31 December 2018.

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Cash and cash equivalents	128,060	109,195	18,864
Current financial assets	997	2,042	(1,045)
Total financial assets	**129,057**	**111,238**	**17,820**
Current financial liabilities	(38,258)	(40,105)	1,847
Non current financial liabilities	(24,247)	(14,102)	(10,145)
Total financial liabilities	**(62,505)**	**(54,207)**	**(8,298)**
Total net financial position	**66,552**	**57,030**	**9,522**

For further details with regards to the above table see Note 24 as well as Note 27.

Change in financial liabilities during 2018 is summarized below:

(THOUSAND EUROS)	
Total financial liabilities 2017	**54,207**
Bank overdrafts	(22,798)
IRS	17
Non current financial liabilities 2017	**31,426**
Cash flows	24,179
Total non current financial liabilities 2018	**55,605**
Bank overdrafts	5,578
IRS	1,322
Total financial liabilities 2018	**62,505**

NOTE 28 – EMPLOYEE BENEFITS

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Employee severance indemnities	25,707	23,748	1,959
Employee pension funds	10,518	6,461	4,057
Directors severance indemnities	1,498	1,613	(115)
Other	16	16	-
Total	**37,738**	**31,838**	**5,901**

EMPLOYEE SEVERANCE INDEMNITIES

The Employee severance indemnity represents the obligation to employees under Italian law (amended by Law 296/06) that has accrued up to 31 December 2006 and that will be settled 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. In order to allow for the changes introduced by Law 296/06, the re-proportioning was only carried out for employees of companies with fewer than 50 employees that do not pay Employee severance indemnities into supplementary pension schemes.

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 from historical data of the company: frequency of advances in 2018: 2.50% frequency of turnover in 2018: 10%

ECONOMIC AND FINANCIAL ASSUMPTIONS

Annual discount rate	Average annual rate of 1.5%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which fthe company belongs and with reference to the market yield of Federal bonds. An annual constant rate equal to 1.57% was used for the year 2018.
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, Employment severance indemnities at 31 December 2018, are summarized in the table below:

(THOUSAND EUROS)	
Balance at 31/12/2017	**23,748**
Cost relating to current (service cost) work	4,460
Actuarial gain/loss	(270)
Interest cost	325
Indemnities paid during the year	(2,557)
Balance at 31/12/2018	**25,707**

EMPLOYEE PENSION FUNDS

The Pension fund item relates to liability as regards the defined benefit pensions of some German companies and is detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017
Present value of liability	11,539	7,394
Fair value of plan assets	(1,021)	(933)
Net liability	**10,518**	**6,461**

The amounts recognized for defined benefit plans are summarized as follows:

(THOUSAND EUROS)	
Present value at beginning of the year	**7,394**
Change in consolidation	4,710
Service cost	69
Interest cost	157
Actuarial gains/(losses)	(525)
Indemnities paid during the year	(266)
Present value at year end	**11,539**

DIRECTORS SEVERANCE INDEMNITIES

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 115 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2018 and to a partial payment of the indemnity.

NOTE 29 - DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2018 amounted to 17,128 thousand Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(THOUSAND EUROS)	31/12/2018	31/12/2017
Deductible items off the books	1,870	1,880
Other	15,258	16,659
Total	**17,128**	**18,539**

The item Other mainly includes the measurement of contract work in progress, employee benefits, capitalization of development costs and reversal of amortization of intangible assets.
Deferred tax liabilities have not been recognized on retained earnings of the subsidiary companies as the Group is able to control the timing of distribution of said earnings and in the near future does not seem likely.

NOTE 30 - PROVISIONS

Provisions amounted to 7,329 thousand Euros (of which 7,021 thousand Euros are non-current).

Change in 2018 is summarized in the table below:

(THOUSAND EUROS)	BALANCE AT 31/12/2017	ACCRUALS	UTILIZATION	REVERSALS	OTHER CHANGES	BALANCE AT 31/12/2018
Fidelity fund	255	19	(31)	-	77	319
Provision for risks	13,655	134	(5,156)	(1,150)	(472)	7,010
Total	**13,909**	**152**	**(5,187)**	**(1,150)**	**(396)**	**7,329**

Employee fidelity provisions refer mainly to provisions made for the employees of some German companies in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.
The Provision for risks represents the best estimate for contingent liabilities. The accrual of the year is referred to the update of this estimate and to new legal ongoing controversies, lawsuits with former employees and other liabilities in Italy and abroad.
The item Utilization is related to the merger by incorporation described in Note 37 where in 2018 the German court took note of the agreement reached between the parties, recognizing to the minority shareholders the payment of the sums established. The expenses arising from this agreement were accrued in previous years.
Other changes mainly refer to translation differences.

