

REPORT ON OPERATIONS

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

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

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

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

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

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

RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

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

RISKS ASSOCIATED WITH COMPETITION

The ICT market is highly competitive. Competitors could expand their market share squeezing out and consequently reduce the Group's market share. Moreover the intensification of the level of competition is also linked with possible entry of new entities endowed with human

resources and financial and technological capacities in the Group's reference sectors, offering largely competitive prices which could condition the Group's activities and the possibility of consolidating or amplifying its own competitive position in the reference sectors, with consequent repercussions on business and on the Group's economic, earnings and financial situation.

RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS

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

RISKS ASSOCIATED WITH SEGMENT REGULATIONS

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

INTERNAL RISKS

RISKS ASSOCIATED WITH KEY MANAGEMENT

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

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

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

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

RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT

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

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

RISKS ASSOCIATED WITH INTERNATIONALIZATION

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

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

RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS

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

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

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

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

FINANCIAL RISKS

CREDIT RISK

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

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

LIQUIDITY RISK

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

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

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

EXCHANGE RATE AND INTEREST RATE RISK

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

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

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

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

REVIEW OF THE GROUP'S ECONOMIC AND FINANCIAL POSITION

FOREWORD

The financial statements commented on and illustrated in the following pages have been prepared on the basis of the Consolidated financial statements as at 31 December 2019 to which reference should be made, prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, as well as with the provisions implementing Article 9 of Legislative Decree No. 38/2005.

TREND OF THE PERIOD

The Reply Group closed 2019 with a consolidated turnover of €1,182.5 million, an increase of 14.2% compared to €1,035.8 million in 2018.

All indicators are positive for the period. Consolidated EBITDA was €191.3 million, which is an increase of 32.1% compared to the €144.8 million recorded at December 2018. Consolidated EBITDA - excluding the effects of the application of IFRS 16 - would have been €167.4 million.

EBIT, from January to December, was €155.3 million, which is an increase of 17.3% compared to €132.4 million at December 2018). EBIT, excluding the effects of the application of IFRS 16, would have been €154,7 million.

The Group net profit was at €113.9 million, an increase of 14,0% compared to the €99.9 million recorded in 2018. The value excluding the effects of the application of IFRS 16 would have been equal to €115,4 million.

As at 31 December 2019, the Group's net financial position has been positive at €105 million (€197.2 million excluding the effects of the application of IFRS 16). The net financial position as at 31 December 2019 was positive at €66.6 million.

In recent months Reply has not only established itself in the technology environment, but also played a leading role in the major transformation processes implemented by all companies. Moreover, 2019 has seen important developments in all our main offering lines: Cloud, IoT and smart objects, data platforms and digital experience. Even in these months, Reply is witnessing

an exponential growth in demand for new applications related to the use of artificial intelligence, an area where Reply has been committed for a long time, acquiring a leadership position.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

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

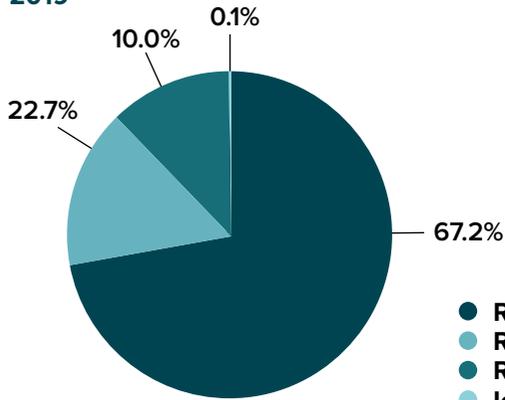
(THOUSAND EUROS)	2019 (*)	%	2018	%
Revenues	1,182,528	100.0	1,035,793	100
Purchases	(21,250)	(1.8)	(20,513)	(2.0)
Personnel	(578,263)	(48.9)	(508,652)	(49.1)
Services and other costs	(390,918)	(33.1)	(364,734)	(35.2)
Other operating (costs)/income	(790)	(0.1)	2,942	0.3
Operating costs	(991,221)	(83.8)	(890,957)	(86.0)
Gross operating income (EBITDA)	191,307	16.2	144,836	14.0
Amortization, depreciation and write-downs	(37,239)	(3.1)	(13,848)	(1.3)
Other non-recurring (costs)/income	1,256	0.1	1,422	0.1
Operating income (EBIT)	155,324	13.1	132,410	12.8
(Loss)/gain on investments	11,364	1.0	6,862	0.7
Financial income/(expenses)	(5,268)	(0.4)	(55)	-
Income before taxes	161,419	13.7	139,217	13.4
Income taxes	(44,829)	(3.8)	(38,230)	(3.7)
Net income	116,590	9.9	100,987	9.7
Non-controlling interests	(2,732)	(0.2)	(1,075)	(0.1)
Group net income	113,858	9.6	99,913	9.6

