



# **TXT e-solutions Group**

**Annual report**

**as at 31 December 2019**

## **TXT e-solutions S.p.A.**

**Registered office, management, and administration:**

**Via Frigia, 27 - 20126 Milan - Italy**

**Share capital:**

**€ 6,503,125 fully paid-in**

**Tax code and Milan Business Register number: 09768170152**

## **Corporate bodies**

### **BOARD OF DIRECTORS**

Members' terms of office expire upon approval of the financial statements as at 31 December 2019:

Alvise Braga Illa	Chairman	(1)
Enrico Magni	Chief Executive Officer	(2)
Daniele Misani	Director	(3)
Fabienne Anne Dejean Schwalbe	Independent Director	(4)
Stefania Saviolo	Independent Director	(4)
Valentina Cogliati	Independent Director	(5)
Alessandro Arrigoni	Independent Director	(3)

(1) Powers assigned: proxy.

(2) Powers assigned: ordinary and extraordinary administration, except for the purchase and sale of property.

(3) Co-opted on 15 July 2019 to replace Marco Edoardo Guida and Paolo Matarazzo, who resigned. In office until the next Shareholders' Meeting.

(4) Member of the Remuneration Committee, the Risks and Internal Controls Committee and the Related Parties Committee.

(5) Member of the Risks and Internal Controls Committee.

### **BOARD OF STATUTORY AUDITORS**

Members' terms of office expire upon approval of the financial statements as at 31 December 2019:

Mario Basilico	Chairman
Luisa Cameretti	Standing auditor
Giampaolo Vianello	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate auditor

### **EXTERNAL AUDITORS**

EY S.p.A.

### **INVESTOR RELATIONS**

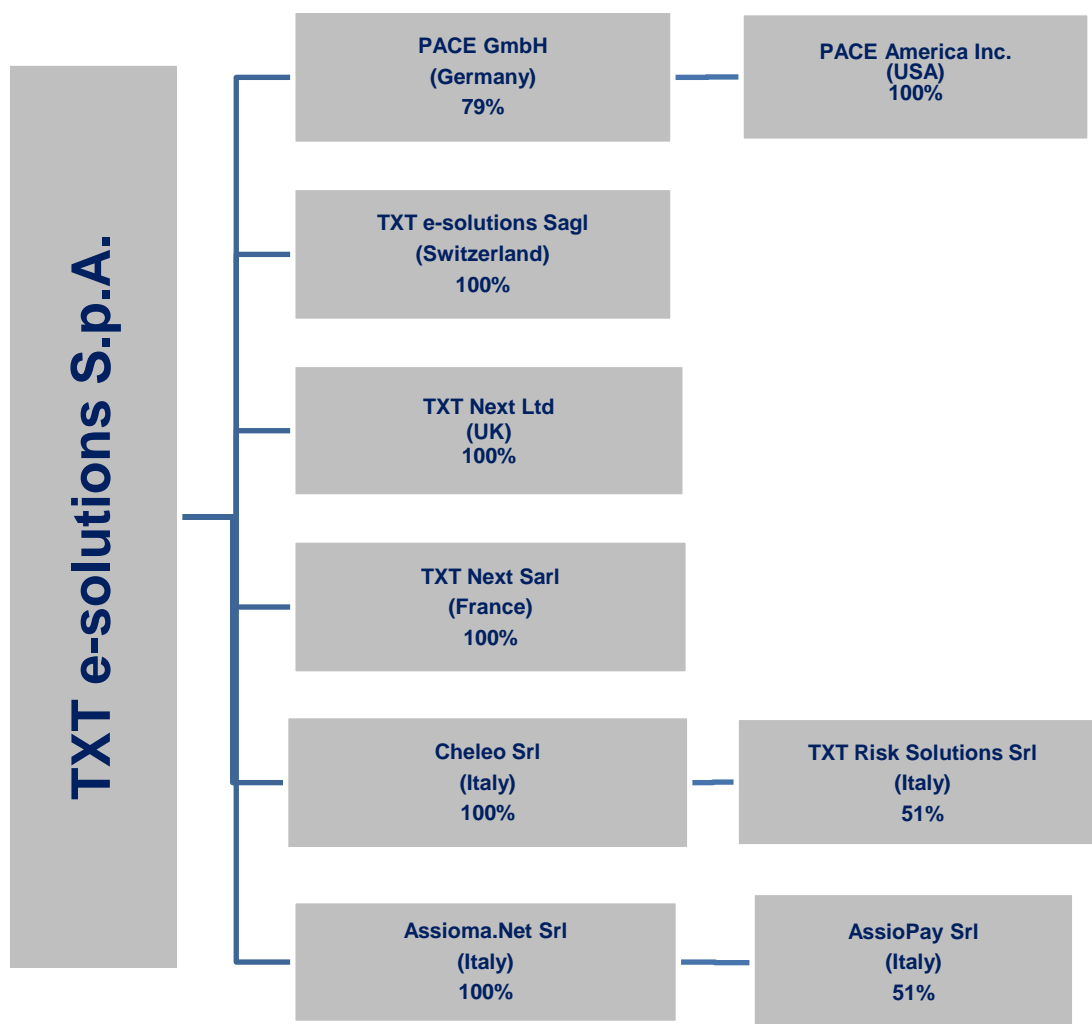
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## Organisational structure and scope of consolidation



**Key data and Directors' report on operations for the year 2019**

## TXT e-solutions Group – Key data

<b>DATI ECONOMICI</b> (Importi in migliaia di Euro)	2019	%	2018	%	VAR %
<b>RICAVI</b>	59.091	100,0	39.957	100,0	47,9
<b>EBITDA</b>	7.004	11,9	3.798	9,5	84,4
<b>UTILE OPERATIVO (EBIT)</b>	3.553	6,0	1.845	4,6	92,6
<b>UTILE NETTO CONTINUING OPERATIONS</b>	448	0,8	565	1,4	(20,7)
Utile netto Discontinued Operations	-		-		
<b>UTILE NETTO</b>	448		565		

<b>DATI PATRIMONIALI E FINANZIARI</b> (Importi in migliaia di Euro)	31.12.2019	31.12.2018	Var
Capitale immobilizzato	34.634	22.942	11.692
Capitale circolante netto	9.084	6.006	3.078
TFR e altre passività non correnti	(3.110)	(2.957)	(153)
<b>Capitale investito</b>	<b>40.608</b>	<b>25.991</b>	<b>14.617</b>
Posizione finanziaria netta	41.412	60.356	(18.944)
Patrimonio netto del gruppo	81.852	86.347	(4.495)
Patrimonio netto di terzi	168	0	168

<b>DATI PER SINGOLA AZIONE</b>	31.12.2019	31.12.2018	Var
Numero medio di azioni in circolazione	11.747.747	11.747.747	-
Utile netto per azione	0,04	0,05	(0,01)
Patrimonio netto per azione	6,97	7,35	(0,38)

<b>ALTRE INFORMAZIONI</b>	31.12.2019	31.12.2018	Var
Numero di dipendenti	786	534	252
Quotazione del titolo TXT	9,66	8,18	1,48

## Notes on Alternative Performance Measures

Pursuant to the ESMA guidelines on alternative performance measures (“APMs”) (ESMA/2015/1415), endorsed by Consob (see Consob Communication no. 0092543 dated 3 December 2015), it should be noted that the reclassified statements included in this Directors’ Report on Operations show a number of differences from the official statements shown in the accounting tables set out in the following pages and in the notes with regard to the terminology and the level of detail.

Specifically, the reclassified consolidated Income Statement introduces the following terms:

- **EBITDA**, which in the official consolidated Income Statement means “Total revenues” net of total operating costs.
- **EBIT**, which in the official consolidated Income Statement means “Total revenues” net of total operating costs, depreciation, amortisation and write-downs.

The reclassified consolidated Balance Sheet was prepared based on the items recognised as assets or liabilities in the official consolidated Balance Sheet, and it introduces the following terms:

- **FIXED ASSETS**, the sum of tangible assets, intangible assets, goodwill, deferred tax assets and liabilities, and other non-current assets.
- **NET WORKING CAPITAL**, the sum of inventories, trade receivables/payables, current provisions, tax receivables/payables, and other current assets/liabilities and sundry current receivables/payables.
- **CAPITAL EMPLOYED**, the algebraic sum of Fixed Assets, Net Working Capital, post-employment benefits, and other non-current liabilities.

These APMs, in line with the data presented in the consolidated income statement and balance sheet in accordance with the recommendations outlined above, were deemed to be significant as they represent parameters that succinctly and clearly depict the Company’s equity, financial and economic performance, including through an analysis of comparative data. The APMS adopted are consistent with those used in the previous year.

## Directors' report on operations for the year 2019

Dear Shareholders,

The 2019 year was marked by two important development paths:

- ✓ the strong organic development of the software activities for the Aerospace, Aviation & Automotive sectors (+24.7%), the expansion of the collaboration with Boeing, American Airlines and other important customers and investments in research and development of innovative software products;
- ✓ research and completion of acquisitions. During the year, more than 10 opportunities were assessed, due diligence was carried out on 2 companies and the acquisition of Assioma, was completed on 30 April 2019, Assioma is an Italian specialist in the governance of application software quality, with specialist skills consolidated by almost thirty years of experience and with over 160 employees operating in the Turin, Milan and Bari offices. Assioma's customer base includes numerous banks, including Intesa San Paolo, Unicredit Leasing, UBI, ING Direct, Widiba, BPM Group and leading companies in Telecommunications, Manufacturing and Services.

The acquisition of Assioma enables TXT to mainly strengthen its business for Banking and Financial customers and to expand the range of services of the Fintech Division. Innovation and customer focus are core values of TXT, which it shares with Assioma, with a team of extremely competent professionals, who share its ethical and professional values in providing excellent services and the highest quality software. Assioma's managers are highly motivated to innovate and grow profitably and sustainably. This transaction strengthens the Fintech Division, as a pole of future growth and as a 'player' that creates value for investors, alongside the growing international success of the Aeronautics Division.

TXT's strategy is to invest significant net liquidity (€ 41.4 million) and treasury shares (€ 11.8 million at end-2019 prices) in new acquisitions in sectors with a high intensity of innovative software and an integrated services business model with high added value.

TXT aims to be an important international player in the provision of innovative services, software and solutions for the 'digital transformation' of primary sectors, such as Transportation and Fintech.

The main operating and consolidated financial results for 2018 were as follows:

- Revenues amounted to € 59.1 million, up 47.9% compared to € 40.0 million in 2018. Within the same consolidation scope, revenues increased by 27%, with a € 8.2 million contribution from the Assioma Group. Software revenues in 2019 were € 6.9 million, +29.7% compared to 2018 due to development. Revenues from services amounted to € 52.2 million, up 50.7% compared to 2018. The Aerospace, Aviation and Automotive Division had revenues of € 38.7 million, an increase of +24.7% compared to 2018.
- The Gross margin, net of direct costs, increased from € 17.7 million to € 27.3 million, an increase of +54.3%, due to the improved contribution of software revenues and the positive contribution of Assioma. The impact of the gross margin on revenues improved from 44.2% to 46.1%.



- EBITDA was € 7.0 million, up +84.4% compared to 2018 (€ 3.8 million), following significant investments in research and development (+103.0%) and commercial investments. General and administrative costs decreased as a percentage of revenues (from 13.2% in 2018 to 9.4% in 2019) mainly due to cost containment and optimisation over a broader scope of business after acquisitions. The margin on revenues was 11.9% compared with 9.5% in 2018.
- Operating profit (EBIT) was € 3.6 million, up 131% compared to 2018 (€ 1.8 million). The € 3.2 million increase in EBITDA was partially absorbed by amortisation and depreciation on intangible assets (€ 0.8 million), up due to the full contribution for an entire year of last year's acquisitions (Cheleo, TXT Risk Solutions) and that of Assioma and reorganisation costs (€ 0.7 million).
- Net financial charges amounted to € 1.2 million. Investments in cash and cash equivalents recorded financial income compared to the value invested of € 2.2 million with a positive change in fair value during the year of approximately € 3.7 million (the change in fair value was negative by € 1.3 million in 2018), thanks to the growth of the financial markets, which allowed liquidity to be managed with a largely positive result and prudent management with investments mainly in multi-segment insurance. Financial charges, as non-recurring items, include in particular (i) adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the residual 21% of the PACE capital, determined taking into account the valuation formula indicated in the contract. This is based on factors and multiples consistent with those used to set the initial price of the acquisition of the majority shareholding and the related additional payments. The figures forming the basis of calculation were taken from the draft consolidated financial statements of the PACE Group in accordance with German accounting standards as contractually defined. This amount initially recorded for € 1.7 million was recalculated to € 5.9 million at a cost of € 4.2 million charged to the year. The adjustment was due to the effect of the signing during the year of important contracts with leading companies in the Aerospace sector that are expected to bring significant economic benefits for the Group in the coming years and, (ii) the lower cost to be paid for the Earn-Out related to the average EBITDA performance of Cheleo in 2017-2019 and the application of the related multiple. The Earn-Out initially estimated at approximately € 1.5 million, has been restated to € 0.8 million.
- Net income was € 0.4 million (€ 0.6 million in 2018), net of tax charges of € 1.9 million which mainly reflects the net effect of non-recurring items of € 3.4 million, and non-relevant for tax purposes, related to changes in liabilities for the acquisitions of PACE and Cheleo.
- Consolidated Net Financial Position as at 31 December 2019 was positive for € 41.4 million, compared to € 60.4 million as at 31 December 2018, down by € 18.9 million mainly due to the dividend distribution (€ 5.8 million), the outlay to acquire Assioma (€ 5.6 million), the purchase of the minority interest of Assioma.ltec Srl (€ 0.4 million), the purchase of treasury shares (€ 1.0 million), the recognition of the payable for the new lease contract of offices in Berlin (€ 2.0 million), the payment of reorganisation costs (€ 0.7 million), the adjustment of the fair value of liabilities linked to the acquisition of Pace and Cheleo (€ 3.4 million) and other changes in net working capital for the remaining amounts.
- Consolidated Shareholders' equity as at 31 December 2019 amounted to € 81.9 million, down € 4.5 million compared to that at 31 December 2018, mainly as a result of dividend distribution (€ 5.8 million), the share buy-backs (€ 1.0 million), the purchase of the minority interest of Assioma.ltec Srl (€ 0.4 million) and other changes in reserves (€ 0.1 million). The use of treasury shares to pay part of the price for the acquisition of Assioma (€ 2.4 million) and net income (€ 0.4

million) were a positive and opposite sign, within the movements in shareholders' equity.

## GROUP REVENUES AND GROSS MARGINS

Following the operational and management evolution of the TXT Group's activities, two distinct Divisions were identified in 2019: TXT Aerospace, Aviation & Automotive and TXT Fintech. Revenues and direct costs for 2019, compared with the figures in the previous year, are presented below.

<i>(€ thousand)</i>	2019	%	2018	%	% Change
<b>REVENUES</b>	<b>59,091</b>	<b>100.0</b>	<b>39,957</b>	<b>100.0</b>	<b>47.9</b>
<b>DIRECT COSTS</b>	<b>31,824</b>	<b>53.9</b>	<b>22,289</b>	<b>55.8</b>	<b>42.8</b>
<b>GROSS MARGIN</b>	<b>27,267</b>	<b>46.1</b>	<b>17,668</b>	<b>44.2</b>	<b>54.3</b>
<i>(€ thousand)</i>	2019	%	2018	%	% Change
	<b>TXT AEROSPACE, AVIATION &amp; AUTOMOTIVE</b>				
<b>REVENUES</b>	<b>38,737</b>	<b>100.0</b>	<b>31,057</b>	<b>100.0</b>	<b>24.7</b>
Software	5,851	15.1	4,942	15.9	18.4
Services	32,886	84.9	26,115	84.1	25.9
<b>DIRECT COSTS</b>	<b>20,424</b>	<b>52.7</b>	<b>16,590</b>	<b>53.4</b>	<b>23.1</b>
<b>GROSS MARGIN</b>	<b>18,313</b>	<b>47.3</b>	<b>14,467</b>	<b>46.6</b>	<b>26.6</b>
	<b>TXT FINTECH</b>				
<b>REVENUES</b>	<b>20,354</b>	<b>100.0</b>	<b>8,816</b>	<b>100.0</b>	<b>130.9</b>
Software	1,042	5.1	373	4.2	n.s.
Services	19,312	94.9	8,443	95.8	128.7
<b>DIRECT COSTS</b>	<b>11,400</b>	<b>56.0</b>	<b>5,696</b>	<b>64.6</b>	<b>100.1</b>
<b>GROSS MARGIN</b>	<b>8,954</b>	<b>44.0</b>	<b>3,120</b>	<b>35.4</b>	<b>187.0</b>

### TXT Aerospace, Aviation & Automotive Division

Revenues of the Aerospace, Aviation & Automotive Division were € 38.7 million in 2019, compared to € 31.0 million in 2018, an increase of 24.7% entirely due to organic growth. Revenues from software in 2019 were € 5.9 million, +18.4% compared to 2018, and revenues from services were € 32.9 million, 25.9% compared to 2018.

The gross margin was € 18.3 million, +26.6% compared to 2018 (€ 14.5 million). As a percentage of revenues, the gross margin amounted to 47.3%, compared to 46.6% in 2018.

TXT has decades-long experience in the aerospace sector, particularly in on-board software, flight simulators, training systems, flight support systems and advanced manufacturing solutions. The Division also serves a growing number of aerospace companies and airline operators throughout the world, providing them with software and innovative services to design, configure, produce, acquire and operate their airlines and fleets in an economically optimal manner. The main application areas

are the preliminary design of airplanes and technical systems, the configuration of airplanes and cabins, economic management of fleets, and the analysis of flying routes and innovative instruments - such as “Electronic Flight Bags” - to improve operating efficiency during flight.

Current customers comprise over 50 major companies, including leading manufacturers of aircraft and engines, airlines, civil and defence operators, and MRO - Maintenance, Repair & Overhaul companies, such as Leonardo (I), Airbus (D and F), Boeing (USA), American Airlines (USA), Pilatus (CH), Saab (S), Reiser (D), CAE (D), Safran Group (F), GE Aviation (USA), COMAC (China), Sukhoi (Russia), Embraer (Brazil), Rolls-Royce (UK), Lufthansa (D) and Delta Airlines (USA).

TXT stands out for its ability to design highly reliable advanced solutions with technology as a key business factor and it specialises in mission critical software and systems, embedded software as well as software for training purposes based on simulations and virtual & augmented reality.

The Aviation sector is in a phase of rapid consolidation and TXT is well-positioned to take opportunities with regard to work and acquisitions, numbering among its main and most loyal customers some of the biggest players in this consolidation.

### **TXT FINTECH Division**

Revenues amounted to € 20.4 million, up 130.9% compared to € 8.8 million in 2018. Within the same consolidation scope, revenues increased by 23.7%, with a € 8.2 million contribution from the new subsidiaries of the Assioma Group. Software revenues in 2019 were € 1.0 million, entirely due to Cheleo. Revenues from services amounted to € 19.3 million compared to € 8.4 million in 2018.

All revenues were generated in Italy.

The gross margin was € 9 million, +187% compared to 2018 (€ 3 million). The impact of the gross margin on revenues improved from 44% to 35.4%, thanks to the contribution of the Assioma Group and the favourable mix of products and services.

TXT has historically operated in the financial and banking sector, where it specialises in Independent Verification & Validation of supporting IT systems. The product range builds on the substantial operating experience acquired by working side-by-side with leading banking companies for over twenty years, combined with in-depth knowledge of the methods and tools to manage software quality, and the testing, assessment and validation of software acquired in the aerospace and aviation sector, a historic precursor in these realms. TXT has strategic partnerships with Microsoft, HP and IBM.

The Assioma group, acquired on 30 April 2019, is an Italian specialist in the governance of applications’ software quality, with know-how gained from almost thirty years experience in the industry and with over 160 employees in its Turin, Milan and Bari offices.

Assioma’s customer base includes numerous banks, including Intesa San Paolo, Unicredit Leasing, UBI, ING Direct, Widiba, BPM Group and leading companies in Telecommunications, Manufacturing and Services.

The aim of the Assioma Group acquisition transaction is to strengthen TXT’s existing business for Banking and Financial customers, to improve TXT’s post-acquisition operating margins and to extend its product range by adding new services and solutions. The Assioma Group companies have maintained the same company names and the current management team, under the leadership of

the chief executive officer Giovanni Daniele De Stradis, will continue to manage the company's growth and to develop opportunities to integrate with TXT's Fintech Division.

The acquisition transactions in 2018 and 2019 relating to the Fintech Division have allowed TXT to significantly expand its customers target and to extend its mix of new products, expertise and high value-added specialisations, strengthening its market presence.

### **TXT SENSE Division**

During the course of 2018, TXT's Augmented Reality business outside of the aerospace and automotive industries grew with the acquisition of a minority interest (24%) in the start-up Sense immaterial Reality Srl. On 27 November 2019 TXT sold its shareholding (recorded in 2018 at a value of € 9 thousand) with a net economic impact for the group of € 39 thousand.

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

Investments in this activity in 2019 amounted to € 6.1 million, an increase of 103.0% compared to € 3.0 million in 2018 mainly due to new and additional resources committed to proprietary software products, improved operating efficiency during flights and technologies for 3D representation, products for financing management, credit transfer and investments in the Faraday product. The impact on revenues increased from 7.5% in 2018 to 10.3% in 2019.

Investments in R&D activities included € 3.8 million to projects of the Aerospace, Aviation & Automotive Division, € 2.3 million to the Fintech Division and focused on traditional activities for banks and the companies Cheleo and TXT Risk Solutions and Assioma, acquired during the year.

The TXT Aerospace, Aviation & Automotive Division stands out for its ability to design highly reliable advanced solutions with technology as a key business factor and it specialises in mission critical software and systems, embedded software as well as software for training purposes based on simulations and virtual & augmented reality.

In 2019, investments continued and resulted in the issue of new software solutions in the areas of Flight Operations (Pacelab FPO Cloud), Training with Augmented Reality and Virtual Reality technologies (Pacelab WEAVR) and the configuration of airplane cabins (Pacelab CABIN).

Pacelab FPO Cloud is aimed at airlines and allows pilots to optimise their route during flight to reduce fuel consumption and pollution and to avoid turbulence. A study is under way with one of the main North American airlines, based on the new cloud-based software, which offers innovative functionalities.

Pacelab WEAVR is an innovative platform that facilitates the development and use of applications for training pilots, crews and maintenance workers, meeting the requirements of aircraft and engine manufacturers as well as training schools in the aviation sector. WEAVR consolidates TXT's experience in the sector, obtained over the years through carrying out numerous projects and complex simulators, and is created using innovating Virtual Reality and Augmented Reality techniques.

Pacelab CABIN is a TXT software product addressed to airplane manufacturers to support the configuration of passenger airplane cabins during the sale phases to airlines. Pacelab CABIN, already

in use by the main manufacturers, was extended to allow a Cloud-based collaboration between geographically distributed configuration teams and to offer innovative ways of interactive and collaborative configuration and visualisation of cabin configurations through Augmented Reality technologies. Thanks to these new functions, important innovations were introduced in the cabin configuration process, permitting a significant extension of the already existing relationship with a major US company for the cabin design of their main airplanes.

In 2019, new projects were initiated or continued as part of the subsidised HORIZON 2020 research program, part of the European Union Framework Program for Research and Innovation as well as the German Aviation Research Programme.

The projects aim to develop new industrial applications for aeronautics and are based on TXT's experience in the realm of Industria 4.0 and Digital manufacturing:

- The ICARUS project aims to optimise Big Data in the aeronautics field.
- The FASTEN project aims to develop a platform for production systems entirely connected for high-customisation products, using sophisticated software technologies for self-learning, self-optimisation and advanced control.
- The OPTIMAL project aims to develop improved fuel efficiency techniques and big data analytics on flight outputs.
- The SMART4CPPS project aims to develop IoT and Big Data applications for predictive maintenance programs.

The projects are being conducted as part of international consortia with leading companies and development centres.

## **GROUP REVENUES**

Commercial costs amounted to € 8.6 million, up by +53.7% compared to 2018, mainly due to commercial investments of the companies acquired in the Fintech division and international aerospace and aviation business. As a percentage of revenues, commercial costs amounted to 14.5%, compared to 14.0% in 2018.

General and administrative costs amounted to € 5.6 million, up € 0.3 million compared to 2018 (€ 5.3 million). Costs as a percentage of revenues decreased from 13.2% in 2018 to 9.7% in 2019, mainly due to cost containment and optimisation over a broader scope of activities following the acquisitions of Cheleo, TXT Risk solutions and the Assioma Group.

Gross operating profit (EBITDA) in 2019 was € 7.0 million, up +84.4% compared to 2018 (€ 3.8 million). Profit as a percentage of revenues was 11.9%, compared to 9.5% the prior year. In 2019 EBITDA margin on revenues was 14.7% for the Aerospace, Aviation & Automotive Division (11.7% in 2018) and 6.4% for the Fintech Division (5.3% in 2018).

Pre-tax profit came to € 2.3 million, compared to € 0.6 million in 2018. Investments in cash and cash equivalents recorded financial income compared to the value invested of € 2.2 million with a positive change in fair value during the year of approximately € 3.7 million (the change in fair value was negative by € 1.3 million in 2018). Financial charges as non-recurring items include (i) a cost of € 4.1 million due to the adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the remaining 21% of the capital of PACE and (ii) income of € 0.7 million due to the lower cost to be paid for the Earn-Out related to the average EBITDA performance of Cheleo.

Net income was € 0.4 million (€ 0.6 million in 2018) net of tax charges of € 1.9 million, mainly due to the net effect of € 3.4 million of non-recurring and non-taxable items related to the acquisitions of PACE and Cheleo.

## **CONSOLIDATED CAPITAL EMPLOYED**

As at 31 December 2019, Capital Employed totalled € 40.6 million, up by € 14.6 million compared to 31 December 2018 (€ 26.0 million), mainly due to the acquisition of Assioma (€ 8.7 million) and organic growth (€ 5.9 million).

The table below shows the details:



<i>(Importi in migliaia di euro)</i>	31.12.2019	31.12.2018	Total variance	of which Assioma	of which TXT
Immobilizzazioni immateriali	24.380	17.751	6.629	7.551	(922)
Immobilizzazioni materiali nette	7.929	3.680	4.249	1.927	2.322
Altre attività immobilizzate	2.325	1.511	814	6	808
<b>Capitale Immobilizzato</b>	<b>34.634</b>	<b>22.942</b>	<b>11.692</b>	<b>9.484</b>	<b>2.208</b>
Rimanenze	4.156	3.141	1.015	-	1.015
Crediti commerciali	19.371	14.029	5.342	3.785	1.557
Crediti vari e altre attività a breve	4.779	2.963	1.816	370	1.446
Debiti commerciali	(2.122)	(1.434)	(688)	(750)	62
Debiti per imposte	(4.292)	(1.662)	(2.630)	(488)	(2.142)
Debiti vari e altre passività a breve	(12.808)	(11.031)	(1.777)	(2.460)	683
<b>Capitale circolante netto</b>	<b>9.084</b>	<b>6.006</b>	<b>3.078</b>	<b>457</b>	<b>2.621</b>
<b>TFR e altre passività non correnti</b>	<b>(3.110)</b>	<b>(2.957)</b>	<b>(153)</b>	<b>(336)</b>	<b>183</b>
<b>Capitale investito</b>	<b>40.608</b>	<b>25.991</b>	<b>14.617</b>	<b>9.605</b>	<b>5.012</b>
Patrimonio netto del gruppo	81.852	86.347	(4.495)	2.347	(6.842)
Patrimonio netto di terzi	168		168	168	0
Posizione finanziaria netta (Liquidità)	(41.412)	(60.356)	18.944	7.090	11.854
<b>Fonti di finanziamento</b>	<b>40.608</b>	<b>25.991</b>	<b>14.617</b>	<b>9.605</b>	<b>5.012</b>

Intangible assets amounted to € 24.3 million, up by € 6.6 million due to the acquisition of Assioma (€ 7.6 million) net of the amortisation/depreciation for the year on intangible assets for the intellectual property of the software and customer portfolio for the acquisitions of Pace, Cheleo and TXT Risk Solutions.

Tangible assets of € 7.9 million increased by € 4.2 million compared to 31 December 2018, mainly due to the acquisition of Assioma (€ 1.9 million) and to the signature of a new long-term rental agreement for new Pace offices in Berlin (€ 2.0 million). Investments in servers and computers during 2019 (€ 0.32 million) were essentially in line with the depreciation amounts for the period.

Other fixed assets amounted to € 2.3 million and are essentially represented by deferred tax assets. The increase of € 0.8 million compared to 31 December 2018 (€ 1.5 million) is mainly due to the provision for prepaid taxes on revenues arising from the application of IFRS15 by the subsidiary PACE for important contracts signed during 2019.