NOTE 31 - TRADE PAYABLES

Trade payables at 31 December 2018 amounted to 123,387 thousand Euros and are detailed as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Domestic suppliers	99,600	84,368	15,233
Foreign suppliers	24,376	16,855	7,521
Advances to suppliers	(590)	(1,073)	483
Total	**123,387**	**100,150**	**23,237**

NOTE 32 - OTHER CURRENT LIABILITIES

Other current liabilities at 31 December 2018 amounted to 296,109 thousand Euros with an increase of 67,944 thousand Euros with respect to the previous financial year.

Detail is as follows:

(THOUSAND EUROS)	31/12/2018	31/12/2017	CHANGE
Income tax payable	8,000	7,448	552
VAT payable	13,802	9,627	4,174
Withholding tax and other	7,423	6,879	544
Total due to tax authorities	**29,224**	**23,954**	**5,270**
National social insurance payable	28,308	25,006	3,302
Other	2,417	1,956	461
Total due to social securities	**30,725**	**26,962**	**3,762**
Employee accruals	80,354	63,754	16,599
Other payables	139,043	105,629	33,414
Accrued expenses and deferred income	16,764	7,865	8,899
Total other payables	**236,160**	**177,248**	**58,912**
Other current liabilities	**296,109**	**228,165**	**67,944**

Due to tax authorities amounting to 29,224 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.

Due to social security authorities amounting to 30,725 thousand Euros, is related to both Company and employees' contribution payables.

Other payables at 31 December 2018 amount to 236,160 thousand Euros and mainly include:

- amounts due to employees that at the balance sheet date had not yet been paid;
- liabilities related to share based payment transactions to be settled in cash to some Group companies. Following agreements signed in previous years with some Directors of subsidiary companies, the liability at year end amounted to 2,598 thousand Euros while the cost in Profit and loss amounted to 1,234 thousand Euros. Such options can be exercised in financial year 2019 upon achievement of some economic-financial parameters.

- remuneration of directors recognized as participation in the profits of the subsidiary companies;
- advances received from customers exceeding the value of the work in progress amounting to 97,895 thousand Euros.

Accrued Expenses and Deferred Income mainly relate to advance invoicing in relation to T&M consultancy activities to be delivered in the subsequent financial year.

NOTE 33 - SEGMENT REPORTING

Segment reporting has been prepared in accordance with IFRS 8, determined as the area in which the services are executed.

(THOUSAND DI EURO)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2018	%
Revenues	**716,099**	**100**	**207,518**	**100**	**120,661**	**100**	**1,683**	**100**	**(10,167)**	**1,035,793**	**100**
Operating costs	(607,138)	(84.8)	(181,779)	(87.6)	(107,037)	(88.7)	(5,170)	(307.2)	10,167	(890,957)	(86.0)
Gross operating income	**108,961**	**15.2**	**25,738**	**12.4**	**13,624**	**11.3**	**(3,487)**	**(207.2)**	**-**	**144,836**	**14.0**
Amortization, depreciation and write-downs	(9,590)	(1.3)	(2,442)	(1.2)	(1,793)	(1.5)	(23)	(1.4)	-	(13,848)	(1.3)
Other non-recurring (costs)/income	1,713	-	205	-	(496)	(0.4)	-	-	-	1,422	0.1
Operating income	**101,084**	**14.1**	**23,501**	**11.3**	**11,335**	**9.4**	**(3,510)**	**(208.5)**	**-**	**132,410**	**12.8**
Gain/(loss) on investments	-	-	-	-	-	-	6,862	408	-	6,862	0.6
Financial income/(loss)	5,625	1	(715)	(0.3)	(862)	(0.7)	(4,103)	(243.8)	-	(55)	-
Income before taxes	**106,709**	**14.9**	**22,786**	**11.0**	**10,473**	**8.7**	**(751)**	**(44.6)**	**-**	**139,217**	**13.4**

(THOUSAND EUROS)	REGION 1	%	REGION 2	%	REGION 3	%	IOT INCUBATOR	%	INTERSEGMENT	TOTAL 2017	%
Revenues	**618,305**	**100**	**162,064**	**100**	**124,720**	**100**	**1,692**	**100**	**(22.348)**	**884,434**	**100**
Operating costs	(523,849)	(84.7)	(144,138)	(88.9)	(110,908)	(88.9)	(4,642)	(274.3)	22,348	(761,190)	(86.1)
Gross operating income	**94,456**	**15.3**	**17,925**	**11.1**	**13,812**	**11.1**	**(2,950)**	**(174.3)**	**-**	**123,244**	**13.9**
Amortization, depreciation and write-downs	(8,979)	(1.5)	(1,920)	(1.2)	(1,428)	(1.1)	(26)	(1.5)		(12,353)	(1.4)
Other non-recurring (costs)/income	-	-	3,198	2	(216)	(0.2)	-	-		2,982	0.3
Operating income	**85,476**	**13.8**	**19,204**	**11.8**	**12,168**	**9.8**	**(2,975)**	**(175.8)**	**-**	**113,873**	**12.9**
Gain/(loss) on investments	-	-	-	-	-	-	(585)	(34.5)		(585)	(0.1)
Financial income/(loss)	2,853	1	(2,246)	(1.4)	(685)	(0.5)	(2,900)	(171.40)		(2,978)	(0.3)
Income before taxes	**88,329**	**14.3**	**16,958**	**10.5**	**11,483**	**9.2**	**(6,460)**	**(381.8)**	**-**	**110,310**	**12.5**