(*) The year-end closing data of 2019 include the following impacts relating to the application of the new Accounting Standard IFRS 16:

- cancellation of rents and rental fees with a positive impact on EBITDA of 23,956 thousand Euros;
- depreciation and amortization increase for 23,292 thousand euro with a positive impact on EBIT of 664 thousand Euros;
- increase in financial charges for 2,231 thousand Euros with a negative impact on EBT of 1,567 thousand Euros.

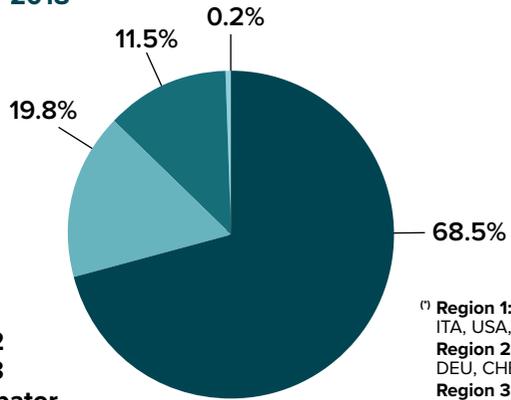
REVENUES BY REGION (*)

2019



- Region 1
- Region 2
- Region 3
- IoT Incubator

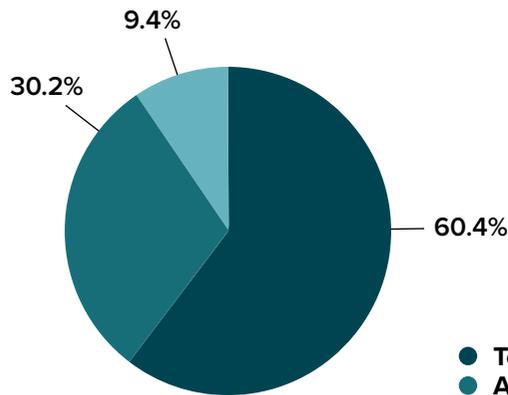
2018



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

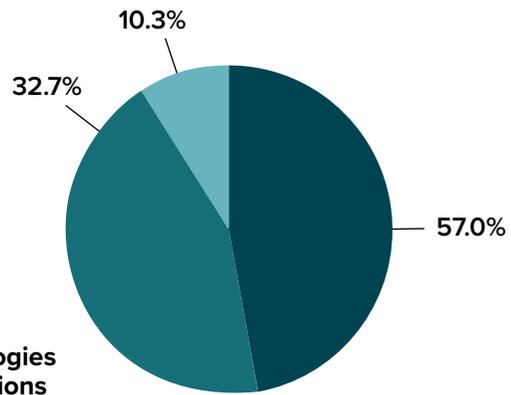
REVENUES BY BUSINESS LINES

2019



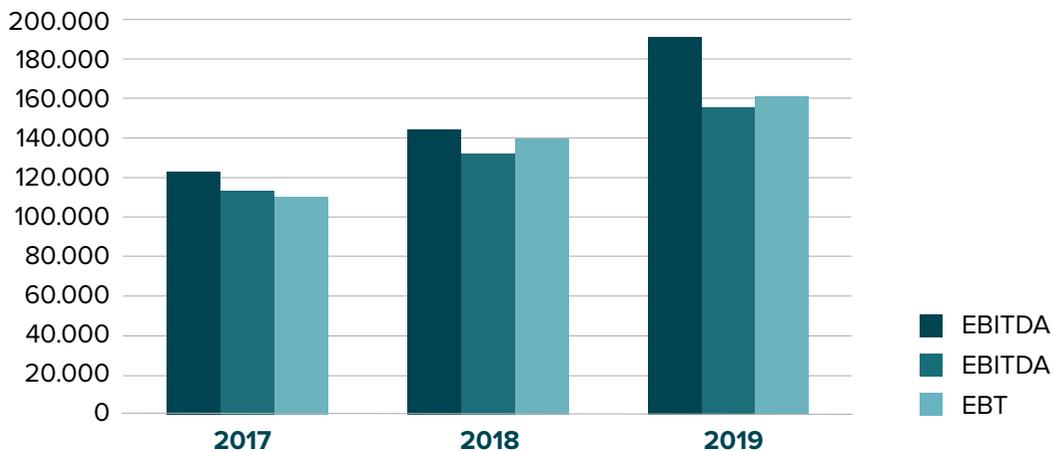
- Technologies
- Applications
- Processes