Net working capital rose by € 3.1 million, from € 6.0 million as at 31 December 2018 to € 9.1 million as at 31 December 2019, due to organic growth (€ 3.5 million), net of the consolidation of Assioma, with negative net working capital of € 0.5 million. The growth of working capital is mainly due to the increase in inventories for work in progress for orders not yet invoiced to customers (€ 1.0 million) and trade receivables of € 5.3 million, of which organic growth € 1.5 million and € 3.8 million due to the consolidation of the Assioma group.

The other main changes in net working capital refer to the increase in inventories for work in progress for orders not yet invoiced to customers (€ 1.0 million) and the increase in sundry receivables and other short-term assets (€ 1.4 million).

Liabilities arising from post-employment benefits of Italian employees and other non-current liabilities of € 3.1 million increased by € 0.2 million compared with the end of 2018 due to the acquisition of Assioma.

Consolidated shareholders' equity as at 31 December 2019 amounted to € 81.9 million, down € 4.5 million compared to that at 31 December 2018, mainly as a result of dividend distribution (€ 5.8 million), the share buy-backs (€ 1.0 million), the purchase of the minority interest of Assioma.Itec Srl (€ 0.4 million) and other changes in reserves (€ 0.1 million). The use of treasury shares to pay part of the price for the acquisition of Assioma (€ 2.4 million) and net income (€ 0.4 million) were a positive and opposite sign, within the movements in shareholders' equity.

Consolidated Net Financial Position as at 31 December 2019 was positive for € 41.4 million, compared to € 60.4 million as at 31 December 2018, down by € 18.9 million mainly due to the dividend distribution (€ 5.8 million), the outlay to acquire Assioma (€ 5.6 million), the purchase of the minority interest of Assioma.Itec Srl (€ 0.4 million), the purchase of treasury shares (€ 1.0 million), the recognition of the payable for the new lease contract of offices in Berlin (€ 2.0 million), the payment of reorganisation costs (€ 0.7 million), the adjustment of the fair value of liabilities linked to the acquisition of Pace and Cheleo (€ 3.4 million) and other changes in net working capital for the remaining amounts.

On 30 April 2019, the final agreement was signed for the acquisition of 100% of the Assioma Group's share capital. TXT acquired 100% of the share capital of Link Software S.r.l., which holds (i) a 100% stake in the share capital of Assioma.Net S.r.l., which in turn holds a 51% stake in the share capital of Assiopay S.r.l. and (ii) 70% of the share capital of Assioma.Itec S.r.l.

The total investment was € 8.1 million, broken down as follows:

- € 2.3 million for the value of the TXT shares delivered (253,846 treasury shares).
- € 5.6 million, broken down as follows:
  - € 4.5 million paid in cash;
  - € 1.6 million paid in cash as a function of the financial position as defined contractually on the Closing date;
  - a payment of € 2.4 million envisaged for two Earn-outs dependent on specific operating objectives, insofar as price components deferred over a medium-term period of time, subject to the fulfilment of specific conditions envisaged in the purchase agreement;
  - (€ 2.9) million as the benefit from the net financial position of the Assioma group acquired.
- € 0.2 million as Shareholders' equity attributable to minority interests.

On 12 June 2019, Link Software S.r.l. purchased the remaining 30% of Assioma.Itec S.r.l. unacquired to date, paying € 0.4 million in cash.

Pursuant to Consob communication dated 28 July 2006 and in compliance with the structure envisaged by the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", it is noted that the TXT e-solutions Group's net financial position as at 30 December 2019 is as follows:



(€ thousand)	31/12/2019	31/12/2018	Change
Cash and cash equivalents	11,426,083	5,593,125	5,832,958
Financial instruments at fair value	87,320,066	108,948,873	(21,628,807)
Current bank loans	(17,353,014)	(11,657,394)	(5,695,620)
Liabilities related to acquisitions (PUT/CALL - Earn-Out)	(6,647,604)	(4,900,000)	(1,747,604)
Current financial liabilities - IFRS16	(1,304,999)	(747,041)	(557,958)
<b>Short-term financial resources</b>	<b>73,440,532</b>	<b>97,237,563</b>	<b>(23,797,031)</b>
Non-current financial liabilities - IFRS16	(4,517,020)	(2,055,285)	(2,461,735)
Non-current bank loans	(23,525,454)	(30,041,110)	6,515,656
Liabilities related to acquisitions (PUT/CALL - Earn-Out)	(3,986,529)	(4,785,952)	799,423
<b>Financial resources - non-current portion</b>	<b>(32,029,003)</b>	<b>(36,882,347)</b>	<b>4,853,344</b>
<b>Net Available Financial Resources</b>	<b>41,411,529</b>	<b>60,355,216</b>	<b>(18,943,687)</b>

The Net Financial Position as at 31 December 2019 is detailed as follows:

- Cash and cash equivalents of € 11.4 million are mainly in Euro, held with major Italian banks. Last year liquidity was deposited in current accounts for € 5.6 million.
- Financial instruments at fair value of € 87.3 million are composed of investments in partial return multi-segment insurance funds (€ 77.8 million) and in bond funds, balanced and absolute return funds with a medium-low risk profile (€ 0.5 million), government bonds (BTPs) for € 1.0 million and treasury management for € 7.9 million.
- Current financial liabilities as at 31 December 2019 amounted to € 25.9 million and refer for € 18.0 million to the short-term portion of new medium/long-term loans 2019; € 5.9 million disbursement estimated for the exercise of the Put/Call option in 2020-2021 for the acquisition of Pace, € 0.8 million disbursement estimated for the Earn-out in 2020 for the acquisition of Cheleo and € 1.3 million for the short-term portion of the debt for the payment of rentals and lease instalments for offices, cars and printers including all amounts up to expiry of the related contracts following the adoption of the new accounting standard (IFRS 16).
- Non-current financial payables - 16 as at 31 December 2019 amounted to € 4.5 million and refer to the medium/long-term portion of payables for the payment of rentals and lease instalments for offices, cars and printers including all amounts up to expiry of the related contracts, following adoption of the IFRS16 accounting standard.
- Non-current financial liabilities for € 26.9 million were mainly represented by: € 22.9 million in medium/long-term loans taken out in 2018 for the portion to be paid beyond 12 months; €1.6 million disbursement estimated for the exercise of the Put/Call option in 2021 for the acquisition of TXT Risk Solutions and € 2.4 million disbursement estimated for Earn Out of Assioma shareholders.

## Liquidity management

As at 31 December 2019, most of the financial instruments (€ 87.3 million) had been invested in multi-segment insurance products (€ 77.8 million) from which the company can decide to divest at any time and without specific charges to deal with investment opportunities.

Multi-segment insurance products allow you to combine:

- Separate Management - First Line (€ 69.2 million), which has the characteristic of a substantial guarantee on invested capital, stability of returns over time, as investments are made in high quality securities, is easily liquidated, with minimum exposure to strong and rapid fluctuations in value.
- Bond, balanced and insurance funds - Third Line (€ 4.5 million) that allow for participation in the performance of financial markets.

During the year, liquidity management recorded a loss of € 2.2 million.

## Q4 2019 ANALYSIS

Analysis of the operating results for the fourth quarter of 2019, compared with those for the third quarter of the previous year, are presented below:

<i>(Importi in migliaia di Euro)</i>	Q4 2019	%	Q4 2018	%	Var %
<b>RICAVI</b>	<b>16.557</b>	<b>100,0</b>	<b>11.330</b>	<b>100,0</b>	<b>46,1</b>
Costi diretti	8.264	49,9	6.347	56,0	30,2
<b>MARGINE LORDO</b>	<b>8.293</b>	<b>50,1</b>	<b>4.983</b>	<b>44,0</b>	<b>66,4</b>
Costi di Ricerca e Sviluppo	1.616	9,8	836	7,4	93,3
Costi Commerciali	2.750	16,6	1.719	15,2	60,0
Costi Generali & Amministrativi	1.722	10,4	1.459	12,9	18,0
<b>RISULTATO OPERATIVO LORDO (EBITDA)</b>	<b>2.205</b>	<b>13,3</b>	<b>969</b>	<b>8,6</b>	<b>127,6</b>
Ammortamenti e svalutazioni	872	5,3	588	5,2	n.m.
Oneri riorganizzazione	(12)				
<b>UTILE OPERATIVO (EBIT)</b>	<b>1.321</b>	<b>8,0</b>	<b>381</b>	<b>3,4</b>	<b>246,7</b>
Proventi (oneri) finanziari	57	0,3	(899)	(7,9)	n.m.
Oneri riorganizzazione e non ricorrenti	(3.432)	(20,7)	-	-	n.s.
<b>RISULTATO PRIMA DELLE IMPOSTE (EBT)</b>	<b>(2.054)</b>	<b>(12,4)</b>	<b>(518)</b>	<b>(4,6)</b>	<b>n.m.</b>
Imposte	(646)	(3,9)	84	0,7	n.m.
<b>RISULTATO NETTO CONTINUING OPERATIONS</b>	<b>(2.700)</b>	<b>(16,3)</b>	<b>(434)</b>	<b>(3,8)</b>	<b>n.m.</b>

Performance compared to the fourth quarter of the prior year was as follows:

- Net revenues amounted to € 16.6 million, up 46.1% compared to the fourth quarter of 2018 (€ 11.3 million). Within the same consolidation scope, revenues increased by 19.3%, with a € 3.0 million contribution from Assioma. Revenues from software, subscriptions and maintenance amounted to € 1.9 million, in line with the fourth quarter of 2018 (€ 1.6 million). Revenues from services amounted to € 14.6 million, up 46.1% compared to the fourth quarter of 2018 (€ 16.6 million).
- The Gross margin for the fourth quarter of 2019 amounted to € 8.3 million, up 66.4% over the fourth quarter of 2018 (€ 5.0 million). The margin on revenues was 50.1% compared to 44.0% in the fourth quarter of 2018 due to the different revenue mix in the quarter.
- EBITDA in the fourth quarter of 2019 was € 2.2 million, up by 127% compared to the fourth quarter of 2018 (€ 1.0 million), following significant investments in research and development (+93.3%). Commercial expenses increased by +60.0% and general and administrative expenses by +18.0%. Profit as a percentage of revenues in the fourth quarter 2019 was 13.3% up from +8.6% in the fourth quarter 2018.
- EBIT (operating profit) was € 1.3 million, up compared with the fourth quarter of 2018 (€ 0.4 million). Amortisation and depreciation in the fourth quarter of 2018 amounted to € 0.9 million compared to € 0.6 million in 2018.
- Financial charges amounted to € 3.4 million. Investments in cash and cash equivalents generated financial income of € 0.1 million (negative € 0.9 million in the fourth quarter 2018). Financial charges also include (i) a cost of € 4.1 million due to the adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the remaining 21% of the capital of PACE and (ii) income of € 0.7 million due to the lower cost to be paid for the Earn-Out related to the average EBITDA performance of Cheleo.
- The Result before taxes was therefore a loss of € 2.1 million, compared to a profit of € 0.5 million in the fourth quarter of 2018.
- The net result was a loss of € 2.7 million after tax provisions of € 0.7 million.

## EMPLOYEES

As at 31 December 2019, there were 786 employees, an increase of 252 employees compared to 534 personnel units as at 31 December 2018 due to a growth in the business and the acquisition of Assioma (160 employees).

**PARENT COMPANY'S PERFORMANCE**

TXT's results for 2019, compared with the previous year's figures, are presented below:

**Capogruppo TXT e-solutions Spa – Dati di sintesi (1)**

<b>DATI ECONOMICI</b> (Importi in migliaia di Euro)	2019	%	2018	%	VAR %
<b>RICAVI</b>	24.219	100,0	19.873	100,0	21,9
<b>EBITDA</b>	988	4,1	211	1,1	368,2
<b>UTILE OPERATIVO (EBIT)</b>	99	0,4	642	3,2	(84,6)
<b>UTILE NETTO CONTINUING OPERATIONS</b>	2.466	10,2	(1.642)	(8,3)	(250,2)
Utile netto Discontinued Operations	742		972		
<b>UTILE NETTO</b>	3.208		(670)		
<b>DATI PATRIMONIALI E FINANZIARI</b> (Importi in migliaia di Euro)	31.12.2019		31.12.2018		Var
Capitale immobilizzato	32.841		17.686		15.155
Capitale circolante netto	9.399		6.286		3.113
TFR e altre passività non correnti	(2.305)		(2.583)		278
<b>Capitale investito</b>	<b>39.935</b>		<b>21.389</b>		<b>18.546</b>
Posizione finanziaria netta	44.119		63.890		(19.771)
Patrimonio netto del gruppo	84.054		85.279		(1.225)
<b>ALTRE INFORMAZIONI</b>	31.12.2019		31.12.2018		Var
Numero di dipendenti	485		414		71
Quotazione del titolo TXT	9,66		8,18		1,48

(1) I risultati analitici 2018 si riferiscono alle Continuing Operations in conformità al principio contabile IFRS 5. I risultati sintetici si riferiscono alle attività destinate alla vendita ("Discontinued Operations").

As at 31 December 2019, the Parent Company had 485 employees, an increase of 71 employees compared to 414 personnel units as at 31 December 2018 due to a growth in the Aerospace sector.

TXT e-solutions, completed on 16/12/2019, the transfer of its Banking & Finance business unit to its subsidiary Assioma.Net Srl (100% controlled by TXT e-solutions).

The business unit to be transferred consists of an autonomously organised complex, already identified and independent in TXT e-solutions, with 121 employees and revenues of € 8.7 million as at 31/12/2019 and whose activity is characterised by the provision of services dedicated to financial operators to accompany them in the "digital transformation" process aimed at "Quality Excellence" and specifically: design of test processes, software quality control service, design and development of "business critical" applications in the financial sector, "Application Maintenance" services.

Assioma.Net Srl, recently acquired by the TXT Group, has 170 employees as at 31/12/2019 and has revenues of approximately € 10.9 million on an annual basis. The activity carried out by Assioma.Net Srl consists in supporting the corporate IT of TXT e-solutions in the solution, analysis and prevention of problems related to software quality, supporting it with services and skills characterised by a high value and a very competitive cost-benefit ratio.

The operation is aimed at simplifying the organisational and managerial structure; the transfer aims, in fact, to develop the synergies of similar or complementary activities, concentrating them in the company Assioma.Net Srl, so as to offer customers an even wider and more complete, more sophisticated and cutting-edge service, optimising the synergies and capabilities of the group.

In detail, the transfer transaction was examined and approved by the Board of Directors of TXT e-solutions at the meeting held on 7 November 2019 in order to concentrate in a single legal entity all the similar or complementary activities - as well as for similar customers - carried out so far both directly by the Transferor, through the aforementioned Business Unit, and by the Transferee. The transaction will also make it possible to improve customer services through the development of programmes and the expansion of the services provided. Another objective of the transfer is the desired cost savings in relation to redundancies, which may be reduced, where they are not required for providing total coverage of the service offered, thus achieving advantages in terms of increasing breadth and quality of the services provided to customers operating in the banking and financial sector, as well as cost savings, to the benefit of the company's profitability and ability to bear the significant costs of developing IT programmes and, therefore, the value of the Group as a whole.

Following the Board of Directors' resolution of 7 November 2019, all the processes required by law were initiated, such as: i) written communication to the respective trade union representatives established, pursuant to Article 19 of Law No. 300 of 20 May 1970, in the production units concerned, as well as to the respective trade associations, ii) appointment, pursuant to Article 2465 of the Italian Civil Code, of an expert, with adequate and proven professionalism, as well as the requirements of independence, for the purpose of preparing the sworn appraisal report for the business unit being transferred. The parties agree that, in addition to the statutory effects, the tax and accounting effects of the transfer of the business unit that is the subject of this deed will commence at 00.00 a.m. on 1 January 2020 and therefore the transactions relating to the transferred business unit will be booked to the financial statements of the transferee company as from that date, without prejudice to the fact that in the financial statements of the transferee the assets and liabilities of the transferred business unit will be booked on the basis of the criterion of continuity of the accounting and tax values pursuant to and for the purposes of Article 176 of the Italian consolidated tax act (TUIR). Please note that the valuation report refers to the date of 30 September 2019, any differences between the date of 30 September 2019 and the effective date of the transfer will be subject to adjustment between the transferor and the transferee.

The value of the Business Unit to be transferred was estimated at approximately € 1.0 million, of which € 0.07 million as an increase in the share capital of Assioma.Net Srl and € 1.63 million as a transfer reserve.

Pursuant to Art. 4.4 of the Procedure for the regulation of TRPs of TXT e-solutions SpA, the transaction covered by this press release is not considered as a transaction with related parties as the transferee company is 100% controlled by TXT e-solutions (transferor).

The following table shows the 2019 income statement and the 2018 comparison of the transferred business unit and

	31.12.2019	31.12.2018	Var
Ricavi e altri proventi	8.650.716	7.398.574	8.650.716
<b>TOTALE RICAVI E ALTRI PROVENTI</b>	<b>8.650.716</b>	<b>7.398.574</b>	<b>8.650.716</b>
Acquisti di materiali e servizi esterni	(888.653)	(488.376)	(888.653)
Costi del personale	(6.755.841)	(5.870.681)	(6.755.841)
Altri costi operativi	(13.661)	(1.739)	(13.661)
Ammortamenti/Svalutazioni	(70.437)	(64.276)	(70.437)
<b>RISULTATO OPERATIVO</b>	<b>922.124</b>	<b>973.501</b>	<b>922.124</b>
Proventi (Oneri) finanziari	(1.525)	(1.922)	(1.525)
<b>RISULTATO PRIMA DELLE IMPOSTE</b>	<b>920.599</b>	<b>971.579</b>	<b>920.599</b>
Imposte sul reddito	(178.197)		(178.197)
<b>RISULTATO NETTO DEL PERIODO</b>	<b>742.403</b>	<b>971.579</b>	<b>742.403</b>

## RECONCILIATION OF NET SHAREHOLDERS' EQUITY PARENT COMPANY - CONSOLIDATED.

(Euro/000)	Patrimonio Netto			Utile Netto		
	31.12.2019	31.12.2018	31.12.2017	31.12.2019	31.12.2018	31.12.2017
<b>Come da bilancio TXT e-solutions S.p.A.</b>	<b>84.054</b>	<b>85.279</b>	<b>98.673</b>	<b>3.209</b>	<b>(670)</b>	<b>75.595</b>
Eccedenza dei patrimoni netti dei bilanci comprensivi dei risultati di esercizio, rispetto ai valori di carico delle partecipazioni in imprese consolidate	(17.443)	(7.618)	(4.241)	2.849	1.467	1.582
Rettifiche di consolidamento, al netto dell'effetto fiscale, per:						
- differenza tra prezzo di acquisto e corrispondente patrimonio netto contabile	19.640	12.785	5.369			
- differenza allocata a IP, CR e DTA con PPA	4.586	4.958	2.264	(1.194)	(831)	(352)
- imposte differite passive su differenza allocata a IP e CR con PPA	(1.279)	(1.344)	(503)	294	142	110
- Put/call minority	(7.537)	(8.193)	(1.668)	(4.229)	(24)	(24)
- eliminazione dividendi infragruppo			-		-	(3.106)
- ripresa svalutazione partecipazioni Sense iR	-	(39)	-	39	(39)	-
- altre rettifiche	-	520		(520)	520	(5.248)
<b>Come da bilancio TXT Group</b>	<b>82.021</b>	<b>86.347</b>	<b>99.894</b>	<b>448</b>	<b>565</b>	<b>68.556</b>

## PERFORMANCE OF TXT STOCK, TREASURY SHARES AND EVOLUTION OF SHAREHOLDERS AND DIRECTORS

In 2019, the share price of TXT e-solutions reached a high of € 10.66 on 25 November 2019 and a low of € 8.04 on 03 June 2019. As at 31 December 2019, the share price was € 9.66.

Average daily trade volumes in 2019 amounted to 23,829 shares, a decrease on the daily average of 66,800 shares in 2018.

As at 31 December 2019, 1,220,971 treasury shares were held (1,359,717 in December 2018), accounting for 9.3876% of shares outstanding, at an average carrying amount of € 3.32 per share. In 2019, 115,100 treasury shares were purchased at an average price of € 9.02. In May 2019, in exchange for the acquisition of the shares of the company Link Software Engineering srl (Assioma Group), as partial consideration for the price agreed with its shareholders, 253,846 were assigned at the agreed price of € 8.98.

The purchase of treasury shares was authorised again by the Shareholders' Meeting of 19 April 2018. The plan provides for the purchase of shares up to a maximum of 20% of the share capital.

In order to provide regular updates on the Company, an email-based communication channel is operational (txtinvestor@txtgroup.com). Everyone can sign up for this service in order to receive, in addition to press releases, specific communications to Investors and Shareholders.

On 15 July 2019 the Board of Directors co-opted Daniele Stefano Misani as Executive Director and Alessandro Arrigoni as Independent Director to replace Marco Guida and Paolo Matarazzo, both Executive Directors who resigned. Both directors will remain in office until the next shareholders' meeting.

## **DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES AND RISK MANAGEMENT**

On 29 January 2019, following the exercise of the Put option by Laserline, TXT acquired the remaining 49% interest in Cheleo, paying the contractually envisaged consideration of € 4.9 million, already allocated to financial liabilities at 31 December 2018. The price was paid in part directly to the seller (€ 4.4 million) and in part to an escrow account (€ 0.5 million) to protect the contractual guarantees. Laserline Spa is controlled by Enrico Magni, the majority shareholder and CEO of TXT, and the latter payment was also subject to assessment, approval and disclosure, in the context of the Cheleo acquisition transaction, by a Related Party.

On 31 May 2019, a settlement agreement was signed related to the termination of the employment contract of Marco Guida, following notice of termination of his position as director of the Aerospace, Aviation and Automotive Division and his resignation from the position of executive member of the Company's Board of Directors, as well as from other positions held by the same within the boards of directors of subsidiaries TXT Next Sarl, TXT Next Ltd and TXT e-solutions Sagl.

As regards the termination of the position of executive director and of Marco Guida's contract of employment, no indemnity is envisaged at the end of the term in office, nor are there any non-competition clauses, while as regards the termination of the contract of employment as an executive of the Company and due to the waiver to appeal against the termination, the settlement agreement reached entailed: (i) the lump-sum payment by 15 September 2019 of an amount corresponding to € 225,000 gross; (ii) the payment of an amount, merely as a settlement, including an all-inclusive exceptional one-off amount that may not be repeated, of € 5,000 gross; and (iii) keeping the company car until 31 May 2020. The Company contributed € 3,000 gross to Marco Guida's legal expenses.

In the above-mentioned agreement, it is specified that by virtue of the termination by the employer, on 31 July 2019, the contract of employment was terminated, and Marco Guida was exonerated from having to work for the remainder of the notice period (10 months) and with the consequent right to receive the relative substitute indemnity calculated in accordance with Law and the applicable CCNL (National Collective Labour Contract).

There are no mechanisms envisaged that would place restrictions or adjustments to the amount agreed and no requests are envisaged that would entail returning the amounts already paid; the



amount of the settlement agreement is in line with the indications contained by the remuneration policy adopted by the Company.

On 31 May 2019, Marco Guida held 200,000 Company shares and was not an addressee of the 2019 Stock Options Plan. On 6 June 2019, Marco Guida sold 120,000 shares to Enrico Magni at a price of € 8.10 and on 12 June 2019, he sold 50,000 shares outside of the open markets (block trade) at a price of € 8.15.

As an executive director and executive with strategic responsibilities, Marco Guida is a Related Party of the Company; the above-mentioned settlement agreement is considered a Related Party transaction of lesser significance; the Transactions with related parties Committee approved the above-mentioned transaction. The replacement of the former executive director is not regulated by succession plans.

On 11 October 2018, TXT participated in the establishment of the start-up Sense immaterial Reality S.r.l. by subscribing shares representing 24% of its share capital for a total value of € 48 thousand; the remaining 76% was subscribed by the shareholder Alvise Braga IIIa.

TXT's Board of Directors, following the request for a capital increase of Sense immaterial Reality and after the presentation of the latter's strategic plan, considered the investment in Sense to be non-strategic, also considering that many of the competencies are already present in TXT.

On 27 November 2019, TXT sold its equity investment in the start-up Sense immaterial Reality Srl, representing 24% of its share capital, for a total value of € 48,000 to its shareholder Alvise Braga IIIa.

Alvise Braga IIIa, Chairperson of the Board of Directors and shareholder with a shareholding of 14.02% of the share capital at the date of the transaction, held a majority interest in the share capital of Sense immaterial Reality S.r.l., amounting to 76%. Therefore, Alvise Braga IIIa qualifies as a related party in the transaction.

###

Transactions by TXT e-solutions S.p.A. with related parties, as identified by IAS 24, essentially refer to the provision of services and the funding and lending activities with the Group's subsidiaries. All transactions fall within the course of ordinary activities and are conducted at arm's length, i.e. under the conditions that would apply between two independent parties and are carried out in the interest of the Group companies.

Directors and managers with strategic responsibilities shall declare, every six months, the execution of any transactions carried out with the Parent Company and with subsidiaries, including through third parties, in accordance with the provisions of IAS 24.

Amounts of transactions with related parties for trading, financial or other purposes are highlighted in note 7 of the "Notes to the consolidated financial statements".

The identification, approval and execution of transactions with related parties by TXT are governed by the "Procedure governing transactions with related parties" approved on 8 November 2010 and published on the web site: [www.txtgroup.com/it/governance](http://www.txtgroup.com/it/governance).



Reference should be made to the specific "Risk Management" section in the Explanatory Notes for a description of the risks, including in relation to the use of financial instruments by companies included in the consolidated financial statements.

## **CORPORATE GOVERNANCE, REMUNERATION REPORT AND DECLARATION ON NON-FINANCIAL INFORMATION**

The Parent Company's By-Laws comply with the provisions of the Corporate Governance Code issued by the Corporate Governance Committee for Listed Companies.

Appendix 2 includes the Annual Report on Corporate Governance and the Shareholding Structure.

Appendix 3 includes the Report on the remuneration of directors.

Appendix 4 includes the Declaration on non-financial information.

## **ADDITIONAL INFORMATION**

TXT e-solutions S.p.A. directly or indirectly controls a number of companies with registered offices in non-European countries (non-EU companies), which are of significant importance in terms of Article 36 of Consob Regulation 16191/2007 concerning the regulation of markets ("Market Regulation"). The Company has practices and procedures in place to ensure respect of the provisions pursuant to the aforementioned Consob regulation.

In compliance with the provisions of Article 2428, paragraph 4, of the Italian Civil Code, we certify that TXT

e-solutions S.p.A., at the closing date of the financial year, has secondary offices in Orbassano (TO), Via Torino 43/45 and Pomigliano d'Arco (NA), Via ex-aeroporto consorzio Il sole.

## **EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK**

The Group's 2020 objectives envisage sustained growth in Europe, North America and Asia Pacific and the development of the large and diversified customer base already acquired in the two current divisions: (i) in Aerospace & Aviation the Group's prestigious customer package was further enhanced at the end of 2019 thanks to new software licensing contracts with leading North American OEMs and Airlines that will lead to new business opportunities in the same North American market and elsewhere; (ii) in the Fintech division, an important boost in volumes and margins is expected through the sale of FinTech and RegTech proprietary solutions, leveraging the valuable references developed over the years in the Banking & Finance world. In the meantime, intensive research, assessment and verification activities are continuing, as regards M&A opportunities that contribute to strengthening the range of TXT technologies and services and that can generate value for customers, society and shareholders.

The spread of Covid-19 is having a significant impact on the global economy. Among the market sectors in which TXT operates, the most at risk is that of airlines (with consequent impacts on aircraft manufacturers). The most probable risks for TXT are related to decreases in revenues from services and slowdowns in the acquisition of new contracts. The banking sector, although in crisis, has put in motion remote working, both for employees and external staff.

TXT faces the crisis with a significant backlog of purchased licenses (IFRS15), an excellent net financial position, and continuity in delivery, thanks to the efficient organisation of smart working teams and geographical distribution of operations (including in areas not currently at risk).

The first quarter of 2020, taking into account the significant negative effects linked to the spread of Covid-19, could have a more limited level of profitability than expected, despite the fact that in the first two months of the year management managed to maintain revenue and margin levels in line with expectations.

Manager responsible for preparing corporate accounting documents  
Officer

The Chief Executive

Eugenio Forcinito

Enrico Magni

Milan, 12 March 2020

# **TXT e-solutions S.p.A.**

## **2019 REPORT ON CORPORATE GOVERNANCE**

### **AND SHAREHOLDING STRUCTURE**

Pursuant to Article 123-*bis* of the Consolidated Law on Finance

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## GLOSSARY

**2018 Corporate Governance Code / Code:** the Corporate Governance Code of listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civil Code / C.C.:** the Italian Civil Code.