Breakdown of revenues by type is as follows:

(THOUSAND EUROS)	REGION 1		REGION 2		REGION 3		IOT INCUBATOR	
BUSINESS LINE	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
T&M	110,506	96,570	117,932	97,819	63,600	69,392	-	-
FIXED PRICE PROJECTS	605,593	521,735	89,586	64,245	57,061	55,328	-	-
OTHER BUSINESS	-	-	-	-	-	-	1,683	1,692
TOTAL	**716,099**	**618,305**	**207,518**	**162,064**	**120,661**	**124,720**	**1,683**	**1,692**

The following table provides a breakdown of net invested capital by Region:

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2018
Current operating assets	465,884	76,609	45,146	163	(22,710)	565,092
Current operating liabilities	(338,074)	(61,973)	(28,678)	(13,787)	22,710	(419,803)
Net working capital (A)	**127,810**	**14,636**	**16,467**	**(13,625)**	**-**	**145,288**
Non current assets	142,988	122,281	65,914	48,600	-	379,783
Non financial liabilities long term	(56,097)	(42,397)	(6,517)	-	-	(105,011)
Fixed capital (B)	**86,891**	**79,884**	**59,397**	**48,600**	**-**	**274,772**
Net invested capital (A+B)	**214,701**	**94,520**	**75,864**	**34,975**	**-**	**420,060**

(THOUSAND EUROS)	REGION 1	REGION 2	REGION 3	IOT INCUBATOR	INTERSEG.	TOTAL 2017
Current operating assets	406,418	56,568	59,377	312	(26,216)	496,459
Current operating liabilities	(260,999)	(41,968)	(43,742)	(8,096)	26,216	(328,589)
Net working capital (A)	**145,419**	**14,600**	**15,635**	**(7,784)**	**-**	**167,870**
Non current assets	88,832	78,867	64,593	31,165	-	263,457
Non financial liabilities long term	(51,341)	(26,587)	(8,358)	-	-	(86,286)
Fixed capital (B)	**37,490**	**52,280**	**56,236**	**31,165**	**-**	**177,171**
Net invested capital (A+B)	**182,910**	**66,881**	**71,870**	**23,381**	**-**	**345,041**

Breakdown of employees by Region is as follows:

REGION	2018	2017	CHANGE
Region 1	5,435	4,769	666
Region 2	1,516	1,090	426
Region 3	642	585	57
IoT Incubator	13	12	1
Total	**7,606**	**6,456**	**1,150**

NOTE 34 - ADDITIONAL DISCLOSURES 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 2018 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. To mitigate such risks, the Group, when necessary, has used derivative financial instruments designated as "cash flow hedges".

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 2018 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 279 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 ASSESSMENT HIERARCHY LEVELS

The IFRS 13 establishes a fair value hierarchy which classifies the input of 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 2018, according to the fair value hierarchical assessment level.

(THOUSAND EUROS)	NOTE	LEVEL 1	LEVEL 2	LEVEL 3
Investments	18			47,512
Convertible loans	19			982
Financial securities	19	697		
Total financial assets		**697**	**-**	**48,494**
Derivative financial liabilities (IRS)			1,372	
Liabilities to minority shareholders and earn out	26			45,295
Other financial liabilities	32			2,598
Total financial liabilities		**-**	**1,372**	**47,893**

The valuation of investments in start-up within the Internet of Things (IoT) business, through the acquisition of equity investments and through the issuance of convertible loans, is based on data not directly observable on active stock markets, and therefore falls under the fair value hierarchical Level 3.

The item Financial securities is related to securities listed on the active stock markets and therefore falls under the fair value hierarchical level 1.

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.
Cash settled share-based payments of companies belonging to the Group included within the caption Other financial liabilities, are valued on the basis of profitability parameters. Since these parameters are not observable market parameters (directly or indirectly) such debts fall under the hierarchy of Level 3.

As at 31 December 2018, there have not been any transfers within the hierarchy levels.

NOTE 35 - TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 Related parties are Group companies and persons that are able to exercise control, joint control or have significant influence on the Group and on its subsidiaries.

Transactions carried out by the group companies with related parties that as of the reporting date are considered ordinary business and are carried out at normal market conditions.

The main economic and financial transactions with related parties is summarized below.