2018



TREND IN KEY ECONOMIC INDICATORS

(THOUSAND EUROS)



ANALYSIS OF THE FINANCIAL STRUCTURE

The Group's financial structure is set forth below as at 31 December 2019, compared to 31 December 2018:

(THOUSAND EUROS)	31/12/2019	%	31/12/2018	%	CHANGE
Current assets	547,134		565,092		(17,958)
Current liabilities	(459,744)		(419,803)		(39,941)
Working capital, net (A)	87,390		145,288		(57,898)
Non-current assets	518,170		381,955		136,215
Noncurrent liabilities	(123,530)		(107,183)		(16,347)
Fixed capital (B)	394,640		274,772		119,868
Invested capital, net (A+B)	482,030	100.0	420,060	100.0	61,969
NET EQUITY (C)	587,061	121.8	486,612	115.8	100,448
NET FINANCIAL POSITION (A+B-C)	(105,031)	(21.8)	(66,552)	(15.8)	(38,479)

Increase in net invested capital amounting to 61,969 thousand Euros is mainly due to the adoption of the new IFRS 16 accounting standard that generated the accounting of a right-of-use asset amounting to 89,788 thousand Euros as at January 1, and an equivalent financial liability.

Net invested capital on 31 December 2019, amounting to 482,030 thousand Euros, was funded by Shareholders' equity for 587,061 thousand Euros and by available overall funds of 105,031 thousand Euros.

The following table provides a breakdown of net working capital:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Work in progress	75,328	77,061	(1,733)
Trade receivables	432,240	434,389	(2,149)
Other current assets	39,566	53,642	(14,076)
Current operating assets (A)	547,134	565,092	(17,958)
Trade payables	119,951	123,387	(3,436)
Other current liabilities	339,793	296,417	43,376
Current operating liabilities (B)	459,744	419,803	39,941
Working capital, net (A-B)	87,390	145,288	(57,898)
<i>% return on investments</i>	<i>7.4%</i>	<i>14.0%</i>	

NET FINANCIAL POSITION AND CASH FLOWS STATEMENT

(THOUSAND EUROS)	31/12/2019 (*)	31/12/2018	CHANGE
Cash and cash equivalents, net	239,571	122,481	117,090
Current financial assets	1,666	997	669
Due to banks	(16,648)	(31,990)	15,343
Due to other providers of finance	(537)	(689)	152
Financial liabilities IFRS 16	(20,454)	-	(20,454)
Short-term financial position	203,598	90,799	112,799
Due to banks	(25,846)	(23,366)	(2,480)
Due to other providers of finance	(1,011)	(881)	(130)
Financial liabilities IFRS 16	(71,710)	-	(71,710)
M/L term financial position	(98,567)	(24,247)	(74,320)
Total net financial position	105,031	66,552	38,479

(*) The year-end closing data of 2019 include financial liabilities for 92,164 thousand Euros following the application of the new accounting standard IFRS 16. Net of this effect, the group's net financial position at 31 December 2019 would have amounted to 197,195 thousand Euros.

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

(THOUSAND EUROS)	31/12/2019
Cash flows from operating activities (A)	202,793
Cash flows from investment activities (B)	(56,006)
Cash flows from financial activities (C)	(29,698)
Change in cash and cash equivalents (D) = (A+B+C)	117,090
Cash and cash equivalents at beginning of period (*)	122,481
Cash and cash equivalents at year end (*)	239,571
Total change in cash and cash equivalents (D)	117,090

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

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

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

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

SIGNIFICANT OPERATIONS IN 2019

ACQUISITION OF NEVELING.NET GMBH

In January 2019, the subsidiary Reply AG reached an agreement for the acquisition of neveling.net GmbH, a company under German law specializing in content-management systems activities based on sitecore technologies.

ACQUISITION OF BLOWFISH DIGITAL HOLDINGS LTD. AND ITS SUBSIDIARIES THREEPIPE LTD. AND SPOT DIGITAL LTD.

In the month of October 2019 Reply Ltd acquired Blowfish Digital Holdings Ltd and its subsidiaries Threepipe Ltd and Spot Digital Ltd, companies incorporated under the English law, specializing in digital marketing and creative agency.