**Board:** the Issuer's Board of Directors.

**Issuer:** the issuer of listed shares to which the Report refers.

**Financial Year:** the accounting period to which the Report refers.

**Consob Issuers' Regulation:** Regulation 11971/1999 (and subsequent amendments) concerning issuers, issued by Consob.

**Consob Regulation on Markets:** Consob Regulation 20249/2017 concerning markets.

**Consob Regulation on transactions with related parties:** Regulation 17221 of 12 March 2010 (and subsequent amendments) on transactions with related parties issued by Consob.

**Report:** the report on corporate governance and shareholding structure drafted by companies pursuant to Article 123-*bis* of the Consolidated Law on Finance (TUF).

**TUF:** Legislative Decree No. 58 dated 24 February 1998 (Consolidated Law on Finance).

## 1. ISSUER'S PROFILE

This report illustrates the Corporate Governance system adopted by TXT e-solutions S.p.A. (hereinafter the "Company" or "TXT") and its compliance with the Corporate Governance Code of listed companies (hereinafter the "Code") pursuant to Article 124-*bis* of the Consolidated Law on Finance, Article 89-*bis* of the Consob Issuers' Regulation and Article IA.2.6 of the Instructions accompanying Borsa Italiana S.p.A.'s Rules.

Within the scope of the measures aimed at enhancing value for shareholders and ensuring transparent management actions, TXT defined an articulated and homogeneous system of rules of conduct concerning both its own organisational structure and relations with stakeholders – in particular with shareholders – that comply with the most advanced Corporate Governance standards. The Corporate Governance system adopted by the Board is in line with the principles stated in the Code aimed at ensuring proper and transparent corporate information and creating value for shareholders through an effective management of the Company.

Corporate bodies are listed below:

- Shareholders' Meeting
- Board of Directors
- Remuneration Committee
- Risks and Internal Controls Committee
- Transactions with related parties Committee
- Board of Statutory Auditors

The duly constituted Shareholders' Meeting (the "Shareholders' Meeting") represents the Company through its resolutions. The resolutions are adopted in compliance with the law and the By-Laws; they are binding on all shareholders, including those who are absent or dissenting.

The Board of Directors (the "Board") is assigned with the tasks of managing the Company on an exclusive basis. It is appointed by the Shareholders' Meeting every three years. Its members appoint a Chairperson and a CEO/CEOs and define their powers.

The Remuneration Committee is constituted by Board members and has consultative and advisory functions. In particular, it puts forward opinions and proposals to the Board of Directors concerning the remuneration of the Company's executive directors and managers with strategic responsibilities.

The Risks and Internal Controls Committee is constituted by Board members empowered to assess the adequacy of internal control and risk management systems, and to express an opinion on the control procedures.

The Transactions with Related Parties Committee is a body constituted within the Board that assesses the Company's interest in carrying out Transactions with Related Parties, as well as the appropriateness and essential correctness of the relative conditions.

The Board of Statutory Auditors is responsible for ensuring compliance with the law and the Company's By-Laws as well as for overall management controls. It is not assigned with the task of auditing company accounts, which is the responsibility of External Auditors, registered in a specific Register. The latter are vested with the power to verify, during the reporting period, that company books are properly managed, accounting items are correctly recorded and statutory and



consolidated Financial Statements are in line with accounting entries and audits performed, and that all accounting documents are compliant with relevant regulations.

The corporate bodies' powers and tasks comply with the law, the Company's By-Laws and bodies' resolutions passed from time to time.

A copy of the annual report is available at the Company's registered office and on the website [www.txtgroup.com](http://www.txtgroup.com) under the "governance/corporate-governance-reports" section.

The Company falls under the definition of SME since 2014 in pursuance of Article 1, paragraph 1, letter *w-quater* 1) of the Consolidated Law on Finance and Article 2-*ter* of the Consob Issuers' Regulation. The average capitalisation in 2019 was € 115.6 million and 2019 Revenues came to € 59.1 million.

## **2. INFORMATION ON THE SHAREHOLDING STRUCTURE (pursuant to Art. 123-*bis*, paragraph 1, of the Consolidated Law on Finance) at 31/12/2019**

a) Share capital structure (Article 123-*bis*, paragraph, 1, letter a), of the Consolidated Law on Finance)

The Company's share capital is fully made up of ordinary shares. At 31 December 2019, the subscribed and paid-in share capital was equal to € 6,503,125.00, broken down into 13,006,250 shares with a par value of € 0.50 each.

The Shareholders' Meeting of 18 April 2019 approved a Stock Option Plan with the aim of linking the remuneration of Beneficiaries to the creation of value for the company's shareholders, emphasising factors of strategic interest. In addition, it seeks to promote loyalty, encourage employees to stay with the company or its subsidiaries, and maintain competitiveness in the market for the remuneration of Beneficiaries, emphasising factors of strategic interest. The Plan is qualified as a Stock Option Plan and entitles beneficiaries to purchase, subject to the fulfilment of certain conditions, a number of ordinary TXT e-solutions S.p.A. shares corresponding to the number of rights assigned.

The Plan provides for the allocation of a maximum of 600,000 Shares to beneficiaries. In order to ensure the gradual development of the Plan over time, no more than 200,000 Options may be allocated in the first tranche. On 27 May 2019, the Board of Directors resolved to allocate 135,000 options to Group employees with vesting over the three-year period 2019-2020-2021.

b) Share transfer restrictions (Article 123-*bis*, paragraph 1, letter b), of the Consolidated Law on Finance)

There are no share transfer restrictions.

c) Significant shareholdings (Article 123-*bis*, paragraph 1, letter c), of the Consolidated Law on Finance)

As far as significant shareholdings in TXT are concerned (shareholders owning over 3% of the share capital), see Table 1 attached to this Report.

These shareholdings derive from deposits made at the time of the last Shareholders' Meeting held on 20 April 2019 and the company has not received any communications or notifications of changes as at 31 December 2019.

This information is based on the information contained in the Shareholders' Register and in communications by shareholders pursuant to Article 120 of the Consolidated Law on Finance, as at 31 December 2019.

d) Shares with special control rights (Article 123-*bis*, paragraph 1, letter d), of the Consolidated Law on Finance)

No shares with special controlling interests have been issued.

e) Employee shareholdings: exercise of voting rights (Article 123-*bis*, paragraph 1, letter e), of the Consolidated Law on Finance)

The By-Laws do not envisage any provisions on the exercise of voting rights by employee shareholders.

f) Restrictions on voting rights (Article 123-*bis*, paragraph 1, letter f), of the Consolidated Law on Finance)

There are no restrictions on voting rights.

g) Shareholders' agreements (Article 123-*bis*, paragraph 1, letter g), of the Consolidated Law on Finance)

No shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance have been notified to the Company.

h) Change of control clauses (Article 123-*bis*, paragraph 1, letter h), of the Consolidated Law on Finance) and provisions on takeover bids as per the Company's By-Laws (Articles 104, paragraph 1-*ter*, and 104-*bis*, paragraph 1)

On 27 July 2018, the Company entered into a loan agreement with Banca Nazionale del Lavoro S.p.A. for € 10 million, maturing in 5 years. This loan envisages the faculty for the bank to withdraw from the agreement in the event there is a Change of Control, in other words on occurrence of an event or a series of events due to which the shareholder Laserline S.p.A. reduces its investment in the share capital under 20%.

On 1 August 2018, the Company entered into a loan agreement with Unicredit S.p.A. for € 20 million, maturing in 5 years. This loan envisages the obligation to fully repay it in advance without the application of any commission within 15 days as from when Enrico Magni ceases to hold, directly or indirectly, also via third party companies, an investment of at least 20% of the share capital.

The Company and its subsidiaries did not enter into any other significant agreements that are effective, change or terminate if the Company's controlling interests change.

i) Agreements between the Company and its directors providing for a severance package in case of resignation, dismissal without just cause or end of term of office because of a takeover bid

At 31 December 2019, no such agreement was entered into.

Disclosures pursuant to Article 123-bis, paragraph 1, letter i) are provided in the Remuneration Report, published pursuant to Article 123-ter of the Consolidated Law on Finance.

l) Provisions applicable to the appointment and replacement of directors, as well as to the amendment of the By-Laws, if different from the relevant supplementary legal and regulatory provisions

At 31 December 2019, there were no provisions different from the applicable legal or regulatory provisions.

The section of the Report dedicated to the Board of Directors (Section 4.1), illustrates the rules which regulate the appointment and replacement of the members of the management body.

m) Delegated powers to increase share capital and authorisation to purchase treasury shares (Article 123-bis, paragraph 1, letter m), of the Consolidated Law on Finance)

At 31 December 2019, there were no delegated powers to increase share capital.

On 18 April 2019, the Company's Shareholders' Meeting revoked the previous authorisation to purchase treasury shares and empowered the Board of Directors to proceed, also through delegated parties, pursuant to Article 2357 of the Italian Civil Code, with the purchase, in one or more tranches, for a period of 18 months as from the resolution, of TXT e-solutions S.p.A. ordinary shares up to the legal maximum amount of 20% of the share capital. The minimum payment for the purchase must not be lower than the par value of TXT e-solutions S.p.A. shares, and the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00 (twenty-five/00).

The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, to transfer – also through delegated parties, at any time, in whole or in part, in one or more tranches and even before the purchases have been completed - the treasury shares purchased, assigning the Board the power to establish, on a case-by-case basis and in compliance with the legal and regulatory provisions, the suitable deadlines, means and conditions, without prejudice to the fact that disposal of the shares may take place for a minimum amount that is not lower than the par value of such shares. The purposes for which the purchase and disposal of treasury shares was authorised are those permitted by the applicable regulations in effect, and include:

- a) To conduct operations such as the sale and exchange of treasury shares for the acquisition of shareholdings, or as part of any strategic agreements within the realm of the Company's investment policy;
- b) To establish the necessary funding to carry out stock option plans approved by the Shareholders' Meeting;

- c) To carry out investments and divestments of treasury shares if the trend in prices or the amount of available liquidity make such a transaction feasible at the economic level;
- d) To support the liquidity of shares on the market, in order to encourage regular trading and avoid price shifts that are not in line with the market, strengthening - in accordance with the applicable legal and regulatory provisions - price stability during the more delicate phases of negotiations.

This purchase will be made possible by using the share premium reserve for an amount equal to the value of the treasury shares purchased.

At the end of the year the company held 1,220,971 (1,359,717 in December 2018), accounting for 9.3876% of shares outstanding, at an average carrying amount of € 3.32 per share. In 2019, 115,100 treasury shares were purchased at an average price of € 9.02. In May 2019, in exchange for the acquisition of the shares of the company Link Software Engineering S.r.l. (Assioma Group), as partial consideration for the price agreed with its shareholders, 253,846 shares were sold at the agreed price of € 8.98.

Management and co-ordination activities (pursuant to Article 2497 *et seq.* of the Italian Civil Code)

The Company is not subject to any management and coordination activities pursuant to Article 2497 *et seq.* of the Italian Civil Code.

### **3. COMPLIANCE (Article 123-*bis*, paragraph 2, letter a), of the Consolidated Law on Finance)**

The Company adopted the Corporate Governance Code for listed companies of March 2006 (and subsequent amendments). Approved by the Corporate Governance Committee, this Code is available to the public on the Committee's website at <https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>

The Issuer and its strategically important subsidiaries are not subject to non-Italian legal provisions affecting the Company's corporate governance structure.

### **4. BOARD OF DIRECTORS**

#### **4.1. Appointment and replacement (Article 123-*bis*, paragraph 1, letter I), of the Consolidated Law on Finance)**

The Company is managed by a Board of Directors consisting of three to fourteen members, as decided by the Ordinary Shareholders' Meeting upon appointment. Directors are appointed in compliance with current applicable regulations on gender balance as specified below.

The director's position is subject to compliance with the respectability, professionalism and independence requirements pursuant to the provisions applicable to the Company, and with those provided for by the codes of conduct issued by the company managing regulated markets.

If one or more members leave office during the financial year, those remaining in office replace them through a resolution approved by the Board of Statutory Auditors, as long as the majority of Board members is appointed by the Shareholders' Meeting.

If the leaving members had been appointed by minorities (as hereafter defined), the new members will be chosen by the Board from among those belonging to the leaving members' minority list. In the event of replacement, the Board of Directors must also ensure compliance with current regulations on gender balance. The new members will hold office until the next Shareholders' Meeting.

Board Members are appointed by the Shareholders' Meeting on the basis of lists in which candidates must be progressively included. Shareholders who, alone or together with other shareholders, reach at least the share capital percentage provided for by the law or by Consob pursuant to Article 147-ter, paragraph 1, of the Consolidated Law on Finance (currently at 4.5%) have the right to submit the lists. The minimum shareholding requirement for the submission of lists is met based on the number of shares held by Shareholders upon submission. Related certification may be provided after the deposit but within the deadline scheduled for the publication of lists by the issuer.

Each shareholder can submit, or participate with other shareholders in the submission of, only one list and each candidate can stand in only one list, under penalty of being ineligible to qualify as a candidate.

The lists shall be deposited at the issuer's offices no later than 25 days before the date fixed for the Shareholders' Meeting resolving on the appointment of Board of Directors' members and they shall be available to the public at the Company's registered office, on its website, and by any other means provided for by Consob Regulation at least 21 days before the date fixed for the Shareholders' Meeting.

Within the above-mentioned deadlines, each list must also be submitted together with the declarations in which individual candidates accept their candidacy and certify the absence of ineligibility and incompatibility reasons and the possession of relevant regulatory requirements, the candidate's CV and the existence of any independence requirements pursuant to Article 148, paragraph 3, of the Consolidated Law on Finance. The shareholders shall prove they own the number of shares necessary for submitting the lists by providing and/or sending a copy of the notices issued by the relevant parties to the Company's registered office, at least three days before the date scheduled for the Shareholders' Meeting on first call. The lists must show which candidates comply with the independence requirements provided for by the law.

Each person entitled to vote may vote for just one list.

The appointment of directors is as follows:

- in the event that more than one list is submitted:
  - a) four fifths of Board members are selected from the list that received the highest number of votes, based on the list's progressive order and rounding to the lower unit, in case of decimals;
  - b) the other Board members are selected from the list ranking second, based on the list's progressive order, as long as said list is not directly or indirectly connected with the shareholders

who submitted or voted for the list receiving the highest number of votes; in the event that several lists obtained the same number of votes, a run-off will be held between said lists and all the shareholders participating in the Shareholders' Meeting will cast their vote. The candidates belonging to the two lists receiving the majority of votes are elected;

- if only one list is submitted, directors are selected from that list, based on the list's progressive order until the number of directors provided for by the Shareholders' Meeting is reached;
- if no list is submitted or the number of elected candidates is not sufficient with respect to the number of directors required by the Shareholders' Meeting, directors are appointed by the Shareholders' Meeting through a resolution passed by the type of majority required by the law.

The lists with three or more candidates must include a gender mix, as provided for in the Shareholders' Meeting's notice, so that the Board of Directors' composition complies with current regulations on gender balance.

In any case, the appointed directors shall include at least one independent director, or the number of directors provided for by the regulations applicable to the Company upon appointment. If the independent director is not elected on the basis of the above-mentioned voting procedure, he/she will be appointed in place of the last director selected from the list he/she belongs to, giving priority to the independent director belonging to the list that received the greatest number of votes.

The minimum gender mix requirements provided for by regulations applicable to the Company must be complied with upon directors' appointment. If, following the election of candidates based on lists, the Board of Directors' composition does not comply with the gender mix requirements, a director of the least represented gender shall be appointed in place of the last director selected from the list to which he/she belongs, giving priority to the director of the least represented gender belonging to the list that received the majority of votes. Finally, if said procedure does not ensure within the Board the minimum gender mix requirements provided for by regulations, directors belonging to the least represented gender shall be appointed by the Shareholders' Meeting through a resolution passed by the type of majority required by the law without any restriction in terms of lists, and shall replace, if necessary to reach the number of board members required by the Shareholders' Meeting, the last elected candidate taken from the list that received the majority of votes.

In addition to the provisions of the Consolidated Law on Finance, the Company is not subjected to other provisions regarding the composition of the Board of Directors (such as industry provisions).

The Board of Directors has not established, within the Board, any Nomination Committee, since that function is directly performed by the Board, owing to the Company's shareholding structure and Board's size.

At its meeting of 10 May 2012 the Board of Directors decided not to adopt a succession plan for executive directors (*Criterion 5.C.2.*), on the basis of the criterion of proportionality of procedural costs and complexity not justified by the characteristics, dimensions, organisational structure, nature, scope and framework of the activities carried out by TXT. The assessment was updated and confirmed during the Board meetings on 8 March 2017 and 8 March 2018.



## 4.2. Composition (Article 123-bis, paragraph 2, letter d) and d-bis), of the Consolidated Law on Finance)

In accordance with the Company's By-Laws, the Board of Directors has a minimum of 3 and a maximum of 14 members, pursuant to the resolution passed by the Ordinary Shareholders' Meeting upon appointment.

Board members' term of office lasts for three financial years; afterwards they may be re-elected. The current Board includes 7 members, of whom 3 are executive directors and 4 are independent directors. Pursuant to Article 3 of the Code, the latter do not have any economic relations with the Company, its subsidiaries, executive directors or shareholders such as to prejudice their judgement. In addition, they do not hold, directly or indirectly, any controlling interests and they do not enter in any shareholders' agreements to control the Company.

All members of the Board of Directors have been appointed by the Shareholders' Meeting held on 21 April 2017 and shall remain in office up until approval of the Financial Statements at 31 December 2019.

During the Shareholders' Meeting held on 21 April 2017, two lists were submitted. The majority list was submitted by Alvise Braga Illa, with the following names: Alvise Braga Illa, Marco Edoardo Guida, Stefania Saviolo (independent candidate director), Fabienne Anne Dejean Schwalbe (independent candidate director) and Paolo Matarazzo (all elected). The minority list was submitted by E-business consulting S.A. with the names of Andrea Casanova, Andrea Lanciani and Teresa Cristiana Naddeo (independent candidate director). From this list Andrea Casanova, first on the list, and Teresa Cristiana Naddeo (independent director), third on the list, were appointed to replace Andrea Lanciani, second on the list, to allow a gender balance on the Board.

The shareholders declared that there are no connections between the lists. The majority list received 55.36% of votes; the minority list 43.63%.

Following the resignation of the director Andrea Casanova on 3 August 2017, the Board of Directors in the same session appointed Andrea Lanciani by co-option, as the first candidate not elected from the same minority list voted on by the Shareholders' Meeting on 21 April 2017. On 16 March 2018, a communication was received by the Company from Andrea Lanciani by means of which he declared his unconditional willingness not to be confirmed in the office of director of the Company. On 16 April 2018, a communication was received by the company from Laserline Spa disclosing the intention to propose the candidature of Enrico Magni for the appointment to the office of director. The Shareholders' Meeting held on 19 April 2018 appointed Enrico Magni as board director with the favourable vote of 95.75% of the participants.

On 16 March 2018, the independent director Teresa Cristiana Naddeo handed in her resignation with effective as from the Shareholders' Meeting held on 19 April 2018. On 23 March 2018, the shareholder Laserline S.p.a. requested that the agenda of the Shareholders' Meeting be added to for the appointment of a new director for the purpose of re-establishing the number of 7 directors resolved. On 16 April 2018, a communication was received by the company from Laserline Spa disclosing the intention to propose the candidature of Valentina Cogliati for the appointment to the office of director. The Shareholders' Meeting held on 19 April 2018 appointed Valentina Cogliati as board director with the favourable vote of 95.75% of the participants. The Board meeting held on 19

April 2018 checked the independence requirements of Valentina Cogliati both for the purposes of Article 148 paragraph 3 of the Consolidated Law on Finance and the Corporate Governance Code - *Criteria 3.C.1. and 3.C.2.*

During 2019, the directors Marco Edoardo Guida and Paolo Matarazzo resigned from their positions as members of Txt's Board of Directors. On 15 July 2019, Txt's Board of Directors co-opted two new members, Alessandro Arrigoni as an independent member and Daniele Misani as executive director.

Directors Alvise Braga Illa, Stefania Saviolo and Fabienne Anne Dejean Schwalbe, elected by the Shareholders' Meeting held on 21 April 2017, had already been serving as directors. The director Paolo Matarazzo was a director of the company from 23 April 2008 to 10 May 2012. The directors Enrico Magni and Valentina Cogliati were appointed directors on 19 April 2018.

Alvise Braga Illa was appointed Chairperson of the Board of Directors on 21 April 2017 and Enrico Magni was appointed Chief Executive Officer on 10 May 2017.

The professional experiences of each director (Article 144-*decies* of the Consob Issuers' Regulation) are indicated below:

Alvise Braga Illa

Born in Segovia (Spain) on 12 December 1939.

After graduating from Politecnico di Milano, Braga Illa worked for ten years as a researcher and professor at the Lincoln Laboratory and the Massachusetts Institute of Technology, where he was also in charge of the Optical Communications Group and Network Systems. Braga Illa managed Italtel R&D Laboratories founded Zeltron S.p.A. and led the Ducati Energia restructuring process as General Manager. Braga Illa founded TXT Automation Systems, sold to ABB in 1997, and TXT e-solutions in 1989.

Enrico Magni (in office as from 19 April 2018)

Born in Sulbiate (MI) on 7 January 1956.

Enrico Magni is a qualified industrial technician and has created and developed numerous entrepreneurial initiatives over the last 30 years. He is the Chairperson of the Board of Directors of numerous companies, including Laserline Safety, Laserfin, Laserline Digital Signage, Laserline Lighting Solutions, HSPI, RT Radio Trevisan, Nanotech Analysis. He acquired and developed for over 10 years the Lutech group, establishing a process of strong growth in revenues with a solid systematic development and numerous acquisitions. Since May 2018 he has covered the role of CEO of the TXT Group.

Daniele Misani (in office as from 15 July 2019)

Co-opted on 15 July 2019 to replace Marco Edoardo Guida, who resigned.

After a degree in Software Engineering at the Politecnico di Milano, Daniele Misani received a Master's degree in Electrical Engineering from the University of Illinois at Chicago and then an MBA from the London Business School.

He joined TXT in 2001 as a Computer Engineer and subsequently held various positions of increasing responsibility in both technical, commercial and management departments.



In 2010 he became Key Account Manager for TXT's largest aerospace customer, and in 2016 he was appointed Vice Chairperson to lead international business. In this role, he supported the integration process of PACE GmbH with the definition of the joint offer on a global scale. Since 2019, Daniele Misani has held the position of Managing Director, head of the Aerospace & Aviation division and member of the Board of Directors.

Stefania Saviolo

Born in Milan on 14 March 1965.

She graduated in 1989 in Business Economics from Milan's Bocconi University, where in 1993 she earned her PhD in International Business completed in 1992-1993 at the Stern School of Business - New York University.

She qualified as a Chartered Accountant in 1994 and is registered on the Milan Register of Accountants. Since 1993, she has been a Lecturer in Management and Technology at Bocconi University and the SDA Bocconi School of Management, where she teaches undergraduate, graduate and executive courses. She has been an independent director since 2014 of the Natuzzi Group (NYSE-listed) and since 2017 of the Stefanel Group, where she is also the Chairperson of the Appointments and Remuneration Committee. For over 20 years she has provided management consultancy to fashion, design and luxury companies in the areas of brand management, international growth and organisational development.

Fabienne Dejean Schwalbe

Born in Dakar (Senegal) on 5 May 1964.

Schwalbe graduated in 1985 with a Master's Degree from HEC Paris, with subsequent specialisations at the IMD Business School in Lausanne (2003) and at the Harvard Business School (2012). She gained key experience in the Media & Digital sectors in the United States, with growing responsibilities in the Bertelsmann Group in Paris. In Italy, she has held the position of CEO in the Bertelsmann Gruner+Jahr/Mondadori joint venture and provides consulting on digital transformation in France and Italy. She has completed projects for leading companies in the Media as well as Fashion sectors and has collaborated with Boston Consulting Group. She is currently advisor to the Chief Executive Officer of ASM Group, company specialised in customer care for Luxury brands, present in Europe, the USA and Asia.

Valentina Cogliati (in office as from 19 April 2018)

Born in Merate (LC) on 4 May 1981.

She graduated in 2005 in international law from Università Cattolica di Milano with first class honours. She gained diversified professional experience in the Elemaster group, established Joint Ventures and Companies in the USA, China and India and in particular has been involved in M&A, contracting, disputes and governance. She has participated in training courses for the Borsa Italiana Elite project. She speaks French, German and excellent English.

Alessandro Arrigoni (in office as from 15 July 2019)

Co-opted on 15 July 2019 to replace Paolo Matarazzo, who resigned.

Born in Milan on 28 December 1949.

Graduated from the Faculty of Law at the University of Milan with a thesis with Prof. P.G. Jaeger, entitled "Il diritto d'informazione nella s.p.a" ("The right to information in a company"), with first class honours. The thesis won the award at the University of Milan as best thesis of the year in civil and commercial subjects. He was a member of the editorial staff, and is a contributor to the *Giurisprudenza Commerciale* magazine, and has published numerous contributions there since 1976. He is the author of two monographs: "Moneta e bilancio di esercizio" ("Currency and Financial Statements"), 1991, and "Gruppo bancario e vigilanza regolamentare" ("Banking Group and regulatory supervision"), 1996. For twenty-five years he was a lecturer in the Commercial Law Course at the Accademia della Guardia di Finanza in Bergamo, from the time it was established in Bergamo. From 1991 to 2010 he taught "Legislazione bancaria" (public law of economics, now banking law) at the Università di Bergamo. Since 2018 he has taught Commercial Law, special part, at the Faculty of Law of the University of Milano-Bicocca. He practises as a lawyer in Milan, specialising in commercial and contract law.

Independent directors hold office in companies that are not part of the TXT Group.

### **Diversity policies and criteria**

The Company has applied diversity criteria, also with regard to gender, in the composition of the Board of Directors, in observance of the priority objective of ensuring adequate expertise and professionalism of its members (*Standard 2.P.4.*). In particular, the least represented gender, female, has three directors, equal to 43% of the total and therefore greater than one third of the Board of Directors (*Criterion 2.C.3.*).

The objectives, method of implementation and results of the application of the diversity criteria recommended by Article 2 are the following (*Criterion 1.C.1., letter i), (4)*).

In December 2018 the Board of Directors, upon the proposal of the risks and internal control committee, in implementation of the matters envisaged by the Consolidated Finance Law, approved a diversity policy, which describes the optimum characteristics of the composition of said board so that it may exercise its duties in the most effective way, adopting decisions which may effectively avail themselves of the contribution of a plurality of qualified points of view, capable of examining the aspects in question from different perspectives.

When drawing up this diversity policy the Board of Directors was inspired by the awareness of the fact that diversity and inclusion are two fundamental elements of the business culture of an international Group such as TXT, which operates in many countries. In particular, the valorisation of the diversities as a fundamental element of sustainability over the mid/long-term of the business activities represents a reference paradigm both for the employees and for the members of the management and control bodies of TXT.

With reference to the types of diversity and the related objectives, the policy in question (available on the Company's website) envisages that:

- it is important to continue to ensure that at least one third of the Board of Directors is made up of Directors of the least represented gender, both at the time of appointment and during the mandate;

- the international projection of the TXT Group's activities should be taken into consideration, ensuring the presence of Directors who have gained suitable experience in the international sphere;
- in order to pursue a balance between the needs for continuity and renewal in the management, it would be necessary to ensure a balanced combination of different lengths of service in office - in addition to age brackets - within the Board of Directors;
- the non-executive Directors should be represented by figures with an entrepreneurial, managerial, professional, academic or institutional profile such as to achieve a series of skills and experience which are diverse and complementary. Furthermore, in consideration of the diversity of the roles carried out by the Chairperson and the CEO, the policy describes the expertise, the experience and the soft skills deemed most appropriate for the effective performance of the respective duties.

In consideration of the TXT ownership structures, the Board of Directors has so far decided to refrain from presenting its list of candidates at the time of the various renewals, since difficulties of the Shareholders in drawing up suitable candidatures has not been noted. Therefore, this Policy first and foremost intends to guide the candidatures formulated by the Shareholders at the time of renewal of the entire Board of Directors, ensuring on this occasion a suitable consideration of the benefits which may derive from a harmonious composition of said Board, aligned with the various diversity criteria indicated above.

The Board of Directors also takes into account the indications of this Policy if it is called to appoint or propose candidates to the office of Director, taking into consideration the indications possibly received from the Shareholders.

The Board of Directors in office was appointed before the adoption of the diversity Policy, but the current composition fully satisfies the objectives established by said policy for the various types of diversity.

The Company recognises the importance of its human capital without distinctions and is heedful to respect equality among the employees. The benefits which the employees enjoy are assigned without distinction in terms of gender. The results of the diversity policies within the entire organisation are described in the Consolidated non-financial statement in the section "Policies applied and results achieved - Diversity and inclusion".

At 31st December 2019 the Board had the following diversity elements:

- Gender diversity: 57% men, 43% women
- Age diversity: <50 years 29%; 50-60 years 57%; 60-80 years 42%;
- Length of service in office diversity: 1-3 financial years 57%; 4-6 financial years 29%; more than 6 financial years 14%.