(THOUSAND EUROS)

FINANCIAL TRANSACTIONS	31/12/2018	31/12/2017	NATURE OF TRANSACTION
Trade receivables	25	-	Receivables from professional services
Trade payables and other	136	3	Payables for professional services and official rentals offices
Other payables	4,522	4,072	Payables for emoluments to Directors and Managers with strategic responsibilities and Board of Statutory Auditors
ECONOMIC TRANSACTIONS	**2018**	**2017**	**NATURE OF TRANSACTION**
Revenues from professional services	21	-	Receivables from professional services
Services from Parent company and related parties	1,098	769	Service contracts relating to office rental, and office administration
Personnel	8,596	7,819	Emoluments to Directors and Key Management with strategic responsibilities
Services and other costs	122	122	Emoluments to Statutory Auditors

REPLY GROUP MAIN ECONOMIC AND FINANCIAL TRANSACTIONS

In accordance with IAS 24, emoluments to Directors, Statutory Auditors and Key Management are also included in transactions with related parties.

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006 the financial statements present the Consolidated Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption.
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.

NOTE 36 - 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 function, including those in other subsidiary companies, are as follows:

(THOUSAND EUROS)	2018	2017
Executive Directors	6,630	5,877
Statutory auditors	122	122
Total	**6,752**	**5,999**

Emoluments to Key management amounted to approximately 1,966 thousand Euros (1,942 thousand Euros at 31 December 2017).

NOTE 37 - 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 euros). Currently it is not possible to foresee the outcome

of the said judgment but Management believes that any future economic-financial effects on the Group 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 122 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. Following exchanges with the minority shareholders and their appointed representative, the Company has reached a settlement agreement where the payment of an additional amount of 4.41 Euros per share of Reply Deutschland was agreed plus legal interest, in addition to the flat-rate reimbursement of proceedings costs. On 18 June 2018, the German court took note of the agreement reached between the parties. The expenses arising from this agreement amounting to approximately 5 million Euros is covered by specific provisions.

CONTINGENT LIABILITIES

As an international company, the Group 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 Group 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 Group recognizes specific provision for this purpose.

NOTE 38 - EVENTS SUBSEQUENT TO 31 DECEMBER 2018

At the beginning of January 2019 Reply AG acquired Neveling.net GmbH, a company incorporated under the German law of which Reply AG holds 100% of share capital, specializing in content-management systems activities based on sitecore technologies.

NOTE 39 - APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND AUTHORIZATION TO PUBLISH

The Consolidated financial statements at 31 December 2018 were approved by the Board of Directors on March 14, 2019 which authorized the publication within the terms of law.

ANNEXED TABLES

CONSOLIDATED INCOME STATEMENT PREPARED PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(THOUSAND EUROS)	2018	OF WHICH RELATED PARTIES	%	2017	OF WHICH RELATED PARTIES	%
Revenues	**1,035,793**	**21**	**-**	**884,434**	**-**	**-**
Other income	14,996	-	-	17,672	-	-
Purchases	(20,513)	-	-	(15,269)	-	-
Personnel	(508,652)	(8,596)	1.7%	(431,555)	(7,819)	1.8%
Services and other costs	(379,730)	(1,220)	0.3%	(329,924)	(891)	0.2%
Amortization, depreciation and write-downs	(13,848)	-	-	(12,353)	-	-
Other non-recurring (cost)/income	4,364	-	-	869	-	-
Operating income	**132,410**	**-**	**-**	**113,873**	**-**	**-**
Income from associate companies	6,862	-	-	(585)	-	-
Financial income/(expenses)	(55)	-	-	(2,978)	-	-
Income before taxes	**139,217**	**-**	**-**	**110,310**	**-**	**-**
Income taxes	(38,230)	-	-	(31,765)	-	-
Net income	**100,987**	**-**	**-**	**78,545**	**-**	**-**
Non controlling interest	(1,075)	-	-	(674)	-	-
Group net result	**99,913**	**-**	**-**	**77,871**	**-**	**-**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(THOUSAND EUROS)	31/12/18	OF WHICH RELATED PARTIES	%	31/12/17	OF WHICH RELATED PARTIES	%
Tangible assets	44,452	-	-	21,552	-	-
Goodwill	243,236	-	-	166,132	-	-
Other intangible assets	14,201	-	-	15,525	-	-
Equity investments	47,512	-	-	29,201	-	-
Financial assets	5,255	-	-	6,385	-	-
Deferred tax assets	27,299	-	-	24,661	-	-
Non current assets	**381,955**	**-**	**-**	**263,457**	**-**	**-**
Work in progress	77,061	-	-	93,651	-	-
Trade receivables	434,389	25	-	357,082	-	-
Other current assets	53,642	-	-	45,726	-	-
Financial assets	997	-	-	2,042	-	-
Cash and cash equivalents	128,060	-	-	109,195	-	-
Current assets	**694,149**	**-**	**-**	**607,697**	**-**	**-**
TOTAL ASSETS	**1,076,104**	**-**	**-**	**871,154**	**-**	**-**
Share capital	4,863	-	-	4,863	-	-
Other reserves	380,521	-	-	318,670	-	-
Group net income	99,913	-	-	77,871	-	-
Group shareholders' equity	**485,297**	**-**	**-**	**401,404**	**-**	**-**
Non controlling interest	1,315	-	-	668	-	-
SHAREHOLDERS' EQUITY	**486,612**	**-**	**-**	**402,072**	**-**	**-**
Due to minority shareholders and Earn-out	45,295	-	-	22,275	-	-
Financial liabilities	24,247	-	-	14,102	-	-
Employee benefits	37,738	-	-	31,838	-	-
Deferred tax liabilities	17,128	-	-	18,539	-	-
Provisions	7,021	-	-	13,635	-	-
Non current liabilities	**131,430**	**-**	**-**	**100,388**	**-**	**-**
Financial liabilities	38,258	-	-	40,105	-	-
Trade payables	123,387	136	0.1%	100,150	3	-
Other current liabilities	296,109	4,522	1.5%	228,165	4,072	1.8%
Provisions	308	-	-	274	-	-
Current liabilities	**458,061**	**-**	**-**	**368,693**	**-**	**-**
TOTAL LIABILITIES'	**589,492**	**-**	**-**	**469,082**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,076,104**	**-**	**-**	**871,154**	**-**	**-**