REPLY ON THE STOCK MARKET

We are living in an era of digital disruption where the innovation, creation, distribution and capture of value are newly defined. As humans we are in the middle of the industrial revolution of the 21st century, which is reshaping industries and value chains, scientific discovery and human engagement at unprecedented speed and scale. The process of far-reaching automation, induced by the interaction of cloud computing platforms, big data, artificial intelligence, robotics, blockchain, internet of things, 5G connectivity, advanced materials and biotechnology, requires fundamental changes in how future business is done. In this situation Digital itself is no longer a differentiator. Still we see many enterprises optimizing existing business models, not transforming themselves. New opportunities will open for emerging markets and unexplored business models, for which the capacity to understand and better exploit the technology as well as to integrate it with human components will be the key to success.

The constant commitment to placing innovation at the very center of our approach, both in terms of skills and expertise, as well as the services offered to our customers, is in the DNA of Reply. Since inception we have worked hard to become an acknowledged leader in international markets, driven both by technical excellence and our ability to adapt to change. Reply is one of the few companies in the market with a unique mix of skills and expertise that extends from strategy to design, from digital technologies to the enabling architecture. We are committed to increase our extensive know-how across the full digital spectrum and to continue actively investing in knowledge, capitalizing on and interpreting this almost daily evolution and expansion of technology. Our ability to be competitive will be closely linked to the capacity to experiment and innovate, enabling us to bring new products and services to the market just as quickly. We are fully committed to creating sustainable value and to continuing the successful, long-term development of our company and are convinced that our shareholders can derive substantial value from the opportunities ahead and the competitive advantage of Reply.

REPLY SHARE PERFORMANCE

The 28% total return investors enjoyed from MSCI World in 2019 goes down in history as the second best annual return in the last 30 years (behind only 2013). More impressively, last year represented the best ever return for stocks when investors also enjoyed positive rewards from bonds, with US Treasuries returning 10% over the same period. Admittedly, a low starting point for stocks at the start of 2019 helped accelerate the calendar year statistics, but the same cannot be said for the 10% return over the last three months, which has lifted global valuations

to a 15-year high. In 2019 the courage to take risks paid off for investors - and this despite the uncertain market environment. The never-ending trade disputes between the United States and China alone, or the whole squabbling over brexite - the imminent withdrawal of Great Britain from the European Union - have repeatedly caused turbulence. On the other hand, the fact that many economic concerns eventually turned out to be unjustified, for example, had a positive effect, and companies were also better off than initially expected.

For Reply 2019 was an excellent stock exchange year. Since the beginning of the year until the end of July the Reply share outperformed all indices and most of the peer group members achieving an increase of 38%. At the beginning of August, the Reply share followed the general correction phase in the stock markets, however at a greater magnitude because of not as good as expected Q2 results.

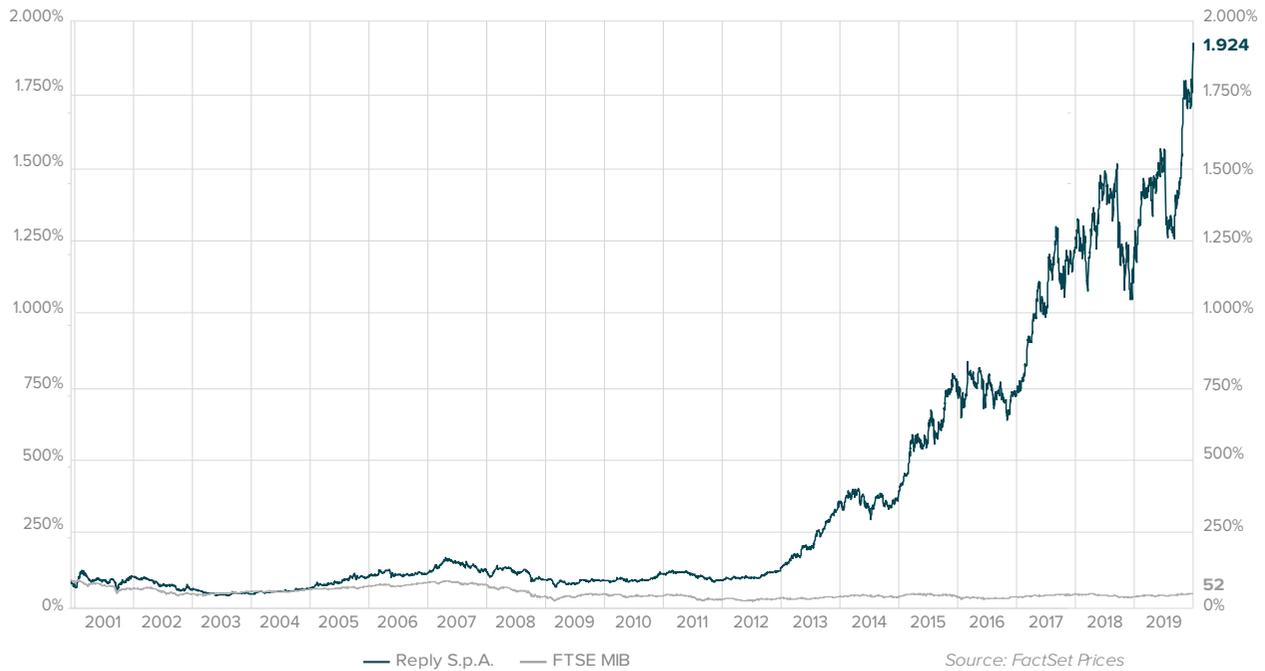
At the end of October, the upward corridor was entered again, strongly accelerated after the communication of the third quarter results in November 2019. The year 2019 ended for the Reply share at EUR 69.45, an increase of 58%, leading to a new record market capitalization of EUR 2.6 billion. The share price marked a year-high at EUR 74.80. In the first days of 2020 the development continued, bringing the Reply performance to + 75% (23/01/2020) and the market capitalization to EUR 2.9 billion.