### **Maximum number of positions held in other companies**

The Board has not set any specific criteria regarding the maximum number of management and control positions that can be held with other companies (*Criterion 1.C.3.*), also given the composition of the Board, whose members regularly and effectively participate in carrying out the role of director.

## Induction Programme

Subsequent to their appointment and during their term of office, the Chairperson has made it possible for directors to participate in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, the principles of correct management of risks, as well as the relevant regulatory framework of reference (*Criterion 2.C.2.*). Application of this principle is fulfilled for the independent directors through discussions and meetings with management and participation in operational events and initiatives. In particular, for the new directors appointed during 2019, Alessandro Arrigoni attended a specific *Induction* meeting on business, markets, customers, opportunities and risks. Daniele Misani is already a director and manager of the company

The Board of Directors shall act and decide autonomously, having full knowledge of the facts, and pursue the objective of creating value for the shareholders – an essential requirement for a profitable relationship with the financial market. All the directors devote the necessary time to the diligent performance of their duties, being aware of the responsibilities pertaining to their office.

The Company did not set up an Executive Committee or a Nomination Committee. The members of the Remuneration and Risks and Control Committees are all independent directors.

No other change has occurred since the end of the 2019 reporting period to date.

### 4.3. Role of the Board of Directors (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Board of Directors has a fundamental role in the company's management, charged with strategic functions and organisational coordination. The board is also responsible for verifying that a suitable audit system needed to monitor the performance of the Company is in place.

The Board (*Criterion 1.C.1. letter a*):

- examines and approves the Company's strategic, industrial, and financial plans, periodically monitoring their implementation;
- examines and approves the strategic, industrial, and financial plans of the Group headed by the Company, periodically monitoring their implementation;
- determines the Company's corporate governance system;
- defines the structure of the Group headed by the Company.

The tasks carried out by the Board of Directors on an exclusive basis are determined both by the Company's By-Laws and by corporate common practice. In particular, the Board is vested with the broadest powers regarding the Company's ordinary and extraordinary management and specifically, it is entitled to take all the measures it deems appropriate for achieving the Company's goals, except for those reserved exclusively for the Shareholders' Meeting pursuant to legal provisions. Notably, the Board of Directors:

1. gives and revokes the CEO/CEOs' mandates, defining his/her operational environment and powers;

2. undertakes commitments which are not included in the ordinary management of the Company and previously approved budgets;
3. determines the remuneration of the directors for offices, after examining the Remuneration Committee's proposal and after consulting with the Board of Auditors;
4. examines and approves transactions having a significant impact on the Company's profitability, assets and liabilities or financial position and resolves upon the acquisition and disposals of stakes, companies or business branches; it assesses in advance real estate transactions and disposal of strategic assets;
5. defines the guidelines and identification parameters of the most significant transactions, also involving related parties;
6. oversees general operating performance on the basis of information received from the General Manager and the Risks and Internal Controls Committee;
7. establishes the Company's and the Group's structure and checks their adequacy;
8. reports to the shareholders at the Shareholders' Meeting.

During the 2019 financial year, the Board of Directors held 10 meetings with an average duration of 2 hours and 30 minutes. Directors had an average attendance of 87%, while that of the Statutory Auditors was 90%.

6 meetings have been scheduled for 2019, and the first one was held on 30 January 2019. As envisaged by the regulatory provisions in effect, the Company has disclosed, in its press release issued on 5 December 2018, the following dates of the Board of Directors' meetings scheduled for 2019, for examination of the financial data:

- 7 March 2019: Board of Directors for approval of the draft 2018 Financial Statements
- 18 April 2019: Shareholders' Meeting for approval of the 2018 Financial Statements (single call)
- 10 May 2019: Board of Directors for approval of the interim report as at 31.3.2019
- 1 August 2019: Board of Directors for approval of the half-yearly financial report at 30.6.2019

07 November 2019: Board of Directors for approval of the interim report as at 30.9.2019

The Chairperson organises all the Board activities, ensuring that directors are promptly provided with all documentation and information necessary to make any decision. In order to ensure that all the directors make informed decisions and that a proper and complete assessment of the agenda items is performed, all documentation and information – and in particular draft interim reports – shall be made available to the Board members an average of 4 days before the meeting, a better timeframe than the 3 days in advance indicated as adequate by the Risk and Control Committee (*Criterion 1.C.5*). During 2019, 38% of the items on the agenda of the Board meetings did not require the submission of any preliminary documentation, considering the nature of the topics discussed (42% in 2018). The Board meetings may also be held via audio and video conferencing. In certain circumstances, depending on the type of decisions to be made, on confidentiality requirements or on critical timing, some restrictions to prior disclosure could apply.

The Chairperson of the Board of Directors ensures that sufficient time is dedicated to the topics in the agenda, in order to allow a constructive debate, encouraging contributions by the Directors during the course of the meetings.

The Chairperson of the Board of Directors, with the assistance of the Board secretary, notifies the directors and Statutory Auditors in advance with regard to the issues that will be discussed during the board meetings and, if necessary, in relation to the topics on the agenda, ensures that adequate information is provided on the issues to be examined sufficiently ahead of time. The Board secretary, upon instruction by the Chairperson, sends the relative documentation to the directors and statutory auditors via e-mail, at different times depending on the material to be discussed, except for cases of urgency or when there are special confidentiality requirements; in this case, detailed examination of the topics is in any case ensured. The CEO informs the department managers in advance with regard to the necessity for or mere possibility of participating in the Board meetings during examination of the topics pertinent to them, so that they may contribute to the discussion.

Company managers, in charge of relevant functions, the Company's auditors and legal, financial or tax consultants may join any Board meeting with the aim of providing in-depth analysis of the issues on the agenda (*Criterion 1.C.6*). During 2019, several TXT Group managers attended Board meetings: Eugenio Forcinito, CFO, Andrea Favini, CEO Assistant, Luigi Piccinno, Internal Auditor, Guido Ingenito, IT Manager. Regular updates were provided by the Company's consultants and lawyers.

The Board assessed the suitability of the organisational, managing and accounting structure of the Company and its strategically significant subsidiaries provided by the CEO Enrico Magni, with special reference to the internal control and risk management system and the management of conflicts of interest (*Criterion 1.C.1., letters b and c*).

After examining the proposals of the relevant committee and in accordance with the Board of Statutory Auditors, the Board decided the remuneration of the Chairperson and of the other directors (*Criterion 1.C.1., letter d*).

The Board assessed the Company's general management, taking into account, in particular, the disclosure provided by the delegated bodies, and periodically comparing the actual results with respective targets (*Criterion 1.C.1., letter e*).

The Board examined and approved in advance the transactions having a significant impact on the strategies, profitability, assets and liabilities or financial position of the Company and its subsidiaries (*Criterion 1.C.1., letter f*).

The Board is reserved the right to examine and approve in advance any transactions of the Company and its subsidiaries in which one or more directors have an interest both in favour of themselves or on behalf of third parties (*Criterion 1.C.1., letter f*).

On 7 March 2019, the Board assessed the size, composition and functioning of the board itself and of its committees (*Criterion 1.C.1., letter g*).

Each director received a questionnaire asking for their opinion on the size, composition, functioning, meetings, efficacy and responsibilities of the Board and its committees, with the option of making suggestions or intervention proposals. The completed questionnaires were collected by the Internal



Audit unit and the secretary of the Board of Directors compiled a summary of the opinions and recommendations made and submitted it to the Board of Directors.

Acknowledging the overall results of the relative questionnaires, the Board expressed an evaluation of essential adequacy with regard to the size, composition and functioning of the Board of Directors and its committees.

The Shareholders' Meeting did not authorise, on a general and preventive basis, exemptions to the non-competition agreement provided for by Article 2390 of the Italian Civil Code (*Criterion 1.C.4.*).

In order to ensure the correct management of company information, the Board of Directors approved on 8 March 2017 a new "Regulation for the management of Privileged Information and Establishment of the register of persons with access to it" and a new "Internal Dealing Procedure", in accordance with the new Market Abuse Regulation – MAR. The documents were published on the Company's website (*Criterion 1.C.1. letter j*).

#### 4.4. Delegated bodies

##### **Managing Directors**

The Board of Directors appointed Enrico Magni Chief Executive Officer on 10 May 2018.

During this meeting the CEO Enrico Magni was granted the power to carry out in the name and on behalf of the Company, and therefore with representation of the same, all the acts inherent and related to the management of the Company, as listed below, with the express exclusion of:

- a. those tacitly reserved by law or by the By-laws, for the general shareholders' meeting and the Board of Directors;
- b. purchase and sale of real estate property assets;
- c. purchase and sale of shareholdings, businesses and business segments.

##### CONTRACTS

Signing in the name and on behalf of the Company, signing alone, contracts and other documents indicated below, provided that they do not involve for the Company a financial commitment greater than the amounts and in observance with the exercise formalities indicated as and when appropriate.

##### Insurance agreements

Entering into and signing in the name and on behalf of the Company any insurance policy, fixing the limits of liability and the duration, agreeing the premiums and the coverage conditions for all the industrial and commercial activities and any other sector of the Company, both in the area of third party liability and that of non-life, accident and life policies, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; amending the agreements, withdrawing from the same, agreeing in the event of an insured event the compensation owed by the insurer, issuing receipt for the amount collected.

##### General agreements

Finalising, amending, ceding and terminating, also with the public administration bodies and authorities, in the name and on behalf of the Company, fixing the prices and the conditions, with all the clauses deemed necessary, including the arbitration clause, and providing the necessary guarantees and deposits, agreements and contracts of any kind, including those concerning vehicles, which appear useful or necessary for the pursuit of the corporate purpose, carrying out all the necessary procedures care of the related Public Register and any competent office, including, by way of example but not limited to, the following: a. contracts for the purchase and sale of products, systems, plant, apparatus, goods, machinery, software, IT assets and other movable assets (including those recorded in public registers), with regard to the matters inherent to the purchase, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; b. supply and provision contracts for any kind of utility; c. rental, lease, including financial or operative, licence, sub-letting or loan-for-free-use contracts, concerning movable assets, registered or otherwise, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; d. contracts for the concession under tender to third parties, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; e. contracts for the supply of goods and services, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; f. agency, mediation, canvassing, commission-based, distribution and brokerage agreements, with or without representation, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; g. contracts for the establishment of joint ventures or temporary groupings of companies, including therein the conferral or acceptance of the collective representation mandate, as well as for the establishment, between united companies, of a business, also consortium-based, for the joint, total or partial execution of tendered work.

#### Tenders

Signing offers, tenders with the consequent deposits, contracts, outline agreements, sales orders and accept orders for work entrusted to the Company up to a maximum amount of € 5,000,000.00 (five million/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

#### Intellectual Property

Registering trademarks and file new applications, acquiring and transferring new trademarks and patents, for industrial inventions. Enforcing the rights of the Company in the field of industrial and intellectual property, taking action against copiers and forgers using any legal means.

#### GUARANTEES

Issuing endorsements, sureties and guarantees in general on behalf of the company, for a value per individual transaction not exceeding € 500,000.00 (five hundred thousand/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.



Enforcing secured and unsecured guarantees in favour of the Company and at the expense of third parties; proceeding with the cancellation/reduction of the same further to enforcement.

## BANKING AND FINANCIAL AREA

### Collection of sums

Taking steps - on behalf, in the name and in the interests of the Company - to collect, free up and withdraw all the sums and all the valuables which are for any reason or cause due to the same by whomever, including the sums owed for any reasons by the government authorities, regional, provincial and municipal authorities, the bank for deposits and loans, the inland revenue agencies, the credit consortiums or institutes - including the issuing bodies - and therefore executing mandates which have already been issued or will be issued in the future, without any time limits, in favour of the Company, for any principal or interest amount which is owed to the same by the aforementioned authorities, by offices and institutes indicated above, both by way of payment of the deposits made by said Company and for any other reason or cause; issuing in the name of the Company the corresponding declarations of receipt and discharge and in general all those declarations which may be requested at the time of the accomplishment of the individual procedures including those for exonerating the aforementioned offices, authorities and institutes from any liability in this connection.

### Deposits

Establishing, depositing, releasing and withdrawing securities representing collateral and guarantee deposits (provided that they do not guarantee debts or other third party obligations, with the exclusion of the Group companies), care of the State and State-owned Public Administration Authorities, care of the Area Public Bodies, the Ministries, the Public Debt offices, the Bank for deposits and loans, the Inland Revenue Agency, the Territorial Agency, the Customs Agency, the Customs Offices, the Municipal, Provincial and Regional Authorities, the military administrations, and any other public or private body or office and carrying out any type of transaction relating to said deposits and any procedure to be performed both with regard to the deposits pertaining to the Bank for Deposits and Loans and with regard to the provisional certificates administered by the Treasury Directorate General, all for amounts less than € 500,000.00 (five hundred thousand/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

### Deposits and current accounts

Opening and closing current accounts. Finalising, entering into and executing the agreements and signing all the documentation opportune and necessary for the activation and the use of E-Banking products, with the faculty to delegate to third parties for operating via the same.

### Requesting credit facilities, credit lines and sureties.

Requesting the banks, the ordinary lending institutes and insurance companies the release of sureties and guarantees, for amounts no greater than € 500,000.00 (five hundred thousand/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative, signing the related documentation and availing of the guarantees and sureties obtained.

### Endorsement for collection

Endorsing and receipting, depositing securities and valuables, bank cheques, promissory notes, bills of exchange, with crediting into the current accounts of the Company and signing of the related payment slips.

#### Cheques

Issuing bank cheques and requesting the issue of banker's draft on the current accounts held in the name of the Company within the credit limits granted or signing jointly with the other Chief Executive Officer or Legal Representative for greater amounts.

#### Payments

Arranging and receiving credit transfers, making payments, collections of drafts with charging to the account, signing the related documentation, and obtaining the related receipts, and in general carrying out transactions on the bank current accounts of the Company in the name and on behalf of said Company, for amounts no greater than € 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

Arranging the payment of the salaries of the employees.

#### Payment of taxes

Executing the periodical payments of value added taxes, mandatory social security and welfare contributions, the withholdings made, the taxes and levies owed by the Company carrying out any ordinary bank transaction, withdrawing from the current accounts of any kind of the Company, with the faculty to delegate third parties.

#### Discounting of bills

Carrying out discounting transactions on bills of exchange signed by the Company or third parties, for transactions for advances, undertaking commitments and fulfilling the necessary formalities.

#### Charging of taxes and contributions to accounts

Signing letters charging to current accounts wages, salaries, contributions and any tax or levy payable by the company (merely by way of example but not limited to: IRES (company earnings' tax), IRAP (regional business tax), VAT, IRPEF (personal income tax) etc.), with the faculty to delegate third parties.

#### Factoring of receivables

Factoring and exchanging the receivables of the Company, signing any document necessary for finalising the assignment of the same, for a value per individual transaction not exceeding € 500,000.00 (five hundred thousand/00) or signing jointly with the other Chief Executive Officer or Legal Representative for higher amounts.

#### Intercompany transactions

Signing interest-bearing or non-interest-bearing loan agreements with subsidiaries or associated companies.

### DISPUTES

#### Representation before the legal authorities

Representing the company before any legal, administrative, tax, ordinary or special authority, at any level, stage or venue and therefore also vis-à-vis the Council of State, the Supreme Court of Cassation and before the Tax Commissions, with powers to sign applications, petitions and agreements for any matter, submitting and referring oaths; submitting and replying to interrogations

or questioning also with regard to civil forgery, intervening in bankruptcy proceedings (with the faculty to present bankruptcy applications), compulsory administrative liquidation, arrangement with creditors, receivership and any other insolvency or pre-insolvency procedure and furthering the related declaration, collecting sums on account or as balance and issuing receipt; proposing petitions and challenges and voting in said procedures; furthering summary, precautionary and executive proceedings before any authority, furthering attachments and distrains by hand of debtors or third parties, with the faculty to take part in judicial auctions, making declarations as third party under attachment or confiscation, fulfilling all that is laid down by the current provisions of the law, establishing all the formalities relating therefore also to the release of special or general mandates or power of attorney for the disputes, including therein the special attorneys as per Article 420 of the Italian Code of Civil Procedure, for taking and opposing legal action, to legal councils in general, defence counsels and domiciliary representatives, business accountants and experts, electing the appropriate domiciles; see to the execution of the sentences.

#### Representation in labour disputes

Representing the Company in disputes as plaintiff and defendant, at any level and venue of proceedings, before the legal authorities competent with regard to labour matters as well as before the Arbitration Commissions established care of the Provincial Headquarters and care of the Trade Union Organisations and trade associations in the settlement proceedings pursuant to Article 410 of the Italian Code of Civil Procedure with the widest power associated with this power including therein that of appointing legal counsel, making questioning formal and reconciling and settling disputes.

### LABOUR AREA

#### Employing and dismissing employees

Employing and dismissing employees and fixing the related remuneration and contractual conditions, including executives.

#### Duties, promotions and sanctions

Defining the specific responsibilities of the employees, dividing up the duties, defining the duty schedules, planning holiday entitlement and leave, challenging violations, deciding with regard to any disciplinary sanctions including therein dismissal; arranging promotions and transfers; signing any document inherent to the management of the company's human resources such as, by way of example, instruction letters, letters of censure or rebuke, letters of contestation.

#### Social security and welfare fulfilments

Issuing extracts from the payroll records and certificates regarding the staff, both for social security or welfare bodies and for the other public or private bodies, seeing to the observance of the fulfilments which the company is obliged to meet such as substitute tax, with the faculty - among other things - to sign declarations, certificates and any other document, for the purpose of these fulfilments.

### CORRESPONDENCE AND TRANSACTIONS

#### Correspondence and invoicing

Signing and keeping all the correspondence of the Company and the invoicing; signing requests for information and documents, requests for clarification and solicitation; signing letters of an

informative, interlocutory nature, solicitation and forwarding letters, as well as any other document which requires the signature of the Company and which concerns business included within the limits of the powers delegated therein.

## TAX AND ADMINISTRATIVE REPRESENTATION AND THAT IN DEALINGS WITH THE SOCIAL SECURITY BODIES

### Tax representation

Representing the Company in dealings with any Tax Authority, national and local, also abroad, requesting and agreeing reimbursements of taxes and levies issuing the related receipt, carrying out any act pertinent to the subject matter deemed appropriate for protecting the interests of the Company.

### Signing tax declarations

Drawing up, signing and presenting all the declarations necessary and/or appropriate for the tax purposes envisaged by the law (purely by way of example but not limited to IRES (company earnings' tax), IRAP (regional business tax), VAT, declarations of the withholding agents and any other declaration required by law or by the tax offices) seeing to the regularity and promptness, both in the drafting and the presentation, filling in forms and questionnaires, presenting communications, declarations, accepting and rejecting assessments, presenting communications, declarations, briefs and documents and documents before any office or Tax Commission, including the Central Tax Commission, collecting reimbursements and interest, issuing receipt and, in general, carrying out all the procedures relating to any kind of tax, levy, direct and indirect, local taxes and levies or otherwise, duties and contributions.

### Contract registration

Registering contracts, corporate deeds and documents in general.

### Administrative procedures

Drawing up, signing and presenting the necessary reports and communications to the Companies' Register, the Chamber of Commerce, the Registry Office, the Courts, the VAT office, the Bank of Italy, Consob, the Istat authority, the Land Registry Offices, the Anti-trust Authority, the Ministries and any other public and/or private Entity in relation to any procedure of a bureaucratic and/or administrative nature inherent to the Company.

### Representation care of public and private bodies

Representing the Company in all the dealings with the public and private bodies, including the economic and territorial public bodies, consortiums and associations, Chambers of Commerce, Customs Offices, state-owned and social security bodies, presenting applications, petitions and appeals and in any event carrying out in the name and on behalf of the Company any activity necessary or appropriate for the protection of the corporate interests in the dealings with the public bodies; accomplishing any formality and duty required by legislation in this sphere.

Representing the Company in any dealings with the Companies' Registers, the Stock Exchanges, the Supervisory Authority and Bodies, Ministries and other public and private offices and Bodies, regarding the fulfilments which are the responsibility of the Company due to laws and regulations, in Italy and abroad. Representing the Company in any dealings with Social security, welfare, insurance, accident prevention institutions and the Labour Offices and Employment Bureaus.

Representing the Company before the Public Safety Authorities and the Fire Service drawing up and signing the appropriate reports, declarations and complaints.

Intercompany representation

Representing the Company during both ordinary and extraordinary Shareholders' Meetings of the subsidiary and associated companies.

#### APPOINTMENT AND REMOVAL OF LEGAL REPRESENTATIVES - PRIVACY

Appointing and removing *ad hoc* legal representative and/or general mandate holders for certain acts or categories of acts within the limits of the powers granted.

Privacy

With reference to the processing of personal data, pursuant to Legislative Decree No. 196 of 30 June 2003 and EU Regulation 2016/679: (i) seeing to all the necessary fulfilments for the adaptation and observance of the current provisions concerning personal data, with autonomy of expenditure in this connection; (ii) seeing to the personal data processing formalities, including therein the security profile; (iii) appointing, if deemed appropriate, one or more "data supervisors" for the processing of the personal data from among parties who, as a result of experience, capability and reliability, provide suitable guarantees in full observance of the current provisions regarding processing and security, pursuant to and for the purposes of the legislation in force at that time.

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The Board meeting held on 25 October 2018 appointed Enrico Magni as Chief Executive Officer of the Group with the tasks of supervising the two Aerospace Divisions, Aviation & Automotive and Fintech.

In his capacity as Chief Executive Officer, Enrico Magni is responsible for the Company's management.

The case of interlocking directorate does not apply since TXT's Chief Executive Officer does not serve as a director in other issuers (not belonging to the same Group) where a TXT director serves as Chief Executive Officer (*Criterion 2.C.6.*).

#### **Chairperson of the Board of Directors**

On 10 May 2018 the Board of Directors confirmed to the Chairperson special tasks with regard to the identification, coordination and review of development strategies; identification and implementation of business collaboration proposals with other operators, including through acquisitions, partnerships or joint ventures; promotion of activities to major customers and investors, coordinating the relevant internal activities; monitoring of the international situation, with particular regard to markets in which the company has a presence through its subsidiaries, in order to update the company's and the group's strategy on the basis of continual developments in market conditions (*Criterion 2.C.1.*).

On 10 May 2018, the Board of Directors revoked all the powers of ordinary and extraordinary business from the Chairperson granted on 21 April 2017 and which concerned:

1. Performing, in the name and on behalf of the Company, all the ordinary and extraordinary operations, except for purchase and sale of real estate property; in particular, for example, but not limited to;
2. Releasing grants, securities and guarantees in general, in the name of the Company;
3. Signing, in the name and on behalf of the Company, sale and purchase agreements and lease agreements, including financial leases concerning movables, even those registered in public registers, tenders, free loans, lease agreements concerning real estate property; acting as a principal or agent in agency or sub-agency agreements and appointing agents;
4. Participating in bids, tenders, public and private auctions to the end of providing works and services of all types;
5. Opening and closing bank accounts, applying for loans and credit lines with ordinary credit institutions of any amount and nature, on a medium-to-long term basis, and signing all the documents requested by the aforementioned credit institutions for completing said applications; accepting the related contract clauses;
6. Collecting payments and values due to the Company for any reason by any entity as well as by Administrations belonging to the State, Regions, Provinces and Municipalities; issuing receipts and discharges; issuing, endorsing and collecting bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; performing any transaction concerning the use of loans provided by banks and in particular arranging for any commercial bills to be discounted and collected and utilising the relevant proceeds; taking any action or carrying out transactions with the Public Debt Offices, the Bank for Deposits and Loans, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implementing any formality and transactions, including those with Issuing and Credit Institutions, by authorising investment and divestment;
7. Representing the Company before any ordinary, special, national, regional and administrative Authority; signing and submitting petitions, appeals, minutes concerning any issue, filing administrative and court cases; taking part in creditors' agreements and bankruptcy procedures; appointing lawyers and entering into any retainer agreements, in relation to any court proceedings, including with enforcing powers, in any stage and instance; settling disputes through arbitration, with awards enforceable as a court ruling (arbitrato rituale) or with decisions counting as a contract (arbitrato irrituale), and acting as amiable compositeur; appointing arbitrators; signing tax declarations and certifications;
8. Representing the Company in any import or export transaction, customs formality, before the Bank of Italy or the Ministry of Foreign Trade;
9. Appointing, employing, promoting, suspending and dismissing staff of any level;
10. Signing contracts aimed at forming Associations, temporary business associations, and consortia for participating in tenders promoted by both private and public bodies; subscribing or purchasing stocks or shares of companies of any nature;
11. Appointing attorneys-in-fact and representatives to whom to transfer, in whole or in part, said functions;
12. Applying for patents for inventions or trademarks; signing the relevant licence contracts, waiving or withdrawing patent applications;
13. Signing interest-bearing or non-interest-bearing financing contracts with subsidiaries or associated companies; representing the Company during both ordinary and extraordinary



Shareholders' Meetings;

14. Signing on behalf of the Company all deeds concerning the above-mentioned issues, and all the ordinary and extraordinary deeds, for which a non-exhaustive list has been compiled for example purposes, by adding the corporate name before the signature.

The Chairperson is not the main party responsible for the management of the Issuer and is not the controlling Shareholder.

### **Executive Committee (Article 123-bis, paragraph 2 letter d), of the Consolidated Law on Finance)**

No Executive Committee has been created.

### **Disclosure to the Board of Directors**

The delegated bodies reported to the Board on the activity performed with regard to the powers assigned to them on a quarterly basis.

The CEO reports to the Board of Directors and Board of Statutory Auditors on activities carried out, on the general performance of operations, on the expected outlook and on transactions with significant income, equity and financial value carried out by the Company or by its subsidiaries. The CEO has also introduced the practice of providing a report to the Board of Directors and Board of Statutory Auditors, upon convening of each meeting of the Board of Directors and regardless of the time that has passed since the previous one, on the activities and key transactions carried out by the Company and by its subsidiaries that do not require prior approval by the Board.

#### **4.5. Other executive directors**

Within the Board Daniele Misani is to be considered an executive director by virtue of the managing responsibilities held with the Issuer and its strategically significant subsidiaries (*Criterion 2.C.1.*).

#### **4.6. Independent directors**

The Board of Directors has four independent members (without operating powers and/or executive functions within the Company) such as to ensure, regarding both number and standing, that their opinion can be significant to the Board's decisions.

The independent members shall provide their specific technical and strategic expertise during board discussions in order to analyse the subjects under a different point of view and pass shared, responsible resolutions in line with corporate interests.

To this end, even if in urgent circumstances powers can also be assigned to non-executive directors, they shall not be considered as executive directors under this Report.

As of 31 December 2019, the four non-executive directors were qualified as independent: Stefania Saviolo, Fabienne Dejean Schwalbe, Valentina Cogliati and Alessandro Arrigoni.

On 15 July 2019, the Board of Directors co-opted Alessandro Arrigoni as a member of the Board of Directors. The Board meeting held on the same date checked the independence requirements both for the purposes of Article 148.3 of the Consolidated Law on Finance and the Corporate Governance Code - *Criteria 3.C.1. and 3.C.2.*

In compliance with the provisions of Article 3.P.1. of the Code, independent directors are those that:

- i) do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained, business relationships with the Company, its subsidiaries, the executive directors and/or the controlling shareholder of such a relevance to influence their autonomous judgment;
- ii) do not own, directly or indirectly or on behalf of third parties, a quantity of shares enabling them to control the Company or exercise a considerable influence over it nor do they participate in shareholders' agreements to control the Company;
- iii) are not family members of executive directors of the Company or of persons mentioned in points i) and ii) above.

The Board of Directors verified compliance with the independence requirements provided for by the Code with respect to each independent director (*Criterion 3.C.4.*). In performing the above-mentioned assessment the Board applied all the criteria provided for by the Code (*Criteria 3.C.1. and 3.C.2.*).

On 8 March 2016, the Board adopted a Procedure to Assess the Independence Requirements, with a number of additional requirements with respect to those envisaged by the code. The Board states that a director is not generally considered independent if they have or had during the prior year business, financial or professional dealings with the Company, with one of its subsidiaries or with any of the relative significant parties, or with a party that controls the Issuer, or with the relative significant parties, if the total value of said dealings exceeds:

- i) 10% of the turnover of the legal person, organisation or professional firm in which the director has control or is a significant member or partner, or
- ii) 10% of the annual income of the director as natural person or of the annual turnover generated directly by the director as part of the activities carried out for the legal person, organisation or professional firm in which the director has control or is a significant member or partner, or
- iii) 100% of the remuneration received as member of the Board of Directors and Committees. (*Criterion 3.C.4.*).

On 19 April 2019 the Board of Directors assessed the independence of non-executive directors by considering, among other things, the principle of substance over form (*Criteria 3.C.1. and 3.C.2.*) and making use not only of information provided by those concerned, but also of all information available to the Company; it therefore confirmed Stefania Saviolo, Fabienne Dejean Schwalbe and Valentina Cogliati as independent directors. As described above, on 15 July 2019, Alessandro Arrigoni was appointed, assessing his independence requirements in accordance with current legislation.