LIST OF COMPANIES AT 31 DECEMBER 2018

COMPANY NAME	HEADQUARTERS	GROUP INTEREST
Parent company		
Reply S.p.A.	Turin - Corso France, 110 - Italy	
Companies consolidated on a line-by-line basis		
4brands Reply GmbH & CO. KG. (**)	Minden, Germany	51.00%
Air Reply S.r.l. (*)	Turin, Italy	85.00%
Arlanis Reply S.r.l.	Turin, Italy	100.00%
Arlanis Reply AG	Potsdam, Germany	100.00%
Aktive Reply S.r.l.	Turin, Italy	100.00%
Atlas Reply S.r.l.	Turin, Italy	100.00%
Avantage Reply Ltd. (***)	London, United Kingdom	100.00%
Avantage Reply GmbH (formerly Xuccess Reply GmbH)	Munich, Germany	100.00%
Avantage Reply (Belgium) Sprl	Brussels, Belgium	100.00%
Avantage Reply (Luxembourg) Sarl	Itzig, Luxembourg	100.00%
Avantage Reply (Netherlands) BV	Amsterdam, Netherlands	100.00%
Avvio Reply Ltd (***)	London, United Kingdom	100.00%
Blue Reply S.r.l.	Turin, Italy	100,00%
Blue Reply GmbH	Guetersloh, Germany	100,00%
Bridge Reply S.r.l.	Turin, Italy	60.00%
Business Reply S.r.l.	Turin, Italy	100.00%
Breed Reply Ltd	London, United Kingdom	100.00%
Breed Reply Investment Ltd	London, United Kingdom	80.00%
Cluster Reply S.r.l.	Turin, Italy	100.00%
Cluster Reply GmbH & CO. KG (**)	Munich, Germany	100.00%
Cluster Reply Informatica LTDA.	San Paolo, Brazil	100.00%
Cluster Reply Roma S.r.l.	Turin, Italy	100.00%
ComSysto Reply GmbH (*)	Munich, Germany	100.00%
Concept Reply GmbH	Munich, Germany	100.00%
Consorzio Reply Energy	Turin, Italy	100.00%
Consorzio Reply Public Sector	Turin, Italy	100.00%
Data Reply S.r.l.	Turin, Italy	100.00%

Data Reply GmbH (*)	Munich, Germany	92.50%
Discovery Reply S.r.l.	Turin, Italy	100.00%
e*finance consulting Reply S.r.l.	Turin, Italy	100.00%
Ekip Reply S.r.l.	Turin, Italy	100.00%
Elbkind GmbH	Hamburg, Germany	100.00%
EOS Reply S.r.l.	Turin, Italy	100.00%
Envision Reply S.r.l.	Turin, Italy	88.00%
First Development Hub, LLC	Minsk, Belarus	100.00%
Forge Reply S.r.l.	Turin, Italy	100.00%
France Reply Ltd (***)	London, United Kingdom	80.00%
Go Reply S.r.l.	Turin, Italy	100.00%
Go Reply GmbH	Guetersloh, Germany	100.00%
Hermes Reply S.r.l.	Turin, Italy	100.00%
Hermes Reply Polska zo.o	Katowice, Poland	100.00%
Implico LLC	Seattle, USA	100.00%
Industrie Reply GmbH (formerly Logistics Reply GmbH)	Munich, Germany	100.00%
Industrie Reply LLC	Michigan, USA	100.00%
InEssence Reply GmbH	Düsseldorf, Germany	100.00%
Infinity Reply GmbH (formerly Healthy Reply GmbH)	Düsseldorf, Germany	100.00%
IrisCube Reply S.p.A.	Turin, Italy	100.00%
Leadvise Reply GmbH	Darmstadt, Germany	100.00%
Lem Reply S.r.l.	Turin, Italy	100.00%
Like Reply S.r.l.	Turin, Italy	100.00%
Live Reply GmbH	Düsseldorf, Germany	100.00%
Logistics Reply S.r.l.	Turin, Italy	100.00%
Lynx Recruitment Ltd (***)	London, United Kingdom	100.00%
Macros Reply GmbH	Munich, Germany	100.00%
MCG Systems AG	Colony, Germany	100.00%
Modcomp GmbH	Colony, Germany	100.00%
Open Reply GmbH	Guetersloh, Germany	100.00%
Open Reply S.r.l.	Turin, Italy	100.00%
Pay Reply S.r.l	Turin, Italy	100.00%
Portaltech Reply Ltd. (***)	London, United Kingdom	100.00%
Portaltech Reply S.r.l.	Turin, Italy	100.00%