As good was the relative performance of the Reply share. Throughout the year Reply outperformed all Italian indices (MIB: +28%, FTSE Italy STAR: +28%) and the relevant sector indices (EuroSTOXX Technology: +40%, S&P 500/IT: +48%).



Taking December 6, 2000, the date of the Reply IPO, as a reference, the Italian main index MIB continued to perform unsatisfactorily. It lost 48% of its starting value and never recovered substantially from the lows reached during the financial crisis. In the same period Reply increased its IPO value by more than 1,800%.

In 2019 Reply further increased the value creation adding 620 percentage points to the outperformance versus the MIB.



SHARE LIQUIDITY

In 2019 the trading volume in the Reply share amounted to EUR 669 million, an increase of 13% compared to the year before. The increased share price offset a number of shares traded which reduced by 10%. In 2019 11.4 million shares were traded versus 11.9 million shares in 2018. Despite of the strong upside development the Reply share is traded at a valuation premium, compared to the participants of the peer group. Enterprise value to sales and enterprise value to EBITDA at the end of 2019 were 7% and 18% higher than the average value of the peer group constituents.

DIVIDEND

Performance-based compensation is an essential pillar of the partnership-oriented business model of Reply. Like employees the Reply shareholders shall – in form of dividends - participate in the sustainable operational performance of the group. Each year this principle is balanced

with the need of internal financing as a means to fund the investments of Reply (in new startup companies and new technologies). In 2019 Reply achieved earnings per share of EUR 3.04, an increase of 13.9% compared to 2018. For the financial year 2019 the corporate bodies of Reply propose to the shareholders' meeting to approve the payment of a dividend of EUR 0.52 (dividend 2018: EUR 0.45). Referred to the share price of Reply at the end of 2019 this corresponds to a dividend yield of 0.75%. Assuming the approval of the shareholders' meeting Reply will pay to its shareholders a dividend sum of EUR 19.5 million. In 2018 EUR 16.8 million were distributed.

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

		2019	2018	2017	2016	2015
Share price						
Year-end	Euro	69.45	44.08	46.17	29.50	31.48
High for the year	Euro	74.80	61.30	53.50	34.08	32.30
Low for the year	Euro	42.20	42.00	28.93	25.03	14.61
Trading						
Number of shares traded (year)	# thousand	11,360.1	12,587.7	14,894.2	9,419.3	11,448.2
Number of shares traded (day)	# thousand	44.9	48.2	57.1	36.1	43.9
Trading volume (year)	Euro million	668.9	591.0	590.6	282.6	279.5
Trading volume (day)	Euro million	2.623	2.548	2.289	1.095	1.083
Capital structure						
Number of shares	# thousand	37,411.4	37,411.4	37,411.4	9,352.9	9,352.9
Share capital	Euro million	4.864	4.864	4.864	4.864	4.863
Free Float	%	53.4	53.4	52.8	42.0	42.0
Market capitalization	Euro million	2,598.2	1,650.0	1,727.3	1,103.6	1,177.5
Allocation of net income						
Earnings per share	Euro	3.04	2.67	2.08	1.81	1.52
Dividend ¹⁾	Euro	0.52	0.45	0.35	0.2875	0.25
Dividend payment	Euro million	19.454	16.835	13.092	10.756	9.353
Dividend yield ²⁾	%	0.75	1.0%	0.8%	1.0%	0.8%

For comparative purposes the number of shares for fiscal years 2015 and 2016 were redetermined following the stock split that took place in 2017.