The Board of Statutory Auditors verified the correct application of the criteria and the verification procedures adopted by the Board to assess its members' independence (*Criterion 3.C.5.*).

The independent directors are committed to maintaining their independence status over their term of office and, if necessary, to resign (Comment to Article 5 of the Code).

The independent directors Stefania Saviolo (Lead Independent Director and Chairwoman of the Remuneration Committee) and Fabienne Schwalbe (Chairwoman of the Risks and Internal Controls Committee and the Transactions with related parties Committee) have been able to enter into discussion in the absence of the other directors on the following occasions (*Criterion 3.C.6.*):



- 11, 15 and 22 January 2019 on the remuneration of directors
- 17 May 2019 on governance and the front line
- 10 July 2019 on the resignation of Paolo Matarazzo
- 31 July 2019 on the transfer of the B&F business branch
- 28 October 2019 on induction activities for the new independent director Alessandro Arrigoni
- 16 and 17 January 2020 on the transfer of the share package by the Chairperson Alvise Braga IIIa

The independent directors have regular occasions to meet during meetings of the Remuneration Committee, the Risks and Internal Controls Committee and the Transactions with related parties Committee, of which they are exclusive members.

#### 4.7. Lead Independent Director

The role of Chairperson of the Board of Directors is separate from the role of Chief Executive Officer, and the Chairperson is not the individual who controls the company; nevertheless, a Lead Independent Director has been appointed. On 19 April 2018, the Board of Directors appointed Stefania Saviolo as Lead Independent Director (*Criterion 2.C.4.*), in replacement of Teresa Cristiana Naddeo, outgoing with effect as of the same date.

The Lead Independent Director (*Criterion 2.C.5.*):

- a) represents a point of reference and coordination for the requests and contributions of non-executive directors, particularly independent ones;
- b) collaborates with the Chairperson of the Board of Directors in order to ensure that directors receive complete and prompt information.

The Lead Independent Director is granted, among other things, the power to convene, independently or at the request of other directors, specific meetings of independent directors only for the discussion of issues deemed to be of interest with respect to the functioning of the Board of Directors or management of the company.

## 5. PROCESSING COMPANY INFORMATION

The Board of Directors approved on 8 March 2017 a new “Regulation for the management of Privileged Information and Establishment of the register of persons with access to it”, in accordance with the new Market Abuse Regulation.

The Regulation is available on the Company’s website at the following address:

<https://www.txtgroup.com/it/governance/altre-informazioni/>

The Regulation is divided into various sections, including the definition of privileged information, confidentiality obligations, prohibited and legitimate conduct, information management processes, access by third parties, the publication process, delays in communication, external relations, rumours, forecast data, subsidiaries, the register of person with access to privileged information,

limitations on securities transactions in the 30 days preceding the announcement of profit/loss and before extraordinary transactions.

According to the company's best practices on confidential information, press releases on resolutions regarding the approval of Financial Statements, half-yearly and quarterly reports, extraordinary decisions and transactions are approved by the Board, without prejudice to the power assigned to the Chairperson and CEO in the event of urgent notices required by the relevant Authorities.

The disclosure of price sensitive information shall take place in compliance with guidelines issued by Consob and Borsa Italiana S.p.A. by means of dedicated communication tools (Network Information System), only accessible to corporate functions participating in the process.

Directors shall keep the documents and information acquired in the performance of their duties as confidential and comply with the procedure adopted for disclosure to third parties of such documents and information.

The Chairperson of the Board of Directors shall oversee compliance with the provisions on company disclosure by arranging and coordinating all related intervention of internal structures.

The Board has adopted rules for the internal handling and disclosure to third parties of information concerning the Company, notably with regard to price sensitive information. These rules incorporate the definitions of price sensitive information and confidential information as inferred from the regulations, from clarifications provided by Consob and from market practice, defining the management of information included within said definitions and identifying the company managers who handle and coordinate flows of information until their disclosure to the Market, in accordance with the methods envisaged by the regulations in effect.

The Regulation also governs the functioning of the register of persons with access to privileged information (Articles 152-*bis et seq.* of the Consob Issuers' Regulation). The Register ensures traceability of access to individual market-sensitive information contexts, that are separated into recurrent or continuous relevant activities/processes (e.g. the accounting process or meetings of corporate bodies) and specific projects/events (e.g. extraordinary corporate transactions, acquisitions/assignments, relevant external facts).

The registration of the names in the register takes place by individual recurrent or on-going activity/process

or by each individual project/event (including with the possibility of the same party being registered several times in different information contexts), indicating the initial moment of availability of the specific market-sensitive information and if applicable the moment from which such availability is revoked (entry to/exit from the relevant information context). Upon registration, the system automatically produces a notification message to the interested party, accompanied by an appropriate information note regarding obligations, prohibitions and responsibilities relating to access to market-sensitive information.

On 28 January 2013 the Company published on its website a press release stating that the Board of Directors had decided to take advantage of the option not to comply with the obligations to publish information documents in the case of significant merger, demerger, capital increase by non-monetary contribution, acquisition and assignment transactions.

Code of Conduct on Internal Dealing.

The Board of Directors approved on 8 March 2017 a new “Internal Dealing Procedure”, in accordance with regulatory changes (*Criterion 1.C.1., letter j*).

The Procedure is available on the Company’s website at the following address:

<https://www.txtgroup.com/it/governance/altre-informazioni/>

The Procedure is divided into various sections, including the definition of Significant Transactions, Closely Related Persons, Relevant Parties; Obligations regarding information and conduct on the part of relevant parties and closely related persons; further conduct obligations: blackout periods, sanctions; the party responsible for updating the Procedure; its entry into force; the list of examples of significant transactions; the templates for notifications and communications to the public; negotiations during the blackout period.

According to the Code of Conduct provisions, the Company shall notify the market of the transactions performed by each relevant person whose global amount is equal to or higher than € 5,000 per person, by the end of the year starting from the first transaction. Such notification shall be made within three trading days subsequent to the end of the transaction.

## **6. COMMITTEES WITHIN THE BOARD (Article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance)**

No committees different from the ones provided for by the Code, with consultative and advisory functions, have been constituted.

No committees performing the functions of two or more committees provided for by the Code have been constituted.

## **7. NOMINATION COMMITTEE**

The Board of Directors has not established, within the Board, any Nomination Committee, since that function is directly performed by the Board, owing to the Company's shareholding structure and Board's size. The Board therefore also took advantage of the discretion allowed by the Corporate Governance Code to comply with the substance of the Corporate Governance improvement targets, implementing them according to the principle of proportionality, i.e. in consideration of the characteristics, dimensions, internal organisational complexity, nature, scope and complexity of the activities carried out.

## 8. REMUNERATION COMMITTEE

Information provided in this section is to be considered jointly with the relevant parts of the Remuneration Report, published in compliance with Article 123 of the Consolidated Law on Finance.

The Board of Directors has formed a Remuneration Committee from within its members through a resolution dated 8 June 2000. It currently has three members, all independent directors (*Principle 6.P.3.*).

**Composition and functions of the Remuneration Committee** (Article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance

The Remuneration Committee is composed of three independent directors: Stefania Saviolo and Fabienne Dejean Schwalbe and Alessandro Arrigoni (*Criterion 4.C.1., letter a*) (*Principle 6.P.3.*). Stefania Saviolo is the Committee Chair. Minutes of the Remuneration Committee meetings have been duly taken (*Criterion 4.C.1., letter d*) and the Chairperson of the committee has informed and updated the Board on the activities carried out and decisions made during the next relevant meetings.

During the year 2019, the Committee held four meetings (on 30 January, 1 March, 8 and 27 May) of an average duration of one hour. The members of the Board of Statutory Auditors are also required to take part in the Committee's meetings. The directors participated in all committee meetings held during their effective term of office. The Statutory Auditors had an average attendance of 92%. Each director's participation is shown in Table 2 attached to this Report. Three meetings have been scheduled for 2020. The first 2020 Remuneration Committee meeting was scheduled for 2 March 2020.

Directors should not participate in meetings held to discuss and submit to the Board their own remuneration (*Criterion 6.C.6.*).

Other non-members have been invited to join the meetings of the Remuneration Committee (*Criterion 4.C.1., letter f*). In 2019, Paolo Matarazzo, former Chief Financial Officer, attended four committee meetings and was called upon to act as secretary and Francesco Cusaro, Human Resources director, also attended a meeting.

The Board of Directors' Meeting held on 10 December 2010 resolved to approve the Remuneration Committee Regulations.

### Functions of the Remuneration Committee

The Committee's specific goal is to provide the Board with the most appropriate guidelines and means to set top managers' remuneration and verify that the parameters adopted by the Company for defining remuneration of employees, including managers, are correctly set and applied, also with a view to relevant market standards and the Company's growth targets.

The Remuneration Committee submits to the Board its proposals for definition of the general remuneration policy for executive directors, other directors who cover particular offices and managers with strategic responsibilities (*Principle 6.P.4.*). The Remuneration Committee submits to the Board its proposals on the remuneration of the Chief Executive Officer and directors holding

particular positions, monitoring the application of the decisions adopted by the Board (*Criterion 6.C.5*).

The Remuneration Committee carries out supporting activities in favour of the Board of Directors regarding the remuneration plan of directors and managers with strategic responsibilities.

The remuneration of directors and managers with strategic responsibilities is set to be sufficiently attractive to keep and motivate personnel with the required professional expertise to efficiently manage the Group.

The remuneration of executive directors and managers with strategic responsibilities is set with the aim of aligning their interests with the priority goal of creating value for shareholders in the medium-to-long term. As for directors with managing roles or dealing in general with company management, or for managers with strategic responsibilities, a large part of their remuneration is connected to the achievement of specific performance benchmarks, which may also be of a non-economic nature. These objectives have been determined and indicated beforehand in compliance with the general policy guidelines of the Corporate Governance Code.

The remuneration of non-executive directors is proportional to their commitment, including their participation to one or more committees.

Pursuant to the Corporate Governance Code of Listed Companies, the Committee has the following tasks:

- a) it periodically assesses the adequacy, general consistency and effective application of the general remuneration policy of executive directors, directors who cover particular offices and managers with strategic responsibilities, based on the information provided by the CEO. It also submits proposals on the issue to the Board of Directors;
- b) it submits proposals on the remuneration of the executive directors and of other directors who cover particular offices to the Board of Directors. It also submits proposals on the determination of performance benchmarks relating to the variable component of such directors' remuneration. It also monitors the relevant decisions of the Board, especially regarding the achievement of the performance goals.

The Committee shall perform its tasks in complete autonomy and full independence from the CEO.

Should the Committee be supported by a consultant on market practices in terms of remuneration policies, it shall firstly ascertain that he/she is not in a position that might compromise his/her independence of judgment.

The members of the Committee participated in all committee meetings held during their effective term of office. During the said meetings, the Committee:

- examined information on the 2018 remuneration policy, including it in the remuneration report;
- assessed the staff recruitment process;
- examined the 2019 remuneration policies for managers;
- submitted proposals to the Board with regard to the 2019 remuneration of the Chairperson and the CEO, with respect to both the fixed and variable portion of remuneration;
- discussed the aspect of medium/long-term incentives;

- assessed the provisions for 2019 variable fees in relation to the criteria of the Management by Objectives (MBO) system for all the staff;
- discussed the 2020 fees for the offices of the directors.

For additional information on the Remuneration Committee, see the Remuneration Report published pursuant to Article 123-ter of the Consolidated Law on Finance.

As part of its mandate, the Remuneration Committee has access to company information and offices in order to perform its functions, within the limits set by the Board (*Criterion 4.C.1., letter e*).

The financial resources made available to the Remuneration Committee to carry out its duties amount to € 25,000.

## 9. REMUNERATION OF DIRECTORS

Information provided in this section is to be considered jointly with the relevant parts of the Remuneration Report, published in compliance with Article 123 of the Consolidated Law on Finance.

### General Remuneration Policy

The company has defined a remuneration policy for directors and managers with strategic responsibilities (*Principle 6.P.4.*).

In relation to top management, standard remuneration is adopted for Company's managers who are also shareholders and those who are not shareholders, and executive members of the Board.

The remuneration policy for executive directors or directors covering particular offices defines guidelines with reference to the issues and in line with the criteria listed below:

- a. the fixed and the variable components are properly balanced according to the Company's strategic objectives and risk management policy;
- b. the variable components are capped at a certain amount;
- c. the fixed component is sufficient to reward the director should the variable component not be paid because of the failure to achieve the performance objectives specified by the Board of Directors;
- d. performance objectives are predetermined, measurable, and linked to the creation of value for shareholders in the medium-to-long term;
- e. the payment of a portion of the medium-to-long term variable compensation is deferred by a reasonable period with reference to its accrual; measurement of this portion and duration of the postponement are consistent with the characteristics of the business activity carried out and with the associated risk profiles;
- f. contractual agreements are in place whereby the company may request the restitution, in whole or in part, of variable portions of the remuneration paid (or withhold amounts that have been deferred), determined based on data that subsequently proved to be clearly inaccurate;
- g. no compensation is provided following directors' early end of term of office or for failure to be reappointed.

## **Share-based compensation plans**

The Shareholders' Meeting of 18 April 2019 approved a Stock Option Plan with the aim of linking the remuneration of Beneficiaries to the creation of value for the company's shareholders, emphasising factors of strategic interest. In addition, it seeks to promote loyalty, encourage employees to stay with the company or its subsidiaries, and maintain competitiveness in the market for the remuneration of Beneficiaries, emphasising factors of strategic interest.

The Plan provides for the allocation of a maximum of 600,000 Shares to beneficiaries. In order to ensure the gradual development of the Plan over time, no more than 200,000 Options may be allocated in the first tranche.

In preparing 2019 Stock Option Plan, the Board of Directors has ensured that:

- a. the options assigned to directors to purchase shares or to be remunerated based on the share price performance have a vesting period of three years;
- b. vesting pursuant to paragraph a) is subject to predetermined measurable performance objectives;
- c. the directors keep a portion of the shares assigned or purchased following exercise of the options until the end of their term of office, and the managers with strategic responsibilities keep them for 3 years from exercise (*Criterion 6.C.2.*)

## **Remuneration of executive directors**

A significant portion of the remuneration of the directors with managerial powers is associated with the achievement of specific performance objectives indicated above and determined in compliance with the guidelines included in the general remuneration policy defined by the Board of Directors (*Principle 6.P.2.*).

When the authorised bodies determined the remuneration of managers with strategic responsibilities the above criteria were applied in matters of remuneration policy and compensation plans based on shares relative to the remuneration of executive directors or directors vested with particular tasks (*Criterion 6.C.3.*).

## **Remuneration of managers with strategic responsibilities**

A significant portion of the remuneration of managers with strategic responsibilities is associated with the attainment of previously indicated specific performance objectives determined in compliance with the guidelines contained in the general remuneration policy defined by the Board of Directors (*Principle 6.P.2.*).

In determining the remuneration of managers with strategic responsibilities, the delegated bodies applied the above-mentioned criteria on remuneration policy and share-based compensation plans for executive directors or directors covering particular offices (*Criterion 6.C.3.*).



**Incentive plans for the Manager responsible for internal audit and the Manager responsible for preparing corporate accounting documents**

The incentive plans for the Manager responsible for internal audit and the Manager responsible for preparing corporate accounting documents are consistent with their duties (*Criterion 6.C.3.*).

**Remuneration of non-executive directors**

Non-executive directors' remuneration is not connected to the economic results achieved by the Issuer; it is determined based on a fixed amount (*Criterion 6.C.4.*). Non-executive directors and independent directors are not involved in stock options incentive plans (*Criterion 6.C.4.*).

The Shareholders' Meeting held on 19 April 2019 approved the Directors' Remuneration Report prepared by the Board of Directors.

**Severance package for directors in the event of resignation, dismissal or termination of the relationship following a public takeover bid** (pursuant to Article 123-*bis*, paragraph 1, letter i) of the Consolidated Law on Finance)

No agreements have been signed between the Company and its directors providing a severance package in case of resignation or dismissal without just cause or if the term of office ends because of a takeover bid.

An end-of-term severance package equal to 25% of the fee for particular offices resolved upon and accrued each year was confirmed by the Shareholders' Meeting held on 21 April 2017 in favour of the Chairperson of the Board of Directors. It shall be paid when the term of office as Member of the Board of Directors ends.

With the other directors no severance agreements were signed in case of resignation or dismissal/termination without just cause or if their term of office ends because of a takeover bid.

The company discloses, in the event of withdrawal from office and/or termination of the employment relationship with an executive director or general manager, following the internal processes to determine the assignment or recognition of a severance package and/or other benefits, detailed information in this regard, through a press release (*Principle 6.P.5.*).

The market disclosure pursuant to principle 6.P.5. includes (*Criterion 6.C.8.*):

- a) adequate information on the severance package and/or other benefits, including the relative amount, timing of the disbursement - distinguishing the part disbursed immediately from the part subject to deferral, as well as the components assigned for the role of director from those regarding any employment relationships - and any restitution clauses, with particular regard to:
  - 1) severance package for end of term of office or employment termination, specifying the case in which said amounts accrue (for example, expiry of office, dismissal from office or compromise agreement);
  - 2) maintenance of the rights connected to any monetary incentive plans or incentive plans based on financial instruments;
  - 3) (monetary or non-monetary) benefits subsequent to withdrawal from office;
  - 4) non-compete agreements, describing the main contents;



- 5) any other compensation assigned for any reason and in any form;
- b) information on the compliance or non-compliance of the severance package and/or other benefits with the guidelines contained in the remuneration policy, and in the event of even partial deviations with regard to the guidelines in said policy, information on the resolution procedures followed in application of the Consob regulations on transactions with related parties;
- c) information on the application or non-application of mechanisms that place limitations on or adjust payment of the severance package in the event in which termination is due to the achievement of objectively inadequate results, and any formulation of requests for restitution of amounts already paid;
- d) information on the fact that replacement of the withdrawing executive director or general manager is governed by a specific plan adopted by the company and, in any case, information on the procedures that have been or will be implemented in replacing the director or manager.

## 10. RISKS AND INTERNAL CONTROLS COMMITTEE

The Company has set up a Risks and Internal Controls Committee (*Principles 7.P.3. and 7.P.4.*).

**Composition and functions of the Risks and Internal Controls Committee** (Article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance)

The Risks and Internal Controls Committee comprises four independent directors (Fabienne Dejean Schwalbe, Stefania Saviolo, Valentina Cogliati and Alessandro Arrigoni) (*Principle 7.P.4.*) (*Criterion 4.C.1., letter a*). Fabienne Dejean Schwalbe is the Committee Chair. Minutes of the Risks and Internal Controls Committee meetings have been duly taken (*Criterion 4.C.1., letter d*) and the Committee Chair has informed and updated the Board on the activities carried out and decisions made during the next relevant meetings.

The Committee held eight meetings in 2019, coordinated by the Chairperson, on 30 January, 1 March, 16 April, 8 May, 27 May, 1 August, 2 October and 12 December. The directors participated in all committee meetings held during their effective term of office. At least 5 meetings have been scheduled for 2020. The first meeting of the Risks and Internal Controls Committee was scheduled for 2 March 2020.

At least one member of the Risks and Internal Controls Committee has experience in accounting and finance issues deemed to be suitable by the Board upon appointment (*Principle 7.P.4.*)

The Chairperson and the other members of the Board of Statutory Auditors have taken part in the Risks and Internal Controls Committee meetings (*Criterion 4.C.1., letter f*). The Statutory Auditors had an average attendance of 79%.

Under invitation by the Committee, non-members have taken part in the Risks and Internal Controls Committee's Meetings (*Criterion 4.C.1., letter f*). In 2019, until the date of his resignation, Paolo Matarazzo, Chief Financial Officer and Manager responsible for preparing corporate accounting documents, regularly attended the meetings of the committee, called to act as secretary; Marco Guida, Chief Executive Officer and Executive Director responsible for overseeing the internal control

and risk management system, attended, until the date of his resignation; Luigi Piccinno, Internal Auditor, attended and was called to act as secretary; Eugenio Forcinito attended as first administrative director and Chief Financial Officer and then Manager responsible for preparing corporate accounting documents, following his appointment on 15 July 2019. Based on the items on the agenda, Committee meetings were attended by Paolo Passino, Chairperson of the Supervisory Board, and the partner and senior manager of the auditing firm EY S.p.A. The following managers of TXT's subsidiaries also intervened: Daniele De Stradis and Dino Scaringella for AssiomaNet S.r.l., Flavio Minari and Bruno Roma for Cheleo S.r.l.

### **Functions of the Risks and Internal Controls Committee**

The Risks and Internal Controls Committee carries out supporting activities in favour of the Board of Directors on the internal control system and on the approval of year-end Financial Statements and half-yearly reports. Since it monitors corporate activities in general, it also has consultative and advisory functions. In particular, according to the Corporate Governance Code of Listed Companies, the Risks and Internal Controls Committee has been assigned the following tasks:

- a) to assist the Board of Directors in identifying the guidelines of the internal control and risk management system and verify that such system is suitable and effective from time to time, in order to ensure that the main corporate risks are adequately identified and managed (*Criterion 7.C.1.*);
- b) to assess, together with the Manager responsible for preparing corporate accounting documents, having heard the External Auditors and the Board of Auditors, the proper implementation of the accounting standards and their consistency for the purposes of the consolidated Financial Statements (*Criterion 7.C.2., letter a*);
- c) to express opinions on specific issues concerning identification of the company's main risks (*Criterion 7.C.2., letter b*);
- d) to examine periodic reports on assessment of the internal control and risk management system and specific reports by internal audit (*Criterion 7.C.2., letter c*);
- e) to monitor the autonomy, adequacy, effectiveness, and efficiency of the internal audit function (*Criterion 7.C.3., letter d*);
- f) to request the internal audit function – if necessary – to conduct inspections on specific operational areas, promptly informing the Chairperson of the Board of Statutory Auditors (*Criterion 7.C.2., letter e*);
- g) to report to the Board of Directors, at least every six months, on the occasion of the approval of the year-end Financial Statements and the half-yearly report, on the adequacy of the internal control and risk management system (*Criterion 7.C.2., letter f*);
- h) to assess the position and ensure the effective independence of the Director in charge of the Internal Control and Risk Management System, based on the provisions of Legislative Decree no. 231/2001 on the corporate administrative liability;
- i) to assess, with the assistance of the Director in charge of the Internal Control and Risk Management System the manager of administrative functions and the manager responsible for internal audit, the proposals submitted by the External Auditors applying for the audit position, advising the Board on the issue which shall be submitted to the Shareholders' Meeting by the latter;
- j) to support, with adequate information-gathering activity, the assessments and decisions of the

Board of Directors with regard to the management of risks arising from prejudicial facts of which the Board of Directors has become aware (*Criterion 7.C.2., letter g*).

The Risks and Internal Controls Committee should perform its task in a completely autonomous and independent manner both from the CEO (on business integrity issues) and the External Auditors (on assessment of results mentioned in the report and in the letter of recommendations).

During said meetings, the Committee also examined:

- the 2018 consolidated Financial Statements , the 2019 half-yearly report and the results on the auditing process, as well as the interim reports;
- the assessments of the impairment tests;
- the assessments of the adequacy of the accounting standards used and their consistency;
- the transactions with related parties;
- the analysis of the results of the Board's and Committees' self-assessment process;
- the reports by the Supervisory Board on Law 231 and activities for updating the Organisation Model;
- the report on Corporate Governance and shareholding structure;
- the Group's risk assessment activities;
- risk and opportunity assessment for updating the business plan;
- risk and opportunity assessment for the Assioma Group acquisition transaction, the results of the due diligence activities, the independent fairness opinion;
- risk and opportunity assessment relating to the TXT Sense transaction;
- risk and opportunity assessment relating to the HSPI S.p.A. acquisition transaction;
- risk and opportunity assessment of the various acquisition transactions presented to the Committee;
- assessment of the organisational impact of the resignation of CEO Marco Guida and CFO Paolo Matarazzo;
- risk assessment for the 2020 Budget;

As part of its mandate, the Risks and Internal Controls Committee has access to company information and offices and can appoint external consultants to the end of performing its functions, within the limits set by the Board (*Criterion 4.C.1., letter e*).

The financial resources available for the Risks and Internal Controls Committee to carry out its duties were set at € 25,000.

## **11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

In defining the strategic, industrial and financial plans, the Board defined the nature and level of risk compatible with the Company's strategic objectives, including in its assessments all of the risks that might be significant with a view to medium to long-term sustainability of the activities of the Issuer (*Criterion 1.C.1., letter b*).

The risk management system cannot be considered separately from the internal control system with regard to the financial reporting process; in fact, they are both part of the same system. This system is aimed at ensuring reliability, accuracy and timeliness in financial reporting.

The Corporate Governance Code defines this system as: “The set of rules, procedures and organisational structures aimed at making possible, through appropriate identification, measurement, management and monitoring of the main risks, an effective and correct management of the Company, consistent with pre-set goals”.

In compliance with the Code, the internal control and risk management system also involves:

- i) the Board of Directors that sets the system guidelines and assesses its adequacy and effective operations, through the appointment of the Risks and Internal Controls Committee and its regular reporting activities;
- ii) the CEOs who implement the guidelines defined by the Board of Directors and in particular, identify the main corporate risks thanks to the support of directors in charge of internal control;
- iii) the Risks and Internal Controls Committee with consultative and advisory functions, relating also to the assessment of the adequacy and correct use of the Company’s accounting standards;
- iv) directors in charge of internal control who verify, within internal processes, whether the defined controls are adequate with respect to the potential risks and suggest to the Committee and management, where necessary, the adoption of any measures aimed at eliminating risks of a financial nature and enhancing the efficiency and effectiveness of the corporate processes.

The Board of Directors is responsible for defining the global policies of the internal control and risk management system, setting the guidelines and regularly overseeing its adequacy and effectiveness thanks to the support of the Directors in charge of internal control. The responsibility for implementing the internal control and risk management system, in terms of carrying out and managing the measures, mechanisms, procedures and rules, fully applies to all the Company’s functions.

The Board of Directors shall also ensure that the main risks faced by the Company are identified and adequately managed.

The Company’s internal control and risk management system relating to financial reporting is based on the "COSO Report" model that considers "the internal control system as a set of mechanisms, procedures and tools aimed at ensuring achievement of corporate goals”.

The aims of the financial reporting process are the accuracy, reliability, trustworthiness and timeliness of the information disclosure. Risk management is an integral part of the internal control system. The periodic assessment of the internal control system on the financial reporting process aims to verify that the components of the COSO Framework (control environment, risk assessment, control activities, information and communication, monitoring) are properly working together to achieve these objectives. The Company has implemented administrative and accounting procedures that ensure high standard reliability of the internal control on financial reporting.

The approach adopted by the Company on the assessment, monitoring and continuous updating of the internal control and risk management system in terms of financial reporting allows that assessment is carried out on critical areas with higher risk/importance, i.e. where the risks of material mistakes are higher, also due to fraud, on Financial Statements items and on related documents. The identification and assessment of possible errors that could have significant effects on financial reporting takes place through a risk assessment process that identifies organisational entities, processes and related accounting entries and the specific activities that could generate any

significant errors. According to the methodology adopted by the Company, risks and related controls are associated to accounts and business processes generating accounting items.

Once identified by the risk assessment process, the significant risks shall be identified and assessed by specific tools (key controls) that ensure their coverage, thus limiting the risk of any potentially significant error on Financial Reporting.

Based on international best practice, the Group has implemented two types of control:

- controls at Group or subsidiary level for assignment of responsibilities, powers and delegation, duties and allocation of privileges and access rights for IT applications;
- controls at process level, such as the issue of authorisations, reconciliation processes, compliance tests, etc. This category includes controls relating to operational processes, period-end accounting and cross-cutting controls. Such controls may be "preventive" with the aim of preventing the occurrence of anomalies or fraud that could cause errors in financial reporting or "detective" with aim of detecting any anomaly or fraud that has already occurred.

The assessment of controls, where appropriate, may require the identification of compensation controls, corrective action or improvement plans. The results of monitoring activities are regularly examined by the Manager responsible for preparing the corporate accounting documents. They are then reported to top management and to the Risks and Internal Controls Committee, which in turn reports to the Parent Company's Board of Directors and Board of Statutory Auditors.

Internal control and risk management system (*Principle 7.P.2.*):

- contributes to operating the company in accordance with the objectives defined by the Board, encouraging the adoption of informed decisions;
- participates in ensuring safeguarding of the company assets, efficiency and effectiveness of the company processes, reliability of the information provided to the corporate bodies and to the market, and respect of laws and regulations, as well as of the company By-laws and internal procedures.

## 11.1. Executive Director in charge of the internal control and risk management system

On 1 August 2019, following the resignation of Marco Guida - CEO and Executive Director in charge of supervising the internal control system - the Board of Directors appointed Enrico Magni as Executive Director in charge of supervising the internal control system (*Principle 7.P.3., letter a n.(i)*).