Portaltech Reply GmbH	Guetersloh, Germany	100.00%
Portaltech Reply Süd GmbH	Munich, Germany	100.00%
Power Reply S.r.l.	Turin, Italy	100.00%
Power Reply GmbH & CO. KG (**)	Munich, Germany	100.00%
Profondo Reply GmbH	Guetersloh, Germany	100.00%
Protocube Reply S.r.l.	Turin, Italy	55.00%
Reply Consulting S.r.l.	Turin, Italy	100.00%
Reply AG	Guetersloh, Germany	100.00%
Reply GmbH	Zurich, Switzerland	100.00%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte, Brazil	100.00%
Reply Inc.	Michigan, USA	100.00%
Reply Ltd.	London, United Kingdom	100.00%
Reply Belgium Sprl	Mont Saint Guibert, Netherland	100.00%
Reply Digital Experience S.r.l.	Turin, Italy	100.00%
Reply France Sarl	Paris, France	100.00%
Reply Luxembourg Sarl	Sandweiler, Luxembourg	100.00%
Reply NL Ltd. (***)	London, United Kingdom	80.00%
Reply Services S.r.l.	Turin, Italy	100.00%
Reply Verwaltung GmbH	Guetersloh, Germany	100.00%
Retail Reply S.r.l. (formerly Square Reply S.r.l.)	Turin, Italy	100.00%
Ringmaster S.r.l.	Turin, Italy	50.00%
Risk Reply Ltd (***)	London, United Kingdom	80.00%
Riverland Reply GmbH	Munich, Germany	100.00%
Santer Reply S.p.A.	Milan, Italy	100.00%
Security Reply S.r.l.	Turin, Italy	100.00%
Sense Reply S.r.l.	Turin, Italy	90.00%
Solidsoft Reply Ltd. (***)	London, United Kingdom	100.00%
Spark Reply S.r.l.	Turin, Italy	100.00%
Spark Reply GmbH	Germany	100.00%
Spike Reply GmbH	Colony, Germany	100.00%
Sprint Reply S.r.l.	Turin, Italy	100.00%
Storm Reply S.r.l. (*)	Turin, Italy	95.00%
Storm Reply GmbH	Guetersloh, Germany	100.00%
Syskoplan Reply S.r.l.	Turin, Italy	100.00%

Syskoplan Reply GmbH & CO. KG (**)	Guetersloh, Germany	100.00%
Sytel Reply Roma S.r.l.	Turin, Italy	100.00%
Sytel Reply S.r.l.	Turin, Italy	100.00%
Target Reply S.r.l.	Turin, Italy	100.00%
TamTamy Reply S.r.l.	Turin, Italy	100.00%
Technology Reply S.r.l.	Turin, Italy	100.00%
Technology Reply Roma S.r.l.	Turin, Italy	100.00%
Technology Reply S.r.l.	Bucarest, Romania	100.00%
TD Reply GmbH	Berlino, Germany	100.00%
TD Marketing Consultants, Beijing Co. Ltd	China	100.00%
Tool Reply Gmbh	Guetersloh, Germany	100.00%
Triplesense Reply GmbH	Francoforte, Germany	100.00%
Twice Reply S.r.l.	Turin, Italy	98.00%
Twice Reply GmbH	Munich, Germany	100.00%
Valorem LLC (*)	Kansas City, USA	70.00%
Valorem Private Ltd	India	99.99%
Valorem GmbH	Zurich, Switzerland	100.00%
WM Reply Ltd (***)	London, United Kingdom	100.00%
Whitehall Reply S.r.l.	Turin, Italy	100.00%
Xister Reply S.r.l. (*)	Turin, Italy	89.20%

Companies carried at fair value

Amiko Digital Health Ltd	England	22.73%
CageEye AS	Norway	10.16%
Callsign Inc.	England	3.61%
Canard Drones Ltd	Spain	24.06%
Cocoon Alarm Ltd	England	23.58%
Connecterra BV	Belgium	23.06%
enModus Ltd	England	19.18%
FoodMarble Digestive Health Ltd	England	23.45%
iNova Design Ltd	England	34.68%
Iotic Labs Ltd	England	18.31%
Kokoon Technology Ltd	England	38.17%
Metron Sas	France	10.95%
RazorSecure Ltd	England	32.06%