¹⁾ Amount proposed for shareholder approval for 2019

²⁾ Related to year-end closing price

THE SHAREHOLDERS BASE

49% of the Reply shares are owned by the founders of Reply. Institutional shareholders owned 44% at the end of 2019 while retail shareholders owned 7% of the shares. The institutional shareholders' base of Reply saw some significant changes. American investors, the most important investor country in Reply, increased their ownership in Reply to 24% of institutional holdings versus 18% in 2018. French investors now rank number 2, owning around 21%. Italian investors represented unchanged 15% of the institutional shareholdings at the end of 2019.

ANALYSTS

2019 saw a further increase of the analyst coverage of Reply. 9 European analysts are currently commenting the Reply share. In 2019 coverage was initiated by one Italian analyst. Reflecting the share price development ratings were set to "outperform" or "neutral" rating. All Reply analysts on average currently see a target price of Euro 65.10.

DIALOG WITH THE CAPITAL MARKETS

An active and open communication policy ensuring prompt and continuous information dissemination is a major component of the Reply IR strategy. In 2019 Reply maintained its high level of activities with the capital markets. During 20 conferences and 8 roadshows Reply actively explained its equity story. Special emphasis was laid on the US and Italian markets where Reply increased its investor contacts by 92% and 47% respectively. The number of brokers who were involved in the IR activities of Reply was stable in 2019. Our specialist and 2 other brokers were most active in working with Reply on investor targeting and communicating the value of the Reply story for shareholders.

THE PARENT COMPANY REPLY S.P.A.

INTRODUCTION

The tables presented and disclosed below were prepared on the basis of the financial statements as at 31 December 2019 to which reference should be made, prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, as well as with the regulations implementing Article 9 of Legislative Decree No. 38/2005.

RECLASSIFIED INCOME STATEMENT

The Parent Company Reply S.p.A. mainly carries out the operational co-ordination and the technical and quality management services for the Group companies as well as the administration, finance and marketing activities.

As at 31 December 2019 the Parent Company had 88 employees (86 employees in 2018). Reply S.p.A. also carries out commercial fronting activities (pass-through revenues) for some major customers, whereas delivery is carried out by the operational companies. The economic results achieved by the Company are therefore not representative of the Group’s overall economic trend and the performances of the markets in which it operates. Such activity is instead reflected in the item Pass-through revenues of the Income Statement set forth below.

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

(THOUSAND EUROS)	2019	2018	CHANGE
Revenues from operating activities	83,772	71,625	12,147
Pass-through revenues	464,569	505,272	(40,702)
Purchases, services and other expenses	(513,660)	(551,652)	37,993
Personnel and related expenses	(22,681)	(20,422)	(2,260)
Other unusual operating (expenses)/income	(2,102)	344	(2,446)
Amortization, depreciation and write-downs	(1,379)	(1,188)	(191)
Operating income	8,519	3,979	4,540
Financial income/(expenses)	9,709	10,800	(1,092)
Gain on equity investments	81,145	56,830	24,315
Loss on equity investments	(8,583)	(5,990)	(2,593)
Income before taxes	90,790	65,619	25,171
Income taxes	(1,541)	(2,039)	498
NET INCOME	89,249	63,580	25,669

Revenues from operating activities mainly refer to charges for:

- royalties on the Reply trademark for 34,343 thousand Euros (29,638 thousand Euros in the financial year 2018);
- shared service activities in favor of its subsidiaries for 36,039 thousand Euros (31,720 thousand Euros in the financial year 2018);
- management services for 9,940 thousand Euros (8,891 thousand Euros in the financial year 2018).

Operating income 2019 marked a positive result of 8,519 thousand Euros after having deducted amortization expenses of 1,379 thousand Euros (of which 172 thousand Euros referred to tangible assets, 879 thousand Euros to intangible assets and 328 thousand Euros related to RoU assets arising from the adoption of IFRS 16).

Financial income amounted to 9,709 thousand Euros and included interest income for 6,102 thousand Euros and interest expenses for 1,173 thousand Euros mainly relating to financing for the M&A operations. Such result also includes net positive exchange rate differences amounting to 4,794 thousand Euros.