The Executive Director in charge of supervising the functions of the internal control and risk management system was responsible for the following activities:

- together with the Supervisory Board, he was in charge of identifying the main corporate risks, taking into account the features of the business carried out by the Company and its subsidiaries. His findings were submitted to the Risks and Internal Controls Committee and to the Board of Directors (*Criterion 7.C.4., letter a*);
- he implemented the guidelines adopted by the Board, managing the drafting, implementation and management of the internal control and risk management system, verifying its general adequacy, efficacy and effectiveness (*Criterion 7.C.4., letter b*);

- he aligned the system with the operating activities and with the current regulatory framework (*Criterion 7.C.4., letter c*);
- he has the power to request the internal audit function to conduct inspections on specific operational areas and on the compliance with the rules and internal procedures in performing company activities, promptly informing the Chairperson of the Board, the Chairperson of the Risks and Internal Controls Committee and the Chairperson of the Board of Statutory Auditors (*Criterion 7.C.4., letter d*);
- he confirmed Luigi Piccinno as Internal Auditor as resolved by the Board at its meeting of 12 May 2011. (*Principle 7.P.3. letter c*).

## 11.2. Manager responsible for Internal Audit

On 12 May 2011, the Board of Directors appointed Luigi Piccinno as Manager responsible for internal audit, with the task of checking the consistency of the internal control and risk management system, its operations and effectiveness. (*Criterion 7.P.3., letter b*).

The appointment was made on advice of the Executive Director in charge of internal control and risk management system, following consultations with the Risks and Internal Controls Committee and the Board of Statutory Auditors (*Criterion 7.C.1., part two*).

The Manager responsible for internal audit's remuneration, following the opinion of the Risks and Internal Controls Committee, has been determined in accordance with company policies and is sufficient for him to carry out his duties (*Criterion 7.C.1., part two*).

The Manager responsible for internal audit:

- a. Is a Member of the 231 Supervisory Board. He reports directly to the Executive Director in charge of the Internal Control and Risk Management System. The Board of Directors, after consulting with the Risks and Internal Controls Committee and with the Executive Director in charge of the internal control and risk management system, deemed this solution adequate and balanced, in view of the relatively small size of the Group and its streamlined operating structure (*Criterion 7.C.5., letter b*).
- b. Verifies, both on an ongoing basis and in relation to specific needs and in compliance with international standards, the operations and suitability of the internal control and risk management system, by means of an audit plan, approved by the Board of Directors based on structured analyses and priorities (*Criterion 7.C.5., letter a*).
- c. Had direct access to useful information for carrying out his duties (*Criterion 7.C.5., letter c*).
- d. Prepared a report containing adequate information on his activity, on the method with which risk management is conducted as well as on the compliance with the plans defined for their management, in addition to an assessment on the adequacy of the internal control and risk management system (*Criterion 7.C.5., letter d*) and submitted it to the Chairperson of the Board of Statutory Auditors, the Chairperson of the Risks and Internal Controls Committee and the Chairperson of the Board of Directors as well as to the Director in charge of the internal control and risk management system (*Criterion 7.C.5., letter f*).
- e. Reported to the Risks and Internal Controls Committee and to the Board of Statutory Auditors on the activities performed (*Criterion 8.C.6., letter e*). Additionally, he reported to the Executive Director in charge of the internal control and risk management system (*Criterion 7.C.5., letter f*).



- f. Verifies, within the sphere of the audit plan, the reliability of the information systems including the accounts registration systems (*Criterion 7.C.5., letter g*).

The Manager responsible for internal audit, in carrying out their functions, was not supported by an external consultant in 2019. (*Criterion 7.C.6.*).

### 11.3. Organisation model pursuant to Legislative Decree No. 231/2001

The Board Meeting held on 14 March 2008 approved the Organisation model in compliance with the provisions of Legislative Decree No. 231/2001. Such model includes the Code of Ethics with binding rules and principles for directors, employees, consultants, external staff and suppliers.

In defining the "Organisational, management and control model", TXT has adopted a design approach that makes it possible to use and integrate existing rules into the Model, as well as to dynamically interpret the expected evolution of the regulations towards other offences. The TXT model structure aims at making controls and procedures within the Group as efficient and consistent as possible.

This approach: i) enhances the existing corporate assets in terms of internal policies, regulations and rules addressing and governing risk management and control procedures; ii) makes it possible to promptly update rules and methods to be communicated within the Company, subject to future fine-tuning; iii) makes it possible to manage all corporate operating rules in the same way, including those pertaining to "sensitive issues".

The TXT model is composed of:

- a) the General Part;
- b) the Code of Ethics and the organisation procedures that are already in force within TXT and pertain to the control of conducts, events or acts relevant to Legislative Decree No. 231/2001. The Code of Ethics and the procedures in force, even if they have not been explicitly issued pursuant to Legislative Decree no. 231/2001, have as one of their main purposes the control of the regularity, diligence and legality of the conduct of those who represent or are employees of TXT and, therefore, contribute to ensure crime prevention according to Legislative Decree no. 231/2001;
- c) the Special Part, concerning the specific offence categories that are relevant for TXT and the applicable provisions.

On 5 August 2010, the Board approved updating of the Code of Ethics and the Organisation Model, in particular with reference to the company activities in the software and IT systems sector and to the expertise it has accrued over recent years. The most significant updates regard the activities in terms of workplace safety, also with regard to sub-contracts and dealings with third parties, along with the distinctive realm of cybercrimes.

The analysis focused on the planning methods, principles and measures used to identify corporate risks and to subsequently assess regulations and procedures of operating activities, the general features of controls, protocols and procedures to monitor those fields potentially at risk. It also included tasks, powers, ineligibility and incompatibility reasons that would result in the Supervisory Board's end of term of office pursuant to said regulations. During its supervision activities, the Board shall regularly report to the Executive Director in charge of the internal control system, and

periodically to the Board of Directors in reference to the degree of implementation, effectiveness and operating efficiency of the Model.

The Board has updated the risk report with “as is” and gap analysis, along with the Code of Ethics, the Supervisory Board’s regulations and the “Organisation and Management Model 231” manual.

From the date of first approval, the Organisation Model has been updated following the introduction of new crimes such as the reform of corporate crimes, the new crime of money laundering, the reform on corruption and the new environmental and cybercrimes.

On 13 May 2019 the Board of Directors confirmed Paolo Passino as Chairperson of the Supervisory Board. Paolo Passino is a Senior Associate at the firm Ferrari, Pedefferri and Boni, with experience in the areas of corporate law, corporate governance, extraordinary transactions, M&A, commercial law and the administrative liability of corporate bodies with positions in supervisory bodies of industrial and service companies and experience with regard to organisation, management and control models and risk assessment. The Board also confirmed Mario Basilico, former Chairperson of the Board of Statutory Auditors, as a member of the Supervisory Board and Luigi Piccinno, who has been a member for many years and internal auditor. The TXT Supervisory Board is therefore made up of 3 members.

The Supervisory Board is responsible for overseeing functioning and compliance of the Model, as well as handling its update, submitting proposals to the Board for any updates and amendments to the Model adopted. The Supervisory Board reports to the Board of Directors on a half-yearly basis with regard to the Model's application and effectiveness.

On 1 October 2014, the company adopted a Policy for the prevention of corruption (available online at: <https://www.txtgroup.com/governance/articles-of-association-and-policies/> ) and disseminated a specific procedure to all employees of Group companies.

The Organisation Model is available on the Company’s website at the following address: <https://www.txtgroup.com/governance/organizational-model-231/>

#### 11.4. External Auditors

The Shareholders’ Meeting of 23 April 2012 appointed EY Spa, Via Meravigli 14 - 20123 Milan as External Auditors for the years 2012 to 2020, following the proposal of the Board of Statutory Auditors.

Their tasks include auditing the annual Financial Statements , limited auditing of the half-yearly reports, as well as monitoring activities under Article 155 of the Consolidated Law on Finance.

#### 11.5. Manager responsible for preparing corporate accounting documents

On 15 July 2019, the Board of Directors, with a favourable opinion of the Board of Statutory Auditors, appointed Eugenio Forcinito as Manager responsible for preparing corporate accounting documents in place of Paolo Matarazzo, who resigned. Eugenio Forcinito is also the Group's Chief Financial Officer (*Principle 7.P.3., letter c*).



The Manager responsible for preparing corporate accounting documents arranges adequate administrative and accounting procedures for the preparation of the statutory and consolidated Financial Statements and any other financial documentation. The delegated bodies and the Manager responsible for preparing corporate accounting documents certify the equity, income and financial disclosure pursuant to legal requirements.

The Board of Directors oversees that the Manager responsible for preparing corporate accounting documents has adequate means to perform the duties assigned to them, as well as effective compliance with administrative and accounting procedures.

#### 11.6. Coordination between the parties involved in the internal control and risk management system

The various Company parties involved in the internal control and risk management system (the Board in charge of the internal control and risk management system, the Risks and Internal Controls Committee, the Manager responsible for internal audit, the Manager responsible for preparing corporate accounting documents and other company roles and functions with specific duties of internal control and risk management, and the Board of Statutory Auditors) shall coordinate their own activities and exchange relevant information during periodic meetings and, if necessary, during specially convened meetings (*Principle 7.P.3.*). In particular, during 2019, the parties involved in the internal control system met and exchanged information in two meetings: 7 March and 1 August (*Criterion 7.C.1., letter d*).

## 12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are defined by international accounting standards (notably IAS 24) and also involve consolidated subsidiaries 100%-owned by the Company. Transactions between the Company and its subsidiaries are mainly of an on-going commercial nature, based on agreements which do not feature any unusual clauses differing from standard market practices for transactions at arm's length.

In view of the nature of transactions and their ordinary character in line with market practices, the Board deemed it unnecessary to apply for a "fairness opinion" to be provided by an independent expert to the end of assessing the economic consistency of the transactions. As stated above, transactions with related parties, with significant income, equity and financial value, are reserved to the Board of Directors.

With reference to the disclosure to the Board of Directors, except for necessary and urgent events, all transactions with significant income, equity and financial value, significant transactions with related parties and atypical and/or unusual transactions are submitted to the prior approval of the Board of Directors.

As for transactions with related parties, including intra-group transactions, not submitted for Board approval as deemed typical or usual and/or at standard conditions – i.e. at the same conditions applied by the Company to any other party – the CEO or the Managers in charge of the transactions, without any prejudice to the dedicated procedure pursuant to Article 150, paragraph 1, of the Consolidated Law on Finance, shall collect and preserve, by type or group of transactions, adequate disclosure on the nature of the transaction, its methods of execution, conditions, whether economic or otherwise, of implementation, on the assessment method adopted, underlying interests and reasons and any risks for the Company.

Despite their subject and value being pertinent, prior approval of the Board of Directors is not required for transactions which:

- are executed at market conditions or at the same conditions applied to parties other than the related parties;
- are typical or usual – i.e. they fall under the Company's ordinary operations as for their subject, nature and degree of risk, as well as execution period.

In any event, the Board of Directors shall be duly notified about such transactions as well.

On 8 November 2010, the Board of Directors approved a new implementation procedure, pursuant to Article 2391-*bis* of the Italian Civil Code, the Corporate Governance Code of Listed Companies, and the Consob Regulation on related parties, approved by Resolution no. 17221 of 12 March 2010 (the "Consob Regulation"). This new procedure identifies the rules governing the determination, approval and execution of transactions with related parties of TXT e-solutions S.p.A., either directly or through subsidiary companies. The purpose of this procedure is to ensure the formal and material transparency of said transactions.

"Significant Transactions with Related Parties" refer to:

- i) Transactions exceeding the lower of € 500,000 or 5% of any of the following relevance ratios, to be applied according to the specific transaction:
  - Amount relevance ratio: the ratio between the transaction amount and the net equity resulting from the latest published TXT consolidated balance sheet or, if greater, the TXT capitalisation at the end of the last trading day included in the period covered by the latest periodic report (annual, half-yearly or interim reports) published. Should the economic conditions of the transaction be determined, the transaction amount shall be:
    - a. for cash components, the amount paid by or to the other party;
    - b. for financial instrument components, the fair value determined at the date of the transaction, in accordance with international accounting standards adopted by Regulation (EC) no. 1606/2002;
    - c. for funding or guarantees, the maximum amount payable.

If the economic conditions of the transaction depend, in whole or in part, on items not yet known, the transaction amount is the maximum amount allowable or payable under the agreement.

- Asset relevance ratio: the ratio between the total assets of the entity involved in the transaction and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet. Where possible, similar data should be used for determining the total assets of the entity involved in the transaction.

For transactions involving the acquisition and disposal of shares in companies that have an impact on the area of consolidation, the value of the numerator is the total assets of the investee, regardless of the percentage of capital concerned.

For transactions involving the acquisition and disposal of shares in companies that do not have an impact on the area of consolidation, the value of the numerator is:

- a. in the case of acquisition, the transaction amount, plus the liabilities of the company acquired taken on by the purchaser, if any;
- b. in the case of disposal, the amount of the sold asset.

For transactions involving the acquisition and disposal of other assets (other than the acquisition of company shares), the value of the numerator is:

- a. in the case of acquisition, the higher of the consideration or the carrying amount that will be attributed to the asset;
- b. in the case of disposal, the carrying amount of the asset.

- Liabilities relevance ratio: the ratio between the total liabilities of the entity acquired and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet, if drawn up. Where possible, similar data should be used for determining the total liabilities of the company or business branch acquired.
- ii) Transactions with the listed parent company or any entities related to the latter which are in turn related to TXT, where at least one of the above-mentioned relevance ratios exceeds 2.5%;
  - iii) and transactions with related parties that may have consequences on the management independence of the Company (including those concerning intangible assets), exceeding the relevance thresholds of 5.0% as stated in (i) or 2.5% if conditions pursuant to point (ii) apply.

In order to calculate the aforementioned amounts, each single transaction is considered, or, should several transactions be connected because of the same purpose or goal, the total amount of all connected transactions is considered.

The Board of Directors is in charge of decisions regarding Transactions with Related Parties, and the Significant Transactions with Related Parties (hereinafter the "Transactions"). In order to make decisions, the Board shall receive, with reasonable prior notice, adequate and complete disclosure on the features of the Transactions, such as the nature, means of execution, conditions, including economic conditions, interests, underlying reasons and any risks for the Company. Both in the information-gathering phase and in the decision-making phase, the Board of Directors shall attentively examine the Transactions. This analysis shall be supported by adequate documentation showing the reasons for the Transactions, their profitability, and that the transaction conditions are

materially correct. In particular, should the Transaction conditions be equivalent to market or standard conditions, detailed supporting documentation shall be provided.

The Board of Directors decides on the Transactions after justified, non-binding advice of a committee solely composed of non-related non-executive directors, with the majority of them being independent (the “Related Parties Committee”) which examines the interests of the Company in reference to the Transaction, its profitability and if its conditions are materially correct.

In order to issue non-binding advice, the Related Parties Committee shall receive exhaustive and adequate disclosure on the Transactions and their features. The Related Parties Committee may be supported – at the Company’s expenses – by one or more independent experts that are not related and have no direct or indirect personal interest in the transaction and are chosen by the Related Parties Committee itself. These experts may express an opinion or draft a report on the economic conditions and/or the technical aspects and/or on the legitimacy of the transactions. The maximum amount that may be charged to the Company shall be proportional to the value of the transaction, and in any case, it shall not exceed € 20,000 for each single transaction.

The Board of Directors and the Board of Statutory Auditors shall receive exhaustive disclosure on transactions.

The decision of the Board of Directors may be taken despite advice to the contrary from the Related Parties Committee.

Should the transaction involve the interest of one of the TXT directors, the director qualifying as the related party shall promptly inform the Board of Directors about the existence of a personal interest, pursuant to Article 2391 of the Italian Civil Code, and he/she shall abstain from voting on the issue. If the Board of Directors deems that the presence of the aforementioned director during the information-gathering or decision-making phases is useful, he or she may take part in the process, after the Board of Statutory Auditors has been consulted on the issue.

The resolutions of the TXT Board of Directors on the transactions shall provide full information on the interests of the Company, reasons, profitability and material correctness of the transactions for the Company and the group to which the Company belongs (the “TXT Group”). Should said transactions be the responsibility of the Shareholders’ Meeting or should they be authorised by the latter, pursuant to the law or the By-Laws, the aforementioned procedure shall apply to the negotiation, information-gathering and decision-making phases.

Transactions of less than € 100,000 are excluded from the aforementioned procedure, as long as they do not represent a risk and they do not have a significant impact on the Company's equity and financial position. Similarly, the remuneration plans based on financial instruments approved by the Shareholders’ Meeting, pursuant to Article 114-*bis* of the Consolidated Law on Finance and related implementation provisions, are also excluded from this procedure, also in light of the Shareholders’ Meeting competence and rigorous disclosure process. Furthermore the decisions taken by the Shareholders’ Meeting on issues stated in Article 2389, paragraph 1, of the Italian Civil Code, regarding remuneration of members of the Board of Directors and the Executive Committee, are likewise excluded from this procedure, as well as the decisions on the remuneration of directors who cover particular offices up to the amount decided by the Shareholders’ Meeting pursuant to Article 2389, paragraph 3, of the Italian Civil Code. Finally, resolutions on remuneration of directors who

cover particular offices not included in the aforementioned examples and of Managers with strategic responsibilities are excluded from this procedure, provided that:

- the Company has implemented a remuneration policy;
- a committee composed of mainly independent non-executive directors has been set up to deal with the remuneration policy;
- the Shareholders' Meeting has approved the report concerning the remuneration policy or it has expressed its opinion on it;
- the remuneration is consistent with the relevant corporate remuneration policy.

Transactions with or between companies controlled, even jointly, by TXT are excluded from this procedure, as long as in the TXT-controlled companies there are no significant interests of other parties related to the Company. Interests are considered as non-significant if they are limited to the fact that one or more directors or Managers with strategic responsibilities hold office both with TXT and its subsidiaries.

Transactions with associated companies are also exempt from the procedure concerning transactions with related parties, as long as the associated companies do not have any significant interests of other Company's related parties.

Ordinary transactions that are performed at market or standard conditions are completely excluded from this procedure.

This procedure is available on the Company's website at the following address:

<https://www.txtgroup.com/governance/articles-of-association-and-policies/> The Transactions with related parties Committee consists of Fabienne Schwalbe (Chairperson), Stefania Saviolo and Alessandro Arrigoni, the latter appointed by the Board of Directors on 7 November 2019, all independent directors.

The Transactions with related parties Committee met on 30 January 2019 to assess the remuneration for the special offices and powers of the directors.

In the same meeting the Committee dealt with the commercial agreement signed by TXT with the company Otik owned by Enrico Magni. The agreement provides for the distribution by TXT of the product developed by Otik itself for the management of the Banks' Liquidity and Securities Settlement. The Committee was asked to assess the terms of the agreement and its appropriateness in relation to other similar agreements. Following this analysis, the Committee delivered a favourable opinion on the transaction.

The Transactions with related parties Committee met to assess the expedience of signing a settlement agreement with the resigning Marco Guida. The Committee has heard the opinion of a leading law firm specialising in labour law that has assessed the value of the transaction.

### **13. APPOINTMENT OF STATUTORY AUDITORS**

The Board of Statutory Auditors' appointment is expressly governed by the Company's By-Laws.

The Board of Statutory Auditors consists of three Standing Auditors and three Alternate Auditors.

The Ordinary Shareholders' Meeting appoints the Board of Statutory Auditors in compliance with current regulations on gender balance and determines its members' remuneration. Minority shareholders have the right to elect the Chairperson of the Board of Statutory Auditors and an Alternate Auditor.

Without prejudice to the provisions of the second last paragraph of this article, the appointment of the Board of Statutory Auditors is based on the lists drafted by the shareholders in which the candidates are listed progressively.

The number of candidates in each list is not greater than the number of members to be elected.

The lists that contain three or more candidates must be comprised of candidates from both genders, with a minimum of two candidates for each gender if the list consists of six candidates.

Such lists may be submitted by those shareholders who, either alone or together with others, own at least 2% (two per cent) of shares with voting rights during the Ordinary Shareholders' Meeting.

The lists shall be filed at the issuer's offices no later than 25 days before the date fixed for the Shareholders' Meeting resolving on the appointment of Board of Statutory Auditors' members and they shall be available to the public at the Company's registered office, on its website, and by any other means provided for by Consob Regulation at least 21 days before the date fixed for the Shareholders' Meeting.

The lists must also include a description of the candidates' professional background and a list of offices held as director or auditor in other companies and declarations in which individual candidates accept their candidacy and, under their own responsibility, certify the absence of ineligibility and incompatibility reasons and the possession of relevant regulatory requirements provided for by the law or the By-Laws.

Lists that do not comply with the provisions previously described are considered as not submitted.

Each candidate may appear in one list only, under penalty of being ineligible to qualify as a candidate.

Likewise, individuals that do not satisfy the requirements provided for by applicable standards or who are already serving as Statutory Auditors in more than five companies listed on the Italian regulated markets cannot be elected as Auditors. Each person entitled to vote may vote for just one list.

Members of the Board of Statutory Auditors shall be elected as follows, without prejudice to provisions on gender balance.

Two standing auditors and two alternate auditors are drawn from the list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which they were listed. The Chairperson of the Board of Statutory Auditors and the other alternate auditor are drawn from the second list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which they were listed. In the event that several lists obtained the same number of votes, a run-off takes place between said lists and all the



shareholders participating in the Shareholders' Meeting shall cast their vote. Candidates from the list that obtain a simple majority of votes are deemed elected.

If the Board of Statutory Auditors' composition does not comply with gender mix requirements provided for by current regulations, the necessary replacements shall be made from the list receiving the highest number of votes and based on the progressive order the candidates were listed in.

In the event of death, withdrawal or end of term of office of one Auditor, the alternate auditor belonging to the same list takes over.

If the Chairperson of the Board of Statutory Auditors is to be replaced, the other standing Auditor drawn from the same list as the outgoing Chairperson shall take over the Chairpersonship; if, due to prior or simultaneous withdrawals from office, it is impossible to carry out the replacement following the above-mentioned criteria, a Shareholders' Meeting shall be convened to fill the vacancies of the Board of Statutory Auditors.

Pursuant to the provisions of the aforementioned paragraph or to the law, in the event that the Shareholders' Meeting is required to appoint standing and/or alternate members of the Board of Statutory Auditors to fill vacancies, the procedure shall be as follows: in order to replace Auditors from the majority list, the appointment is made by a relative majority vote without any restriction in terms of lists; if, on the contrary, Statutory Auditors from the minority list must be replaced, the Shareholders' Meetings replaces them by a relative majority vote by choosing them, where possible, from among the candidates indicated in the list to which the Statutory Auditor to be replaced belonged to.

Should just one list be presented, the Shareholders' Meeting shall vote candidates of that list; if the list obtains the relative majority of votes, the Standing Auditors to be elected are the first three candidates in progressive order and the fourth, fifth and sixth candidate are Alternate auditors; the Chairperson of the Board of Statutory Auditors is the first person indicated in the list; in case of death, withdrawal or end of term of office of an Auditor or if the Chairperson of the Board of Statutory Auditors has to be replaced, the Alternate Auditors and the Standing Auditor, respectively, shall take over the offices following the order indicated in the list.

If there are no lists, or if the list voting procedure does not elect all the standing and alternate members, the members of the Board of Statutory Auditors and if the case may be, the Chairperson thereof, are appointed by the Shareholders' Meetings by the type of majority required by the law, in compliance with the current regulations on gender balance.

Outgoing auditors may be re-elected.

## **14. COMPOSITION AND FUNCTIONS OF THE BOARD OF STATUTORY AUDITORS (Article 123-*bis*, paragraph 2, letters d) and d-*bis*, of the Consolidated Law on Finance)**

The current Board of Statutory Auditors was elected, in compliance with the procedures described above, by the Shareholders' Meeting held on 21 April 2017, and it shall hold office until approval of the Financial Statements for the year ending 31 December 2019. On 24 March 2017, two lists of



candidates for appointment to the company's Board of Statutory Auditors were filed at the registered office. The majority list was submitted by E-business consulting SA and included Luisa Cameretti, Giampaolo Vianello, Laura Grimi and Pietro Antonio Grignani (two standing auditors and two alternate auditors, as respectively appointed). The minority list was submitted by Alvisè Braga IIIa and included Mario Basilico, Massimiliano Alberto Tonarini and Barbara Premoli (from which the Chairperson of the Board of Statutory Auditors and one alternate auditor were elected). The shareholders declared that there are no connections between the lists. The majority list received 62.02% of votes; the minority list 34.38%.

The Board of Statutory Auditors' current composition is shown in Table 3 attached to this Report.

No significant changes in the Board of Statutory Auditors took place after the end of the reporting period.

The professional experience of each Statutory Auditor (Article 144-*decies* of Consob Issuers' Regulations) is provided below:

#### Mario Basilico

Born in Milan on 27 February 1960.

Graduated in Law from Università Cattolica del S. Cuore in Milan in 1991 and in Economics and Business in 2011. Enrolled in the register of External Auditors since 1995 under No. 3991. A partner in the professional firm of the same name, Mario Basilico is responsible for tax affairs and national and international corporate law and has experience of organising and starting up SMEs and companies in the financial sector, launching and managing supplementary pension funds, corporate Financial Statements for real estate brokerage, preparation of organisation models and Supervisory Board 231/01. He is a published author and lecture on specialist courses.

#### Giampaolo Vianello

Born in Rome on 14 May 1970.

Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1988. Enrolled in the register of External Auditors since 2004 under no. 132207. Partner at "Studio Palmieri e Associati" in Como specialising in assistance with legal, corporate and tax matters. Vianello is a consultant and defence counsel at Tax Commissions, with regard to tax disputes, a standing auditor of six companies, sole auditor of two companies and member of the Supervisory Board of a Foundation.

#### Luisa Cameretti

Born in San Giorgio a Cremano (province of Naples) on 11 November 1965.

Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1990. Enrolled in the register of Chartered Accountants and bookkeepers of Milan since 1996. Enrolled in the register of External Auditors under no. 91224.

Partner of the firm Zazzeron & Cameretti Associati, which operates in the field of corporate and tax consulting for companies, cooperatives, associations and foundations, she has administrative, corporate and tax experience with particular reference to balance sheet and tax planning activities. She is a member of the control bodies of several companies and entities and exercises patronage with the Tax Commissions.

## Diversity policies and criteria

The Company has applied diversity criteria, also with regard to gender, in the composition of the Board of Statutory Auditors (*Principle 2.P.4.*). In particular, the least represented gender, female, has one auditor and therefore equal to one third of the Board of Statutory Auditors (*Criterion 8.C.3.*).

The objectives, method of implementation and results of the application of the diversity criteria recommended by Article 8 are the following (*Criterion 1.C.1., letter i), (4)*).

In December 2018 the Board of Statutory Auditors, in implementation of the matters envisaged by the Consolidated Finance Law, approved a diversity policy, which describes the optimum characteristics of the composition of said board so that it may exercise its supervisory duties in the most effective way, adopting decisions which may effectively avail themselves of the contribution of a plurality of qualified points of view, capable of examining the aspects in question from different perspectives. The principles inspiring this policy are the same as those illustrated in relation to the document approved by the Board of Directors (in relation to which reference is made to this section "Board of Directors - Policy on the diversity of the Board of Directors").

With reference to the types of diversity and the related objectives, the policy approved by the Board of Statutory Auditors (available on the Company's website) envisages that:

- it is important to continue to ensure that at least one third of the Board of Statutory Auditors, both at the time of appointment and during the mandate, is made up Statutory Auditors of the least represented gender;
- in order to pursue a balance between the needs for continuity and renewal in the management, it would be necessary to ensure a balanced combination of different lengths of service in office - in addition to age brackets - within the Board of Statutory Auditors;
- the Auditors must, in their entirety, be competent in the sector in which the TXT group operates, or rather with reference to the software business and IT services or in their similar, pertinent and adjoining sectors;
- the Statutory Auditors should be represented by figures with a professional and/or academic and/or managerial profile such as to achieve a series of skills and experience which are diverse and complementary. Specifically, at least one of the Standing Auditors and at least one of the Alternate Auditors must be enrolled in the register of chartered accountants and have exercised official accounts audit activities. The additional professional requisites envisage that the Auditors who are not in possession of the requisite described above must have gained overall experience of at least three years with regard to the following: a) management or control activities or executive duties care of joint-stock companies; and/or b) university lecturing or professional activities with regard to legal, economic, financial and technical-scientific subjects pertaining to TXT's activities;
- the Chairperson must be an individual with such a standing as to ensure a suitable co-ordination of the work of the Board of Statutory Auditors with the activities carried out by other parties involved for various purposes in the governance of the internal control and risk management system, for the purpose of maximising the efficiency of the latter and reducing the duplication of activities. The Chairperson also has the task of creating spirit of cohesion within the Board of Statutory Auditors so

as to ensure an efficient accomplishment of the supervisory functions assigned to this body, at the same time representing, on a par with the other Auditors, a guarantee for all the Shareholders.