Senseye Ltd	England	14.30%
Sensoria Inc.	USA	24.00%
Sentryo SAS	France	13.30%
TAG Sensors AS	Norway	19.06%
Ubirch GmbH	Germany	25.74%
We Predict Ltd	England	16.64%
Wearable Technologies Ltd	England	18.50%
Yellow Line Parking Ltd	England	10.34%
Zeetta Networks Ltd	England	29.28%

Companies carried at cost

Core Reply S.r.l.	Turin	90.00%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting reflects Management's best estimate as at the closing date of the 2018 Annual Financial Report.
(**) These companies are exempt from filing statutory financial statements in Germany under the German law § 264b HGB..
(***) As permitted under English law, these subsidiary companies have claimed audit exemption under S479 A of the Companies Act 2006: Avvio Reply Ltd Company No. 02865104, Avantage Reply Ltd Company No. 05177605, Lynx Recruitment Ltd Company No. 04289642, Portaltech Reply Ltd Company No. 03999284, Solidsoft Reply Ltd Company No. 02853022, Risk Reply Ltd Company No. 09030959, France Reply Ltd Company No. 08823238, Reply NL Ltd Company No. 09920476. The parent, Reply S.p.A has given a statement of guarantee under Companies Act Section 479C whereby Reply S.P.A will guarantee all outstanding liabilities to which aforementioned UK registered companies are subject as at 31 December 2018.

INFORMATION IN ACCORDANCE WITH ARTICLE 149-DUODECIES ISSUED BY CONSOB

The following table, prepared in accordance with Art. 149-duodeciesof Consob's Regulations for Issuers reports the amount of fees charged in 2018 for the audit and audit related services provided by the Independent Auditors and by entities that are part of the Independent Auditors' network.

(THOUSAND EUROS)	SERVICE PROVIDER	GROUP ENTITY	FEE 2018
Audit	EY S.p.A.	Parent company - Reply S.p.A.	49
	EY S.p.A.	Subsidiaries	225
	Ernst & Young GmbH	Subsidiaries	307
	Ernst & Young LLP	Subsidiaries	119
	Total		**700**
Audit related services	EY S.p.A.	Parent company - Reply S.p.A. [1]	1
	EY S.p.A.	Parent company - Reply S.p.A. [2]	49
	EY S.p.A.	Subsidiaries [1]	18
	Total		**68**
Other services	EY S.p.A.	Subsidiaries [3]	4
	Ernst & Young GmbH	Subsidiaries [4]	10
	Total		**14**
Total			**782**

[1] Signed tax forms (Modello Unico, IRAP and Form 770)
[2] DNF
[3] Limited audit services
[4] Due Diligence activities

ATTESTATION OF THE CONSOLIDATED 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 Consolidated financial statements for the year ended 2018.

The assessment of the adequacy of administrative and accounting procedures used for the preparation of the statutory financial statements at 31 December 2018 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 Consolidated 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 and its consolidated subsidiaries.

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, 14 March 2019

Chairman
and Chief Executive Officer
Mario Rizzante

Director responsible
of drawing up the accounting documents
Giuseppe Veneziano

REPORT OF THE STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

related to the financial consolidated financial statements as at 31 December 2018

Dear Shareholders,

The Board of Directors is submitting to you the Consolidated Financial Statements as at 31 December 2018 prepared in conformity with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Changes in Shareholders' Equity, Consolidated Cash Flow Statement, and the Notes to the Financial Statements.

The Consolidated Financial Statements as at 31 December 2018 present a consolidated Shareholders' equity amounting to 495,297 thousand Euros, including a consolidated profit of 99,913 thousand Euros.

The Report on Operations adequately illustrates the financial, economic and earnings position, the trend, at a consolidated level, of Reply S.p.A. and its subsidiaries during the financial year and after its end, as well as the breakdown of the principal business lines and the consolidated results.

The consolidation area is determined in such context, which included as at 31 December 2018 in addition to the Parent Company, 112 companies and 2 consortiums, all of which consolidated on a line-by-line basis.

The controls made by the Independent Auditor EY S.p.A. concluded that the amounts reported in the Consolidated Financial Statements as at 31 December 2018 are supported by the Parent Company's accounting records, in the financial statements for the reporting period of the subsidiaries, and in the information that they have formally communicated.

Such financial statements submitted by the subsidiaries to the Parent Company, for purposes of the preparation of the Consolidated Financial Statements, prepared by the respective competent corporate bodies, have been reviewed by the bodies and/or persons in charge of the audit of the individual companies, according to their respective legal systems, and by the Independent Auditor in the context of the procedures followed for the audit of the Consolidated Financial Statements.

The Board of Statutory Auditors did not audit the financial statements of such companies.