Income from equity investments which amounted to 81,145 thousand Euros refers to dividends received from subsidiary companies in 2019.

Losses on equity investments refer to write-downs and losses reported in the year by some subsidiary companies that were considered to be unrecoverable.

Net income for the year ended 2019, amounted to 89,249 thousand Euros after income taxes of 1,541 thousand Euros.

FINANCIAL STRUCTURE

Reply S.p.A.'s financial structure as at 31 December 2019, compared to that as at 31 December 2018, is provided below:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Tangible assets	209	310	(101)
Intangible assets	4,749	3,059	1,690
RoU assets	722	-	722
Equity investments	142,119	145,002	(2,883)
Other fixed assets	5,893	5,022	871
Non-current liabilities	(10,644)	(8,978)	(1,666)
Fixed capital	143,048	144,415	(1,367)
Net working capital	6,471	14,479	(8,008)
INVESTED CAPITAL	149,519	158,894	(9,375)
Shareholders' equity	412,493	341,264	71,230
Net financial position	(262,975)	(182,370)	(80,605)
TOTAL SOURCES	149,519	158,894	(9,375)

The net invested capital on 31 December 2019, amounting to 149,519 thousand Euros, was funded by Shareholders' equity in the amount of 412,493 thousand Euros from Shareholders' equity and available overall funds of 262,975 thousand Euros.

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

NET FINANCIAL POSITION

The Parent Company's net financial position as at 31 December 2019, compared to 31 December 2018, is detailed as follows:

(THOUSAND EUROS)	31/12/2019	31/12/2018	CHANGE
Cash and cash equivalents, net	161,331	67,012	94,319
Financial loans to subsidiaries	47,494	67,655	(20,161)
Due to banks	(16,327)	(31,535)	15,208
Due to subsidiaries	(79,449)	(56,787)	(22,662)
Financial liabilities IFRS 16	(325)	-	(325)
Net financial position short term	112,724	46,345	66,379
Long term financial assets	174,517	157,096	17,421
Due to banks	(23,871)	(21,071)	(2,800)
Financial liabilities IFRS 16	(395)	-	(395)
Net financial position long term	150,251	136,024	14,226
Total net financial position	262,975	182,370	80,605

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

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

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

(THOUSAND EUROS)	31/12/2019		31/12/2018	
	NET EQUITY	NET INCOME	NET EQUITY	NET INCOME
Reply S.p.A.'s separate financial statements	412,493	89,249	341,264	63,580
Results of the subsidiary companies, net of minority interest	262,662	117,582	226,304	104,708
Cancellation of the carrying value of investments in consolidated companies net of any write-offs	(75,864)	-	(68,040)	-
Cancellation of dividends from subsidiary companies	-	(81,145)	-	(56,911)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(8,892)	(9,096)	(11,600)	(10,392)
Non-controlling interests	(3,339)	(2,732)	(1,315)	(1,071)
Net Group consolidated financial statement	587,061	113,858	486,612	99,913

CORPORATE GOVERNANCE

The Corporate Governance system adopted by Reply adheres to the Corporate Governance Code for Italian Listed Companies issued by Borsa Italiana S.p.A. in March 2006, which was updated in July 2018, with the additions and amendments related to the specific characteristics of the Group.

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

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

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

The Board of Directors, on an annual basis and at the proposal of the Remuneration Committee, establishes a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob. In accordance with law, the Remuneration Policy forms the first part of the Report on Remuneration and will be submitted to the review of the Shareholders’ Meeting called to approve the 2019 financial statements.

DECLARATION OF NON-FINANCIAL DATA

The company, in accordance with the provisions of article 5 (3) (b) of Legislative Decree No 254/2016, has prepared the consolidated declaration of a non-financial nature which constitutes a separate report. The consolidated declaration of non-financial data 2019, drafted in accordance with the “GRI Standards” reporting standard, is available on the Group website www.reply.com.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

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

HUMAN RESOURCES

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

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

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

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

At the end of 2019 the Group had 8,157 employees compared to 7,606 in 2018.

GENERAL DATA PROTECTION REGULATION (GDPR)

The governance model of the Group privacy policy reflects what is required by the existing code for the protection of personal data and the European Regulation 679/16 (GDPR).

Privacy fulfilments are managed uniformly at the Reply Group level in order to maintain adequate levels of internal coherence and to facilitate external relations, in particular with authorities, customers and suppliers.