With regard to the methods of implementation of the diversity policy, the TXT's By-Laws do not envisage the possibility that the Board of Directors presents a list of candidates at the time of renewal of the Board of Statutory Auditors, since the Company deems it inappropriate that the management body can appoint the parties required to oversee its work.

Therefore, the Policy exclusively intends to guide the candidatures formulated by the Shareholders at the time of renewal of the entire Board of Statutory Auditors or integration of the related composition, ensuring a suitable consideration of the benefits which may derive from a harmonious composition of said Board, aligned with the various diversity criteria indicated above.

The Board of Statutory Auditors in office was appointed before the adoption of the diversity Policy, but the current composition fully satisfies the objectives established by said policy for the various types of diversity.

During the 2019 financial year, the Board of Statutory Auditors held 6 meetings, with an average duration of 2 hours and 35 minutes. Three meetings have been scheduled for 2020, the first of which was held on 15 January 2020.

The Board of Statutory Auditors assessed the independence of its members (*Criterion 8.C.1.*). In performing the above-mentioned assessments, the Board considered compatible and significant the criteria provided for by the Code concerning Directors' independence (*Criterion 8.C.1.*).

The Board of Directors made it possible for Auditors to participate, subsequent to their appointment and during their term of office, in the most appropriate manner, in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, the principles of proper risk management, as well as the relevant regulatory framework of reference (*Criterion 2.C.2.*). Application of this principle is fulfilled through discussions and in-depth meetings with management.

Remuneration of the Auditors is commensurate with the required commitment, the relevance of the role held and the size and sector characteristics of the company (*Criterion 8.C.4.*).

According to corporate policies, in the event that an auditor who, on their own behalf or on behalf of third parties, has an interest in a specific corporate transaction, he or she shall promptly and exhaustively report to the other auditors and to the Chairperson about the nature, terms, origin and scope of his/her interest (*Criterion 8.C.5.*).

The Board of Statutory Auditors oversaw the independence of external auditors, verifying both the respect of the relevant regulations and the nature and entity of services other than audit provided to the Issuer and its subsidiaries by the external auditors and the entities belonging to its network.

While performing its activities, the Board of Statutory Auditors coordinated with the internal audit function and the Risks and Internal Controls Committee (*Criteria 8.C.6. and 8.C.7.*), meeting with the internal audit unit and regularly attending the committee meetings.

## 15. RELATIONSHIP WITH SHAREHOLDERS

The Company endeavours to develop a constructive dialogue with institutional investors, shareholders and the public in general, deeming it an important goal since its listing. To the end of maintaining such relationship, in compliance with regulations governing disclosure of corporate documents and figures, TXT manages this service internally.

Furthermore, communications are provided to shareholders through the Company's website ([www.txtgroup.com](http://www.txtgroup.com)), where income and financial information (i.e. annual, half-yearly and quarterly reports), price sensitive and other press releases issued by the Company in the last 5 years are available, along with the list of corporate events and meetings on the Group's operational, financial and corporate development.

Until July 2019 the Chief Financial Officer, Paolo Matarazzo, was the Investor Relations Manager. Following his resignation, the Company appointed Andrea Favini - CEO Assistant of TXT - to manage relations with shareholders. Considering the relatively limited size of TXT and the characteristics of its shareholding structure, a specific corporate structure was not deemed necessary (*Criterion 9.C.1.*).

During 2018, the Company took part in the "Star Conference" event organised by Borsa Italiana in Milan as well as in London. The company also organised a presentation for investors and analysts during the Shareholders' Meeting held on 19 April 2019, as well as various meetings with investors in Milan, Paris, London and Frankfurt.

The Chairperson of the Board of Directors as at 31 December 2019 has powers of communication with regard to rules and regulations and in the interests of the Company, shareholders, employees and customers, carefully assessing the subject matter and content of external communications and communications to the market. The content of communications is the responsibility of the Chairperson with the support of the Group CEO and the CFO and in consultation with the Board of Directors for particularly sensitive matters. In order to provide regular updates on the Company, an email-based communication channel is operational ([txtinvestor@txtgroup.com](mailto:txtinvestor@txtgroup.com)). Everyone can sign up for this service in order to receive, in addition to press releases, specific communications to Investors and Shareholders.

## 16. SHAREHOLDERS' MEETINGS (Article 123-bis, paragraph 2, letter c), of the Consolidated Law on Finance)

The duly constituted Shareholders' Meeting represents all the shareholders. The resolutions it approves in compliance with the law and the By-Laws bind all the shareholders, including those who are absent or disagree. Shareholders' Meetings are usually held at the Borsa Italiana headquarters, but they may also be held at the Company's registered office or elsewhere in Italy.

The one share one vote principle applies.

The Shareholders' Meeting is convened by public notice published in a national newspaper and on the Company's website within the deadlines and by the means provided for by the law; the notice indicates the date, time and place of the meeting and the agenda. The Shareholders' Meeting cannot pass resolutions on issues which are not on the agenda. As an exception to Article 135-undecies,

paragraph 1 of the Consolidated Law on Finance (Italian Legislative Decree No. 58/1998), the Company has not selected a representative appointed to receive from the shareholders the proxies and voting indications. The Ordinary Shareholders' Meeting held to approve the Financial Statements shall be convened by the Board within 120 days from the end of the relevant reporting period.

The right to participate in the Shareholders' Meeting is held by those entitled with voting rights at the record date, i.e. seven trading days before the date fixed for the Shareholders' Meeting and who have provided the Company with the related communication made by an authorised intermediary. Shareholders holding shares only subsequent to the record date shall not have the right to take part in and vote at the Shareholders' Meeting. No voting procedures by post or electronic means are allowed.

Each shareholder entitled to participate can be represented during the Shareholder's Meeting by means of a written proxy. The relevant form is available on the Company's website ([www.txt.com](http://www.txt.com), Investor Relations, Corporate Governance, Shareholders' Meeting document section). The proxy may be sent electronically to [deleghetxt@txtgroup.com](mailto:deleghetxt@txtgroup.com). The early notification of proxies does still require the person entrusted with it to submit a true copy and certify the identity of the delegating person, in order to take part in the Shareholders' Meeting.

Shareholders who, even jointly, represent at least 1/40 of the share capital with voting rights may ask for additions to the agenda, indicating the issues in the request. The latter must be sent within 15 days of the publication of the notice, to the registered office of the Company and submitted to the Chairperson of the Board of Directors with due certification of the shareholding requirements. In addition to this request, a report on the topic must be filed in a timely manner at the registered office, so that it can be made available to the other Shareholders at least 10 days before the Shareholders' Meeting on first call. This addition is not allowed in relation to topics on which the Shareholders' Meeting must vote, as per the law, upon proposal of the directors, or which are based on a project or report prepared by them.

Shareholders entitled to participate in the Shareholders' Meeting may submit questions on the agenda even before the Shareholders' Meeting, by sending a registered letter to the Company's registered office or by email to [infofinance@txtgroup.com](mailto:infofinance@txtgroup.com). Questions that are received prior to the Shareholders' Meeting shall be answered at the latest during the meeting itself. The Company reserves the right to give a single answer should there be numerous questions on the same topic. The request must include the necessary certification issued by the intermediaries proving the shareholders' voting right or the communication approving participation in the Shareholders' Meeting and the voting rights.

The Shareholders' Meeting is regularly attended by the Board of Directors and Board of Statutory Auditors.

The Ordinary Shareholders' Meeting votes on annual Financial Statements, net profit allocation, the appointment of the Board of Directors' members and their remuneration, the appointment of Standing and Alternate Auditors and the Board of Statutory Auditors' Chairperson and on their remuneration. The Ordinary Shareholders' Meeting also votes on the appointment of the External Auditors, establishing the relevant fees, and on approval of the regulations of the Shareholders' Meeting as well as on any other issue pursuant to the law.

The Extraordinary Shareholders' Meeting votes on issues involving changes in the Company's By-Laws, the appointment and powers of receivers in case of liquidation as well as on any other issues pursuant to the law.

Both the first and subsequent dates of convening shall be indicated in the Shareholders' Meeting notice, pursuant to law, unless the Board of Directors opts for the single-call system instead of the traditional one allowing multiple calls; in this case, the Board of Directors shall explain the choice in the notice.

The recommendation included in the Corporate Governance Code considering the Shareholders' Meetings as an opportunity for developing a constructive dialogue between the Board of Directors and shareholders has been carefully analysed and fully shared by the Company. All directors remaining in office, the newly appointed directors and all the standing auditors attended the Shareholders' Meeting of 18 April 2019. During the course of the Meeting, the Board of Directors, through the Chairperson and CEO, reported on the activities carried out and planned, providing shareholders with adequate information in order to make informed decisions pertaining to the Shareholders' Meeting, as well as the documentation prepared with regard to the individual topics on the agenda. In order to encourage maximum attendance by shareholders, it has become common practice over the last few years to convene the Shareholders' Meeting at La Triennale di Milano or at the Borsa Italiana headquarters in Milan and, subsequently, to organise a presentation meeting for shareholders and investors (*Criterion 9.C.3.*).

The Shareholders' Meeting held on 7 April 2001 approved a specific set of rules to ensure that the Company's Ordinary and Extraordinary Shareholders' Meetings are effectively held, while guaranteeing the right of each shareholder to ask for clarifications on the agenda, speak and put forward proposals.

The Board reported to the Shareholders' Meeting on the activities performed and scheduled and arranged to provide shareholders with adequate disclosure on the necessary issues so that they can take informed decisions pertaining to the Shareholders' Meeting (Comment to Article 9 of the Code).

At 31 December 2019, the Company's market capitalisation was € 125.6 million, compared to € 95.3 million at 31 December 2018.

The company has not been informed of any significant changes in the shareholding structure. In this respect, it was not deemed necessary to submit to the Shareholders' Meeting amendments to the By-Laws on the percentages established for exercising shares and the measures aimed at protecting minorities and in said case report on the results of said amendments (*Criterion 9.C.4.*).

During 2019, only one Ordinary Shareholders' Meeting was convened.

The Shareholders' Meeting of 18 April 2019 approved the 2018 Financial Statements, the dividend distribution, the Remuneration Report, the emoluments for the directors and the renewal of the treasury share purchase plan.

In reference to Article 7 of the Corporate Governance Code relating to the remuneration of directors and managers with strategic responsibilities, the Shareholders' Meeting of 18 April 2019 approved the remuneration policy document prepared by the Remuneration Committee and the Board of Directors.



## **17. OTHER CORPORATE GOVERNANCE ISSUES (Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)**

No other corporate governance issues have been implemented in addition to those previously mentioned.

## **18. CHANGES AFTER THE END OF THE REPORTING PERIOD**

There were no changes in the Company's corporate governance after the end of the reporting period.

## **19. CONSIDERATIONS ON THE LETTER DATED 21 DECEMBER 2018 FROM THE CHAIRPERSON OF THE CORPORATE GOVERNANCE COMMITTEE**

The recommendations formulated in the letter from the Chairperson of the Corporate Governance Committee dated 21 December 2018 were forwarded to all the directors and auditors and were discussed during the Board Meeting on 7 March 2019 at the same time as the discussion of the results of the self-assessment process.

With regard to Recommendation 1 on the information provided before board meetings, the Board established the notice period deemed suitable for financial information (3 days), a deadline which in 2018 was observed in full. At the time of self-assessment of the Board, areas of improvement were highlighted with regard to disclosure to be provided before board meetings, in particular on non-financial aspects which require analysis, co-ordination between directors and advance preparatory activities with respect to the moment of discussion within the Board. The confidentiality requirements have always been guaranteed without being a critical aspect in the process for the improvement of the suitability and promptness of the information flows.

With regard to Recommendation 2 on the independence criteria, the Board assessed how the independent directors qualify in complete compliance with the criteria defined by the Code, without particular exceptions.

With regard to Recommendation 3 on the board review activities, the Board believes that it provides a suitable description of its self-assessment process in this annual Report (Chapter 4.3) and that its self-assessment process is sufficiently detailed, open to comments and suggestions and transparent in the preliminary phases and the methods of execution.

With regard to Recommendation 4 on the essential aspects of the remuneration of the executive directors, the Board believes that the approach of the medium/long-term objectives for its executive directors is appropriately safeguarded and in line with the creation of value for all the shareholders in relation to the significant shareholdings held by the same.



**TABLE 1: Information on the shareholding structure**

SIGNIFICANT SHAREHOLDINGS				
Shareholder	Direct shareholder	No. of shares	As a % of ordinary capital	As a % of voting capital
Enrico Magni (through Laserline S.p.A.)	NO	3,452,011	26.54%	29.29%
Kabuter Management LLC	YES	1,135,062	8.73%	9.63%
Alvise Braga Illa	YES	622,954	4.79%	5.29%
Treasury shares (with suspended voting right)	YES	1,220,971	9.39%	-
Market	YES	6,575,252	50.55%	55.79%
<b>Total shares</b>		<b>13,006,250</b>	<b>100.00%</b>	<b>100.00%</b>

TABLE 2: Composition of the Board of Directors and Committees

Consiglio di Amministrazione												Comitato Controllo e Rischi		Comitato Remun.		
Carica	Componenti	Anno di nascita	Data di prima nomina *	In carica da	In carica fino a	Lista	Esec.	Non-esec.	Indip. Codice	Indip. TUF	N. altri incarichi	Partecipazione	(**)	(*)	(**)	(*)
						**					***	(*)				
Presidente	Alvise Braga Ila	1939	03.07.1989	01.01.2019	Bil.2019	Maggioranza	X					10/10				
Amministratore delegato	Enrico Magni	1956	18.04.2018	01.01.2019	Bil.2019	-	x					10/10				
Amministratore delegato	Marco Edoardo Guida	1964	23.04.2008	01.01.2019	Cessato	Maggioranza	x					4/6				
Amministratore delegato	Daniele Misani	1977	15.07.2019	15.07.2019	Prox. Ass.	-	x					4/4				
Amministratore	Paolo Matarazzo	1966	23.04.2008	01.01.2019	Cessato	Maggioranza	x					5/6				
Amministratore	Stefania Saviolo	1965	17.04.2014	01.01.2019	Bil.2019	Maggioranza		x	x	x		10/10	M	8/8	P	4/4
Amministratore	Fabienne Dejan Schwalbe	1964	05.05.2015	01.01.2019	Bil.2019	Maggioranza		x	x	x		9/10	P	8/8	M	4/4
Amministratore	Valentina Cogliati	1981	18.04.2018	01.01.2019	Bil.2019	-		x	x	x		7/10	M	7/8		
Amministratore	Alessandro Arrigoni	1949	15.07.2019	15.07.2019	Prox. Ass.	-		x	x	x		2/4	M	1/1	M	0/0
-----AMMINISTRATORI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO-----																
Amministratore	Paolo Matarazzo	1966	23.04.2008	01.01.2019	Cessato	Maggioranza	x					5/6				
Amministratore delegato	Marco Edoardo Guida	1964	23.04.2008	01.01.2019	Cessato	Maggioranza	x					4/6				
n. Riunioni svolte durante l'esercizio 2019		CDA: 10	CCR:8	CR:4												
Quorum richiesto per la partecipazione delle liti da parte della minoranza per l'elezione di uno o più membri (ex. Art. 147-ter TUF): 4,5%																
NOTE																
* Per data di prima nomina di ciascun amministratore si intende la data in cui l'amministratore è stato nominato per la prima volta (in assoluto) nel CdA dell'emittente.																
** In questa colonna è indicata la lista da cui è stato tratto ciascun amministratore ("M": lista di maggioranza; "m": lista di minoranza; "CdA": lista presentata dal CdA).																
*** In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati, anche esteri, in società finanziarie, bancarie, assicurative o di rilevanti dimensioni. Nella Relazione sulla corporate gov																
(*) In questa colonna è indicata la partecipazione degli amministratori alle riunioni rispettivamente del CdA e dei comitati (indicare il numero di riunioni cui ha partecipato rispetto al numero complessivo delle riunioni cui avrebbe potuto partecipare; p.e. 6/8; 8/8 ecc.).																
(**). In questa colonna è indicata la qualifica del consigliere all'interno del Comitato: "P": presidente; "M": membro.																

**TABLE 3: Composition of the Board of Statutory Auditors**

Office	Name	Year of birth	Date of first appointment	In office since	In office until	List	Indep. pursuant to code	Attendance	No. of other offices
Chairperson	Mario Basilico	1960	21/04/2017	01.01.2019	Fin. Stat. 2019	Minority	x	5/5	-
Standing Auditor	Giampaolo Vianello	1970	21/04/2017	01.01.2019	Fin. Stat. 2019	Majority	x	5/5	-
Standing Auditor	Luisa Cameretti	1965	17/04/2014	01.01.2019	Fin. Stat. 2019	Majority	x	5/5	-
Alternate Auditor	Pietro Antonio Grignani	1964	29/04/2002	01.01.2019	Fin. Stat. 2019	Majority			
Alternate Auditor	Laura Grimi	1975	17/04/2014	01.01.2019	Fin. Stat. 2019	Majority			
Alternate Auditor	Massimiliano Tonarini	1968	21/04/2017	01.01.2019	Fin. Stat. 2019	Minority			
<b>WITHDRAWING AUDITORS DURING 2019</b>									
<b>No. of meetings held during 2019: 5</b>									
<b>Quorum required to submit lists by minorities to elect one or more members (pursuant to Art. 148-ter of the Consolidated Law on Finance): 2%</b>									

# **TXT e-solutions S.p.A.**

## **REMUNERATION REPORT**

### **2019**

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The Remuneration Report has been drawn up in light of the recommendations contained in the Corporate Governance Code of Borsa Italiana S.p.A., which TXT has adopted, and pursuant to Article 14 of the Procedure for Transactions with related parties approved by the Company's Board of Directors on 3 November 2010.

On 12 March 2020, the Company's Board of Directors, at the instruction of the Remuneration Committee, adopted the "2019 Remuneration Policy", to be subject to a non-binding vote by the Shareholders' Meeting of 22 April 2020.

The remuneration report is divided into two sections:

1. The "General Remuneration Policy", setting out the guidelines for determining the remuneration of executive directors and management in general;
2. The "Remuneration Report for the Financial Year 2019", illustrating the policy implemented by the TXT e-solutions Group during the 2019 financial year and providing a summary of compensation based on the different types of beneficiaries.

# **PART 1 – GENERAL REMUNERATION POLICY**

The General Remuneration Policy establishes the principles and guidelines adopted by the TXT e-solutions Group in order to define and monitor the implementation of remuneration practices.

## **1. Principles**

The Company defines and implements a General Remuneration Policy intended to attract, motivate and retain resources with the professional skills required to successfully pursue the Group's objectives (Principle 6.P.1). The Policy is defined in a way which aligns the interests of Management with those of shareholders, pursuing the priority objective of creating sustainable value in the medium-to-long term by rigorously tying compensation to individual and Group performance.

Definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Company's Board of Directors play a central role, taking into account any potential incompatibilities.

The fixed and the variable component are properly balanced according to the strategic objectives and the risk management policy, also taking into account the software and IT services industry in which TXT e-solutions operates, as well as the nature of the business carried out.

Any deviations from the criteria for determining the remuneration:

- of directors who cover particular offices and the Managers with strategic responsibilities are examined and approved in advance by the Remuneration Committee and the Board of Directors;
- of managers and senior managers are approved in advance by the Group's CEO.

At least once a year, upon presenting the remuneration report, the Chief Financial Officer reports to the Remuneration Committee on policy compliance.

The remuneration policy described in this report makes no significant changes to the procedure followed in the previous financial year.

## **2. Remuneration Committee**

The Board of Directors has established among its members a "Remuneration Committee" responsible for proposing and consulting on remuneration. In particular, the Remuneration Committee:

- makes proposals to the Board of Directors on the remuneration of directors who cover particular offices, ensuring it is aligned with the objective of creating value for shareholders in the medium-to-long term;
- periodically evaluates the Company's management remuneration criteria and, at the instruction of directors, makes proposals and recommendations on this matter, with particular reference to the adoption of any stock option or stock grant plans;
- monitors the implementation of decisions made and corporate policies on remuneration.

The Remuneration Committee as at 31 December 2019 was composed of three independent directors: Stefania Saviolo, Chairperson, Fabienne Dejean Schwalbe and Alessandro Arrigoni.

Directors do not participate in meetings of the Remuneration Committee in which proposals are made to the Board of Directors with regard to their remuneration.

The Board of Statutory Auditors, in expressing its opinion on the remuneration of directors who cover particular offices pursuant to Article 2389, paragraph 3 of the Italian Civil Code, verifies the consistency of the proposals with this Remuneration Policy.

The Group Companies, in determining compensation for their own directors and managers with strategic responsibilities, comply with the instructions provided by TXT and implement the guidelines set out in this Remuneration Policy.

For a more detailed description of the composition, of how the Remuneration Committee operates and the activities it carried out during the 2019 financial year, please refer to the 2019 Report on Corporate Governance and Shareholding Structure.

### **3. Procedure for defining and approving the policy**

Each year, the Remuneration Committee presents the Policy for approval by the Board of Directors. Once the Policy has been examined and approved, the Board of Directors presents it to a non-binding vote by the Shareholders' Meeting.

The 2018 Remuneration Policy was approved by the Shareholders' Meeting of 18 April 2019. The 2019 Remuneration Policy was approved by the Remuneration Committee in its meeting of 2 March 2020 and by the Board of Directors' meeting of 5 March 2020, and it will be submitted to the scrutiny of and a non-binding vote by the Shareholders' Meeting on 22 April 2020.

### **4. Remuneration of directors**

Within the Board of Directors, there is a distinction between:

- (i) executive directors;
- (ii) non-executive and independent directors.

At 31 December 2019, the two groups were composed as follows:

- Executive directors:
  - Alvise Braga Illa (Chairperson)
  - Enrico Magni (Chief Executive Officer)
  - Daniele Stefano Misani
- Non-executive and independent directors:
  - Stefania Saviolo
  - Fabienne Anne Dejean Schwalbe
  - Valentina Cogliati
  - Alessandro Arrigoni

The TXT Shareholders' Meeting of 18 April 2019 set the annual compensation of each director at € 15,000, plus an additional annual compensation of € 5,000 for the participation of each director in the Risks and Internal Controls Committee, another € 5,000 for the participation of each director in the Remuneration Committee (unchanged from the previous year) and another € 5,000 for the participation of each director in the Transactions with related parties Committee. Maximum fixed and variable overall fees assignable to the Directors with specific offices have not been established.

There is no variable or share-based compensation for non-executive and independent directors.

In line with best practices, an insurance policy is envisaged, so-called D&O (Directors & Officers Liability), covering civil liability towards third parties incurred by corporate bodies, managers and auditors in the performance of their duties, intended to relieve the Group from any related damages, as a result of the relevant



provisions set out by the applicable national collective labour agreement and the rules governing mandates, excluding cases of wilful misconduct and gross negligence.

## **5. Remuneration of executive directors and managers with strategic responsibilities**

Each year, the Remuneration Committee proposes to the Board of Directors the remuneration due to directors who cover particular offices.

The remuneration of executive directors in general consists of:

- a fixed component;
- a variable annual component conditional on achieving agreed objectives (known as MBO – Management by Objectives);
- a medium/long-term variable component;
- benefits granted as per company practice (company car, supplementary health insurance), in line with the market.

In determining remuneration and its individual components, the Board of Directors takes into account whether the executive director has been delegated specific authorities. In particular, remuneration is determined on the basis of the following indicative criteria:

- a. the fixed component may represent 65% to 100% of total remuneration. Total remuneration is understood to mean the sum of (i) the gross fixed annual component of the remuneration, (ii) the variable annual component which the beneficiary would receive if the target objectives are achieved; (iii) annualisation of the variable medium/long-term component which the beneficiary would receive if the medium/long-term target objectives are achieved;
- b. the (annual) MBO incentive for each beneficiary is capped at a maximum amount per person and is actually paid out in proportion to the achievement of specific objectives and considering the company's incentive policy. It may represent 0% to 35% of total remuneration. The benchmark parameters are accounting indicators, typically EBITDA or EBITA;
- c. the annualised target variable medium/long-term component may represent 0% to 10% of total remuneration. The medium/long-term component consists entirely of the Stock Option Plan proposed for approval by the Shareholders' Meeting of 18 April 2019 and measured on the basis of the fair value of the options pertaining to each year.

The Chairperson is not granted variable short or medium/long-term incentives.

The fixed component (composed of salaries as managers and compensation for offices held) is sufficient to reward the director should the variable component not be paid because of the failure to achieve the performance objectives specified by the Board of Directors.

With regard to the variable components of the remuneration of executive directors, it should be noted that each year, the Remuneration Committee verifies the achievement of the specified MBO objectives. The objectives are verified after the Board of Directors has approved the Financial Statements for the year, and the variable compensation is generally paid in the month of April each year.

On 5 November 2009, the Remuneration Committee resolved that the bonuses granted to executive directors and managers with strategic responsibilities be returned if the financial results on the basis of which they were disbursed were adjusted in the subsequent 12 months ("Clawback Clause"), as also envisaged by Article 6.C.1.f of the Corporate Governance Code.

The Remuneration Committee is also responsible for assessing the proposal of awarding long-term incentives, determining their amount, should the objectives be achieved. The variable components are capped at a certain amount.

Performance objectives - i.e. the economic performance and any other specific objectives to which the payment of variable components (including the objectives for share-based compensation plans) is linked - are predetermined, measurable and linked to the creation of value for shareholders in the medium-to-long term.

The 2019 Stock Option Plan envisages that the payment of variable amounts linked to the Plan is deferred over time, and executive directors have the obligation to hold on a continuous basis, until termination of the office of director, a number of shares corresponding to at least 20% of the value of the net benefit, after paying the exercise price and taxes. For managers with strategic responsibilities, this obligation is for a period of 3 years from the date of exercising of the options, on the same quantity of at least 20% of the value of the net benefit. The payment of variable components linked to the annual MBO incentive is not deferred from the vesting date, since the balance of short term and medium-to-long term incentives is already deemed appropriate for delivering sustainable results. The exercise of Stock Options is conditional on the beneficiary continuing in the employment or staying on as director.

It is the Group's policy not to grant discretionary bonuses to executive directors. At the proposal of the Remuneration Committee, the Board of Directors may grant bonuses to executive directors in relation to strategically significant transactions and their effects on the results of the Company and/or Group.

It is the Group's policy not to grant further compensation to directors for any other particular offices assigned by the Boards of Directors of subsidiaries. The Remuneration Committee and the Board of Directors respectively assess and approve in advance any exception to this policy.

The Remuneration Committee and the Board of Directors assess the positioning, composition and more generally the competitiveness of the remuneration of directors who cover particular offices on the basis of information which is publicly available or collected as part of the company's remuneration management and, if need be, with the help of independent companies specialising in executive compensation, based on methods that assess the complexity of roles from an organisational point of view, the specific duties delegated and the individual's impact on the final business results.

The Board of Directors may make provisions (or proposals to the Shareholders' Meeting) for the adoption of incentive schemes by awarding financial instruments or options on financial instruments which, if approved, shall be disclosed at the latest in the annual Remuneration Report (without prejudice to any other disclosure requirements provided for by applicable laws).

The Remuneration Committee and the Risks and Internal Controls Committee assess the remuneration and incentive schemes for the Manager responsible for preparing corporate accounting documents and the person in charge of internal controls, and check whether they are consistent with the tasks assigned to them.

## **6. Managers and senior managers**

The remuneration of managers and senior managers consists of:

- a gross fixed annual component (known as GAI);
- a variable annual component conditional on achieving agreed objectives (known as MBO);
- in some cases, a variable medium/long-term component;
- benefits granted as per company practice.

In determining remuneration and its individual components for managers and senior managers, the TXT Group takes into account the following indicative criteria:

- a. the fixed component may represent 60% to 95% of total remuneration;
- b. an (annual) MBO incentive up to a set maximum amount per person, conditional on the achievement of objectives. Some managers and senior managers in the sales department may have a short-term

- incentive scheme tied to the volume of licence sales. The MBO may represent between 5% and 40% of total remuneration;
- c. in some cases, a variable medium/long-term variable component representing 0% to 10% of total remuneration is assigned. The medium/long-term component consists entirely of the Stock Option Plan proposed for approval by the Shareholders' Meeting of 18 April 2019 and measured on the basis of the fair value of the options pertaining to each year.

The Group can award extraordinary bonuses should it be necessary for management purposes or in the event specific extraordinary objectives are achieved and may also include such persons in incentive schemes by granting them financial instruments or options on financial instruments adopted by the Group, if any.

## **7. MBO and long-term incentive plan**

The variable annual component (known as MBO) allows assessment of the beneficiary's performance on an annual basis.

The MBO objectives for directors who cover particular offices and those who have been delegated specific duties are established by the Board of Directors at the proposal of the Remuneration Committee and are tied to annual Company and Group performance.