EY S.p.A., the company entrusted with the audit of Reply's Consolidated Financial Statements,

has issued its report on March 26, 2019 in which it confirms that, in its opinion:

- the Consolidated Financial Statements of the Reply Group as at 31 December 2018 conform to the International Financial Reporting Standards (IFRS) endorsed by the European Union, as well as to the measures issued to implement Article 9 of Legislative Decree 38/2005 and, therefore, they were prepared with clarity and represent a true and fair view of the financial and economic position, the economic result and the cash flows of the Reply Group as at such date,
- the Report on Operations and some of the information pursuant to Article 123-bis, paragraph 4 of Legislative Decree 58/1998 presented in the Report on Corporate Governance and Ownership Structure are consistent with the Consolidated Financial Statements and are prepared in accordance to the law.

EY S.p.A. has identified the valuation of the goodwill and the valuation of payables to minority shareholders and earn-out as key aspects of the audit.

On the basis of the audits and controls carried out, we certify that:

- The consolidation area has been determined in a correct manner;
- The consolidation procedures adopted conform to legal requirements and have been properly applied;
- The review of the Report on Operations demonstrated that it is consistent with the consolidated Financial statements;
- All the information used for the consolidation refers to the entire administrative period represented by the financial year 2018;
- The measurement criteria are homogeneous with those used for the previous reporting period;
- Changes in the consolidation compared to 31 December 2017 consist of the inclusion of the following companies:
  - Envision Reply S.r.l.;
  - Go Reply GmbH;
  - Implico LLC;
  - Industrie Reply LLC;
  - MCG Systems AG;
  - Modcomp GmbH;
  - Portaltech Reply Sud GmbH;

- Spike Reply GmbH;
- Sprint Reply S.r.l.;
- Valorem LLC;
- Valorem Private Ltd;
- Valorem GmbH;

Turin, 28 marzo 2019

THE STATUTORY AUDITORS

(Dott. Giorgio Mosci)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Piergiorgio Re)

EY
Building a better working world

EY S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
Fax: +39 011 5612554
ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Reply S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Reply Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of Reply S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

EY
Building a better working world

We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Goodwill	
As at 31 December 2018 the goodwill amounted to 243,2 million, and was allocated for € 89.9 million to Region 1, for € 99.9 million to Region 2 and for € 53.4 million to Region 3, which represent the Cash Generating Unit (CGU) identified by the Group. The processes and methods to evaluate and determine the recoverable amount of each CGU, in terms of value in use, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the future cash flow forecasts, to the determination of the normalized cash flows used to estimate terminal value and long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill, such as the growth forecasts and discount rates, we considered that this area represents a key audit matter. The disclosures related to the valuation of goodwill is given in note 2 - Accounting principles and criteria of consolidation and in note 16 - Goodwill.	Our audit procedures in response to this key audit matter included, among others: • analysis of the procedure and of key controls implemented by the company in relation to the valuation of goodwill; • validation of the CGUs perimeter and the allocation of the carrying value of assets and liabilities to each CGU; • analysis of the expert's report who assisted management in the impairment test, as well as the evaluation of its competence, capacity and objectivity; • analysis of the future cash flow forecasts, considering the sector data and forecasts; • assessment of the consistency of the future cash flow forecasts of each CGU with the Group business plan; • comparison of forecasts with previous ones and actual data; • assessing discount and longterm growth rates. In performing our analysis, we involved our experts in valuation techniques, who have independently performed their own calculation and sensitivity analyses of key assumptions in order to determine which changes in assumptions could materially impact the valuation of recoverable amount. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and related to the valuation of goodwill.
Valutation of Payables to minority shareholders and Earn-out	
As at 31 December 2018 the recorded amount of Payables to minority shareholders and Earn-out was € 45.3 million. Such liabilities represent obligations toward minority shareholders and earn-outs in relation to earn out plans or to the variable component of the consideration, within the business combination carried out by the Group, and are re-measured at each balance sheet date.	Our audit procedures in response to this key audit matter included, among others: • analysis of the contracts related to the acquired business, in which are detailed the methods of determining such liabilities, and the assessment of the fair value valuation and; • analysis of the adjustment to the fair value of the liabilities related to the business combinations originated in previous years;

The fair value measurement of these liabilities is based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the profitability forecasts and cash flows of the acquired business.

Considering the level of judgement and complexity of the assumptions applied in the estimation of these liabilities, such as the forecast of future results, we considered that this area represents a key audit matter.

The disclosures related to Payables to minority shareholders and Earn-out is given in Note 2 - accounting principles and basis of consolidation - Use of estimates and in note 26 - Payables to minority shareholders and Earn-out.

- verifying the main assumptions used in the determination of fair value, through the analysis of the future cash flows forecasts of the acquired business.

Finally, we verified the adequacy of the information given in the explanatory notes of the financial statements in relation to the valuation of the Payables to minority shareholders and Earn-out.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

EY
Building a better working world

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit 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 Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Reply S.p.A., in the general meeting held on 29 April 2010, engaged us to perform the audits of the consolidated financial statements of each years ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Reply S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in 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 consolidated financial statements of Reply Group as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Reply Group as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Building a better working world

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Reply S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Turin, 26 March 2019

EY S.p.A.
Signed by: Alessandro Davi, partner

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