To ensure compliance the Group has adopted a GDPR program which provides several activities including:

- updating the Group privacy organizational model;
- designation for each Region of a Data Protection Officer;
- GDPR training at all business levels;
- assessment of privacy and security of IT central services;
- drafting of Records of the treatment activities;
- development and dissemination of new processes.

TRANSACTIONS WITH RELATED PARTIES AND GROUP COMPANIES

During the period, there were no transactions with related parties, including intergroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered, these transactions took place in accordance with the internal procedures containing the rules aimed at ensuring transparency and fairness, under Consob Regulation 17221/2010.

The company in the notes to the financial statements and consolidated financial statements provides the information required pursuant to Art. 154-ter of the TUF [Consolidated Financial Act] as indicated by Consob Reg. no. 17221 of 12 March 2010 and subsequent Consob Resolution no. 17389 of June 23, 2010, indicating that there were no significant transactions concluded during the period as defined by Art. 4, paragraph 1, let a) of the aforementioned regulation that have significantly affected the Group's financial or economic position. The information pursuant to Consob communication of 28 July 2006 are presented in the annexed tables herein.

TREASURY SHARES

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

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

FINANCIAL INSTRUMENTS

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

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

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

EVENTS SUBSEQUENT TO 31 DECEMBER 2019

Reply has responded to the pandemic generated by the corona virus by implementing on a large scale- in all countries and with almost all customers - a new way of working: our systems are in the Cloud and we have advanced individual productivity tools that have allowed us to instantly reconfigure all our activities in “smart working/ home office” ensuring the safety of our people and the continuity of our services.

In this regard, it is important to remark the organizational structure (including the supplier ecosystem), the financial strength of the Group, the diversification of the business in various countries, markets and industrial sectors, allows us to act/react quickly by locally implementing the actions necessary to minimize on a global scale the economic impacts of the pandemic.

Over time Reply has developed a number of solutions and technologies for digital workplace and remote learning (TamTamy), Telemedicine (Ticuro) and Crowd Sourcing (StarBytes) that are available in order to help and support this new way of living now commonly referred to as “stay at home”.

OUTLOOK ON OPERATIONS

We are currently experiencing a new way of living, deeply conditioned by the global spread of the Covid-19 virus, with massive disruption of the business activities and with sudden changes to our routines and habits.

The ultimate impacts of this pandemic are uncertain and the economic consequences will depend on the duration, on individual customers and on measures put in place by governments.

Reply's structure, thanks to its network features, which give it granularity, flexibility and territorial distribution, together with the use of the most innovative communication technologies, should allow for an effective and fast reaction to minimize the impacts on the Group's business.

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

The financial statements at year end 2019 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 89,248,998 Euros and net shareholders' equity on 31 December 2019 amounted to 412,493,259 Euros thus formed:

(IN EUROS)	31/12/2019
Share Capital	4,863,486
Share premium reserve	23,302,692
Legal reserve	972,697
Reserve for treasury shares on hand	24,502
Other reserves	294,080,884
Total share capital and reserves	323,244,261
Net income	89,248,998
Total	412,493,259

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2019 showing a net result of 89,248,998 Euros, proposes that the shareholders resolve:

- to approve the financial statement (Separate Statements) of Reply S.p.A. which records net profit for the financial year of 89,248,998 Euros;
- to approve the motion to allocate the net result of 89,248,998 as follows:
 - › a unit dividend to shareholders amounting to 0,52 Euros for each ordinary share with a right, therefore excluding treasury shares, with payment date fixed on 6 May 2020, coupon cutoff date 4 May 2020 and record date, determined in accordance with Article 83-terdecies of Legislative Decree no. 58/1998 set on 5 May 2020;
 - › having the Legal reserve reached the limit of one fifth of the share capital pursuant to article 2430 of the Italian Civil Code, the residual amount to be allocated to the Retained earnings reserve;
- to approve, pursuant to Article 22 of the Articles of association, the proposal of the Remuneration Committee to distribute to Directors entrusted with operational powers,

a shareholding of the profits of the Parent Company, to be established in the amount of 3,837,500.00 Euros, of which 3,150,000 Euro related to the short term variable remuneration component corresponding to around 1.6% of the consolidated gross operative margin 2019, (before allocation of the shareholding in profits for Directors invested with operational powers) and 687,500.00 thousand Euros, related to the long term variable remuneration component for the period 2017-2019.

Turin, 13 March 2020

/s/ Mario Rizzante

For the Board of Directors

The Chairman

Mario Rizzante