MBOs for managers and senior managers are defined by their immediate supervisor in agreement with the CEO and envisage objectives related to the economic and/or qualitative performance of the division/department to which they belong or the performance of the Group.

Vesting of the variable annual component is conditional on the fulfilment of an access condition (known as on/off) and is proportional to a quantitative annual performance indicator (in 2019 current operating profit - EBITA). The Group sets a maximum "cap" for the bonus payable.

The Shareholders' Meeting of 18 April 2019 approved a Stock Option Plan with the aim of linking the remuneration of Beneficiaries to the creation of value for the company's shareholders, emphasising factors of strategic interest. In addition, it seeks to promote loyalty, encourage employees to stay with the company or its subsidiaries, and maintain competitiveness in the market for the remuneration of Beneficiaries, emphasising factors of strategic interest.

The Plan is qualified as a Stock Option Plan and entitles beneficiaries to purchase, subject to the fulfilment of certain conditions, a number of ordinary TXT e-solutions S.p.A. shares corresponding to the number of rights assigned.

The Plan envisages the assignment to recipients of a maximum of 600,000 shares. In order to ensure the gradual development of the Plan over time, no more than 200,000 Options may be allocated in the first tranche. The vesting of the Options is subject to the following conditions:

- (i) on the Assignment Date the Beneficiary must be employed by one of the Companies of the Group and not during the notice period following resignation and/or termination; and
- (ii) the achievement of predetermined joint performance objectives of:
  - a. Profitability objectives, referring to the operating profit (EBITA, Earning Before Interest, Taxes & Amortisation; or EBIT, Earning Before Interest & Taxes; or EBITDA, Earning Before Interest, Taxes, Depreciation & Amortisation);
  - b. Growth objectives, referring to the development of Revenues.

If the condition referred to in point (i) does not occur, the Options assigned will be changed to zero.

Upon full achievement of the performance objectives set out in point (ii), the Options will mature in full. The number of exercisable Options will be progressively reduced in the event of partial achievement of the performance objectives, up to predetermined minimum threshold values, below which the Options will be changed to zero.

The performance conditions indicated in point (ii) may be applied differently among the Beneficiaries according to specific incentive objectives determined by the Board of Directors, upon proposal of the Remuneration Committee, and in any case will be defined taking into account the medium-long term objectives of the Company, its divisions or specific areas of activity.

The Board of Directors shall determine the exercise price of the Options in the interval running between the "Market value" and the Market value reduced by 30%, as a flexible instrument possible for acting as incentive for the permanence within the company or its subsidiaries, and maintain competitiveness in the remuneration market.

The options may be assigned to Beneficiaries in several three-year tranches, with the Plan possibly spanning approximately 5 years.

On 27 May 2019, the Board of Directors resolved to assign 135,000 options to Group employees.

The long-term incentive plans are also aimed at retaining talent: should the employment relationship terminate for any reason before the vesting date, the beneficiary ceases to participate in the Plan and, as a consequence, the bonus will not be paid, not even on a pro-rata basis.

If the conditions envisaged by Art. 106 of Legislative Decree 58/1998 (TUF, Consolidated Law on Finance) (Mandatory takeover bid) occur between the Grant Date and the Minimum Vesting Date and in any case upon occurrence of an event that could affect the rights of Beneficiaries or the possibility to exercise the Options (such as, for example, mergers, de-mergers, revocation of the listing of Shares, promotion of takeover bids, or other events that could impact the ability to exercise Options), the Options may become immediately exercisable in proportion to the period of time elapsed from the beginning of the vesting period until the date of the event, with respect to the regular vesting period of 36 months ("Partial vesting"). The remaining Options would be cancelled. Upon transfer to third parties of investments and company branches, the Options assigned to the Beneficiaries transferred would become immediately exercisable in proportion to the period of time from the beginning of the vesting period until the date of the event, with respect to the regular vesting period of 36 months ("Partial vesting"). The remaining Options would be cancelled.

The information document for the Stock Option Plan, drawn up pursuant to Article 84-*bis* of the Consob Regulation, is available at the company's website in the section:  
<http://www.txtgroup.com/it/governance/shareholders-meetings/>.

**8. Severance package for directors in the event of resignation, dismissal or termination of the relationship following a public takeover bid (pursuant to Art. 123-*bis*, paragraph 1, letter i of the Consolidated Law on Finance).**

It is TXT Group's policy not to enter into agreements with directors and managers governing, on an ex-ante basis, the financial aspects relating to early termination of the relationship by the Company or the individual (known as "parachutes"). At 31 December 2019, there were no such agreements with directors or managers.

The Shareholders' Meeting held on 21 April 2017 resolved for just the Chairperson the payment of a severance package equal to 25% of compensation paid. There is no severance package for the other directors.

Should the existing relationship with the Group terminate for reasons other than just cause, the two parties will seek to end the relationship in an amicable manner, to the extent possible. Without prejudice, in any case, to legal and/or contractual obligations, employment termination agreements are based on the relevant benchmarks and defined in compliance with the limits defined by the law and practices in the Country in which the agreement is concluded.

## **9. Non-compete agreements**

The Group may enter into non-compete agreements with its own directors, managers and senior managers, as well as key professionals, providing for the payment of financial compensation proportional to annual remuneration based on the duration and extent of the obligation arising from the agreement.

The obligation refers to the Group's reference industry and geographical area. The scope varies in relation to the employee's role at the time the agreement is finalised and may extend to all the Countries in which the Group operates.

## PART 2 – 2019 REMUNERATION REPORT

### Compensation paid to directors and auditors

Emoluments paid during 2019 are reported in the annexed Table 1:

**Tabella 1 - Compensi corrisposti ai componenti degli organi di amministrazione e controllo e ai dirigenti con responsabilità strategiche**

Nominativo	Carica	Periodo per cui è stata ricoperta la carica	In carica fino a	Compensi fissi	Compensi per partecipazione a comitati	Compensi variabili (Bonus e altri incentivi)	Benefici non monetari	Altri compensi	Totale	Fair value dei compensi equity	Indennità fine carica o cessazione rapporto di lavoro		
<b>Amministratori</b>													
Alvise Braga Illa	Presidente	1.1-31.12	Bil 2019	115.000	-	-	2.600	-	117.600	-	28.750		
Enrico Magni	Amm. Del.	1.1-31.12	Bil 2019	265.000	-	100.000	-	-	365.000	-	-		
Stefania Saviolo	Amm. Ind.	1.1-31.12	Bil 2019	15.000	15.000	-	-	-	30.000	-	-		
Fabienne Dejean Schwalbe	Amm. Ind.	1.1-31.12	Bil 2019	15.000	15.000	-	-	-	30.000	-	-		
Valentina Cogliati	Amm. Ind.	1.1-31.12	Bil 2019	15.000	10.000	-	-	-	25.000	-	-		
Daniele Stefano Misani	Amm.	15.7-31.12	Prox Ass.	107.500	-	70.000	2.682	-	180.182	3.172	5.185		
Alessandro Arrigoni	Amm. Ind.	15.7-31.12	Prox Ass.	7.500	2.500	-	-	-	10.000	-	-		
Marco Edoardo Guida	Amm. Del.	1.1-15.07	Cessato	117.969	-	-	2.306	-	120.275	-	7.658		
Paolo Matarazzo	Amm.	1.1-15.07	Cessato	123.750	-	-	3.071	-	126.821	-	8.611		
<b>Dirigente con responsabilità strategiche</b>				-	-	80.000	-	30.000	2.723	-	112.723	-	8.148
<b>Collegio sindacale</b>													
Mario Basilico	Presidente	1.1-31.12	Bil 2019	26.000	-	-	-	7.500	33.500	-	-		
Giampaolo Vianello	Sindaco	1.1-31.12	Bil 2019	21.000	-	-	-	-	21.000	-	-		
Luisa Cameretti	Sindaco	1.1-31.12	Bil 2019	21.000	-	-	-	-	21.000	-	-		
Pietro Antonio Grignani	Supplente	1.1-31.12	Bil 2019	-	-	-	-	-	-	-	-		
Laura Grimi	Supplente	1.1-31.12	Bil 2019	-	-	-	-	-	-	-	-		
Massimiliano Tonarini	Supplente	1.1-31.12	Bil 2019	-	-	-	-	-	-	-	-		
<b>TOTALE</b>				929.719	42.500	200.000	13.383	7.500	1.193.102	3.172	58.353		

The table shows the emoluments paid to directors and auditors who were in office until the expiry of their term of office with the approval of the financial statements on 21 April 2020. The compensation paid to Marco Edoardo Guida and Paolo Matarazzo, who resigned, and Alessandro Arrigoni and Daniele Stefano Misani, who were co-opted by the Board on 15 July 2019, with the favourable opinion of the Board of Statutory Auditors and in office until the next Shareholders' Meeting, are indicated.

On the basis of the Group's organisational structure, Eugenio Forcinito CFO of the Group was identified as Manager with strategic responsibilities.

The emoluments paid refer only to the Parent Company TXT e-solutions S.p.A., as subsidiaries and associates did not pay any emoluments.

**"Fixed compensation"** includes the relevant emoluments resolved by the Shareholders' Meeting, even though not yet paid, compensation received for covering particular offices, pursuant to Article 2389, paragraph 3 of the Italian Civil Code, and the fixed salary gross of social security contributions and taxes paid by the employee, excluding the mandatory collective social security contributions paid by the company and the provision for post-employment benefits.

Fixed compensation is detailed as follows:

Nominativo	Emolument i deliberati Assemblea	Compensi per la carica	Retribuzione fisse lavoro dipendente	Compensi fissi
<b><u>Amministratori</u></b>				
Alvise Braga Illa	15.000	100.000	-	115.000
Enrico Magni	15.000	250.000	-	265.000
Stefania Saviolo	15.000	-	-	15.000
Fabienne Dejean Schwalbe	15.000	-	-	15.000
Valentina Cogliati	15.000	-	-	15.000
Daniele Stefano Misani	7.500	-	100.000	107.500
Alessandro Arrigoni	7.500	-	-	7.500
Marco Edoardo Guida	6.250	8.335	103.384	117.969
Paolo Matarazzo	7.500	-	116.250	123.750
<b><u>Dirigente con responsabilità strategiche</u></b>	-	-	80.000	80.000

The Shareholders' Meeting of 18 April 2019 resolved to set the compensation of each director at € 15,000 for the financial year 2019. The Shareholders' Meeting also resolved an additional annual compensation of € 5,000 for the participation of each director in the Risks and Internal Controls Committee, another € 5,000 for the participation of each director in the Remuneration Committee (unchanged from the previous year) and another € 5,000 for the participation of each director in the Transactions with related parties Committee.

The column "**Compensation for attendance at committee meetings**" shows the compensation received for the entire 2019 by Stefania Saviolo and Fabienne Dejean Schwalbe for attending meetings of the Risks and Internal Controls Committee, the Remuneration Committee and the Transactions with related parties Committee and by Alessandro Arrigoni pro-rata since his appointment as a member of the three committees. The compensation indicated for Valentina Cogliati refers to participation in the Risks and Internal Controls Committee and the Transactions with related parties Committee.

The column "**Bonuses and other incentives**" includes portions of compensation vested and not yet paid, according to the corporate Management by Objectives – MBO plan for the financial year 2019. The listed bonuses relate to the 2019 financial year, vested following the achievement of performance targets during the financial year, and are fully payable because they are not subject to any further conditions. No part of the bonus is deferred.

TXT has no "Profit-sharing" plans in place.

The column "**Non-monetary benefits**" shows the value of fringe benefits (on an income tax basis) with regard to company cars, in line with TXT's human resource policies and market practices, net of withholdings borne by the employee.

The column "**Other compensation**" shows the fee for the Chairperson of the Board of Statutory Auditors Mario Basilico for the appointment as member of the 231 Supervisory Body.

The column "**Fair value of equity-based compensation**" shows the fair value of the compensation for the year as part of the incentive plans based on financial instruments, estimated according to international accounting standards.

The Board of Directors' meeting of 27 May 2019 assigned Stock Options to 8 people comprising directors and



managers of the Group, with vesting over the three-year period 2019-2020-2021. The amounts shown refer to the fair value at the assignment date (€ 0.7804 per share) of options assigned.

The column "**Severance package for end of term of office or employment termination**" shows severance pay accrued and not yet paid to the Chairperson as Termination Benefits accrued on fixed and variable compensation. With regard to the Chairperson, who is not in managerial employment, the Company will pay them a severance package equal to 25% of compensation paid, as resolved by the appointment Shareholders' Meetings until the last one on 21 April 2017.

The shareholders' meeting held on 19 April 2018 did not resolve maximum overall fees assignable to the Directors with specific offices. Fixed and variable compensation in 2019 amounted to Euro 475,000.

Nominativo	Carica	Compensi fissi per cariche	Compensi variabili per cariche	Indennità di fine mandato	Totale
Alvise Braga Illa Enrico Magni	Presidente Amm. Delegato	100.000	-	25.000	125.000
		250.000	100.000	-	350.000
TOTALE		350.000	100.000	25.000	475.000

## ***Stock Options held by directors, auditors, general managers and managers with strategic responsibilities***

The auditors, independent directors and the Chairperson do not participate in any stock option incentive plans.

On 22 April 2016, the Shareholders' Meeting approved a Stock Option Plan for up to a maximum of 1,200,000 ordinary shares. The Plan ended on 30 June 2018 and 158,750 options (13%) were assigned, vested and exercised. The remaining 1,041,250 (87%) were cancelled or not assigned.

The Board of Directors' meeting of 27 May 2019 assigned Stock Options to 8 people comprising directors and managers of the Group, with vesting over the three-year period 2019-2020-2021.

The following table shows the subdivision of the Stock Options assigned, vested and exercised, cancelled or not assigned in total and indication of how many assigned to the executive directors and managers with strategic responsibilities:

	Totale	di cui Amministratori e Dirigenti con Responsabilità strategiche
Stock Options assegnate, maturate ed esercitate	-	-
Stock Options assegnate non maturate	135.000	18.000
Stock Options non assegnate	465.000	
Totale Piano deliberato assemblea	600.000	

The following table shows the details of the Stock Options assigned to executive directors and managers with strategic responsibilities:

**TABELLA 2 - Stock-option assegnate ai componenti dell'organo di amministrazione e ai dirigenti con responsabilità strategiche**

Nome e Cognome	Carica	Piano	Opzioni detenute all'inizio dell'esercizio 2019			Opzioni assegnate nel corso dell'esercizio 2019					Opzioni esercitate nel corso dell'esercizio 2019			Opzioni scadute nel 2019	Opzioni detenute alla fine del 2019	Opzioni di competenza 2019
			Numero opzioni	Prezzo di esercizio Euro	Periodo possibile esercizio	Numero opzioni	Prezzo di esercizio Euro	Periodo possibile esercizio	Data di assegnazione	Prezzo di mercato all'assegnazione	Numero opzioni	Prezzo di esercizio Euro	Prezzo di mercato delle azioni alla data di esercizio	Numero opzioni	Numero opzioni	Fair Value (€)
<b>Amministratori</b>																
Daniele Misani	Amm.	Stock Option 18.4.2019				18.000	8,67	1.3.2022 - 31.3.2023	27.5.2019	8,43	-	-	-	-	-	3.172

## ***Incentive plans based on financial instruments, other than stock options, held by directors, general managers and managers with strategic responsibilities***

There are no incentive plans of this type.

### ***Holdings of directors, auditors, general managers and managers with strategic responsibilities***

Pursuant to Article 79 of the Consob Regulation approved by resolution No. 11971 of 14 May 1999, here below is a list of the holdings in the company TXT e-solutions S.p.A. by directors and managers with strategic responsibilities, as well as by their spouses who are not legally separated or their minor children, directly or through subsidiaries, trust companies or a third party, resulting as at 31 December 2019 from the shareholders' register, communications received and other information acquired.

The auditors have no holdings in the company.

#### **Partecipazioni dei componenti degli organi di amministrazione e controllo e dei dirigenti con responsabilità strategica.**

COGNOME E NOME	CARICA	SOCIETA' PARTECIPATA	NR. AZIONI POSSEDUTE AL 31.12.2018	NR. AZIONI ACQUISTATE/ SOTTOSCRITTE	NR. AZIONI VENDUTE	NR. AZIONI POSSEDUTE AL 31.12.2019
<b><u>Amministratori</u></b>						
Alvise Braga Illa	Pres.	TXT	1.822.954		1.200.000	622.954
Enrico Magni	Amm. Del.	TXT	3.332.011	120.000	-	3.452.011
Daniele Stefano Misani	Amm. Del.	TXT	-	1.000	-	1.000
Stefania Saviolo	Amm. indep.	TXT	825	-	-	825
<b><u>Dirigente con responsabilità strategica</u></b>						
			1.000	-	-	1.000
TOTALE			5.156.790	121.000	1.200.000	4.077.790

On 30 June 2019, Daniele Misani purchased 1,000 shares.

### ***Significant events after the end of the year.***

On 15 January 2020, Alvise Braga Illa sold 1,200,000 ordinary shares through an "accelerated bookbuilding" procedure reserved for professional investors in Italy and institutional investors abroad.

The Board of Directors on 12 March 2020, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, voted to establish for 2020 the following fees for offices to be paid to the directors:

- Chairperson Alvise Braga Illa, fee for the position of Chairperson of € 15,000, no variable fee. The decrease with respect to the previous years is justified by the significant reduction in the powers.
- CEO of the Group Enrico Magni, fee for the office of CEO of € 250,000 and variable fee of € 100,000 on achievement of the 2020 Group Budget EBITDA target as formulated using the same rules for the functioning of the company MBO system.
- CEO Daniele Misani, fee for the office of € 15,000 to be added to the salary as executive of the company for € 100,000 and variable bonus of € 70,000 on achievement of the 2020 Budget EBITDA target of the

Aerospace, Aviation & Automotive Division, as formulated using the same rules for the functioning of the company MBO system.

Overall, the fees for the offices of the directors in 2020 would amount to € 513,750 on full achievement of the objectives, with a minimum of € 410,000 for just the fixed component. The emoluments for fixed and variable appointments in 2019 amounted to € 625,000.

The Termination Benefits were established by the Shareholders' Meeting solely in favour of the Chairperson and are proportionate to 25% of the Emolument accrued in each financial year.

# **TXT e-solutions Group**

**Consolidated financial statements  
as at 31 December 2019**

## **TXT e-solutions S.p.A.**

Registered office, management, and administration:

Via Frigia, 27 - 20126 Milan - Italy

Share capital: € 6,503,125 fully paid-in

Tax code and Milan Business Register number: 09768170152

## **Corporate bodies**

### **BOARD OF DIRECTORS**

Members' terms of office expire upon approval of the financial statements as at 31 December 2019:

Alvise Braga Illa	Chairman	(1)
Enrico Magni	Chief Executive Officer	(2)
Daniele Misani	Director	(3)
Fabienne Anne Dejean Schwalbe	Independent Director	(4)
Stefania Saviolo	Independent Director	(4)
Valentina Cogliati	Independent Director	(5)
Alessandro Arrigoni	Independent Director	(3) (4)

(1) Powers assigned: proxy.

(2) Powers assigned: ordinary and extraordinary administration, except for the purchase and sale of property.

(3) Co-opted on 15 July 2019 to replace Marco Edoardo Guida and Paolo Matarazzo, who resigned. In office until the next Shareholders' Meeting.

(4) Member of the Remuneration Committee, the Risks and Internal Controls Committee and the Related Parties Committee.

(5) Member of the Risks and Internal Controls Committee.

### **BOARD OF STATUTORY AUDITORS**

Members' terms of office expire upon approval of the financial statements as at 31 December 2019:

Mario Basilico	Chairman
Luisa Cameretti	Standing auditor
Giampaolo Vianello	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate auditor

### **EXTERNAL AUDITORS**

EY S.p.A.

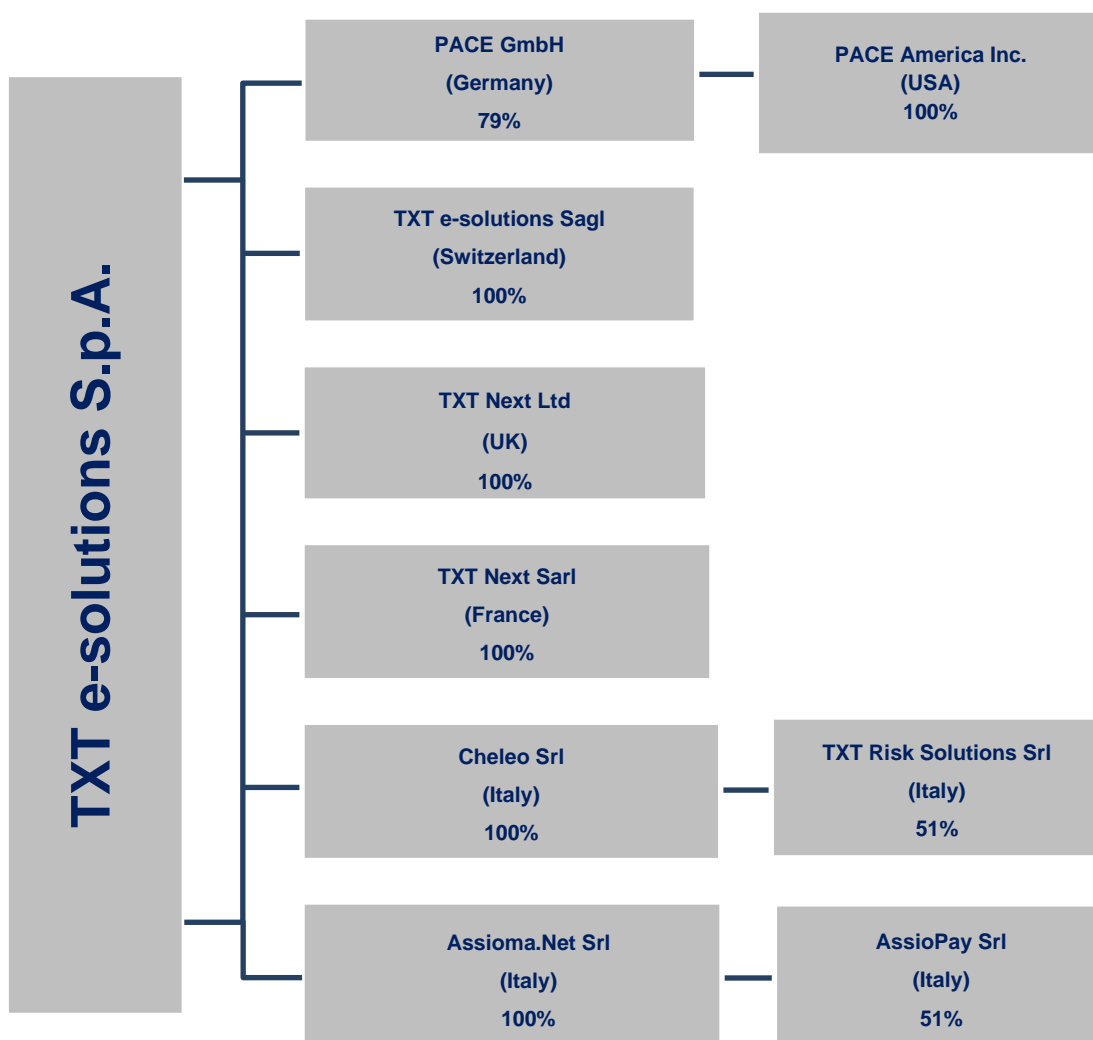
### **INVESTOR RELATIONS**

Andrea Favini

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# Organisational structure and scope of consolidation





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**Consolidated financial statements**  
**as at 31 December 2019**

## Consolidated Balance Sheet

ASSETS	Notes	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties
<b>NON-CURRENT ASSETS</b>					
Goodwill	8.1	19,639,673		12,784,544	
Intangible assets with a finite useful life	8.2	4,740,503		4,966,064	
<b>Intangible assets</b>		<b>24,380,176</b>		<b>17,750,608</b>	<b>-</b>
Property, plant and equipment	8.3	7,928,901		3,680,046	
<b>Tangible assets</b>		<b>7,928,901</b>		<b>3,680,046</b>	<b>-</b>
Investments in associates	8.4	-		9,196	9,196
Sundry receivables and other non-current assets	8.5	258,607		73,780	
Deferred tax assets	8.6	2,066,759		1,428,441	
<b>Other non-current assets</b>		<b>2,325,366</b>		<b>1,511,417</b>	<b>9,196</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>34,634,443</b>		<b>22,942,071</b>	<b>-</b>
<b>CURRENT ASSETS</b>					
Contractual assets	8.7	4,155,631		3,140,913	
Trade receivables	8.8	19,370,598		14,028,655	89,426
Sundry receivables and other current assets	8.9	4,779,327		2,963,467	
Other short-term financial receivables	8.10	-		5,000,000	
Financial instruments at fair value	8.11	87,320,066		103,948,873	
Cash and cash equivalents	8.12	11,426,083		5,593,125	
<b>TOTAL CURRENT ASSETS</b>		<b>127,051,704</b>		<b>134,675,033</b>	<b>89,426</b>
<b>TOTAL ASSETS</b>		<b>161,686,147</b>		<b>157,617,103</b>	<b>98,622</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
	Notes		Of which with related parties		Of which with related parties
<b>SHAREHOLDERS' EQUITY</b>					
Share capital		6,503,125		6,503,125	
Reserves		14,730,521		13,439,139	
Retained earnings (accumulated losses)		60,303,632		65,840,063	
Profit (loss) for the year		314,337		564,947	
<b>TOTAL SHAREHOLDERS' EQUITY (Group)</b>	8.13	<b>81,851,614</b>	<b>-</b>	<b>86,347,274</b>	<b>-</b>
Shareholders' Equity attributable to minority interests		168,226		-	
<b>TOTAL SHAREHOLDERS' EQUITY</b>	8.13	<b>82,019,841</b>		<b>86,347,274</b>	
<b>NON-CURRENT LIABILITIES</b>					
Non-current financial liabilities	8.14	32,029,003		36,882,347	
Provision for post-employment benefits and other employee provisions	8.15	3,110,062	1,207,217	2,956,922	1,249,026
Deferred tax provision	8.6	1,279,762		1,344,340	
Provisions for future risks and charges	8.16	118,905		718,905	
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>36,537,732</b>	<b>1,207,217</b>	<b>41,902,514</b>	<b>1,249,026</b>
<b>CURRENT LIABILITIES</b>					
Current financial liabilities	8.17	25,305,617		17,304,435	4,900,000
Trade payables	8.18	2,122,206	40,870	1,434,446	
Tax payables	8.19	3,012,776		317,197	
Sundry payables and other current liabilities	8.20	12,687,975	123,794	10,311,238	172,250
<b>TOTAL CURRENT LIABILITIES</b>		<b>43,128,574</b>	<b>164,664</b>	<b>29,367,315</b>	<b>5,072,250</b>
<b>TOTAL LIABILITIES</b>		<b>79,666,306</b>	<b>1,371,881</b>	<b>71,269,830</b>	<b>6,321,276</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>161,686,147</b>	<b>1,371,881</b>	<b>157,617,103</b>	<b>6,321,276</b>

## Consolidated Income Statement

	Note s	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties
Revenues and other income		59,090,675		39,956,617	77,345
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>9.1</b>	<b>59,090,675</b>		<b>39,956,617</b>	<b>77,345</b>
Purchases of materials and external services	<b>9.2</b>	(12,598,386)	(58,316)	(7,508,967)	(606,772)
Personnel costs	<b>9.3</b>	(39,611,915)	(1,004,551)	(28,476,229)	(546,730)
Other operating costs	<b>9.4</b>	(593,609)		(173,873)	
Depreciation and amortisation/Impairment	<b>9.5</b>	(2,734,482)		(1,952,794)	
<b>OPERATING RESULT</b>		<b>3,552,283</b>	<b>(1,062,867)</b>	<b>1,844,755</b>	<b>(1,076,157)</b>
Financial income (charges)	<b>9.6</b>	(1,275,935)		(1,244,556)	
Share of profit (loss) of associates	<b>8.4</b>	38,804		(38,804)	(38,804)
<b>EARNINGS BEFORE TAXES (EBT)</b>		<b>2,315,152</b>		<b>561,395</b>	
Income taxes	<b>9.7</b>	(1,867,137)		3,552	
<b>NET PROFIT (LOSS) FOR THE PERIOD (group)</b>		<b>448,015</b>		<b>564,947</b>	

Attributable to:		
Parent Company shareholders	314,337	564,947
Minority interests	133,678	-
<b>EARNINGS PER SHARE</b>	<b>0.03</b>	<b>0.05</b>

## Consolidated Statement of Comprehensive Income

	31/12/2019	31/12/2018
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>448,015</b>	<b>564,947</b>
<b>Attributable to:</b>		
<b>Minority interests</b>	<b>133,678</b>	
<b>Parent Company shareholders</b>	<b>314,337</b>	
Profit/(Loss) from foreign currency translation differences	13,398	314,549
Gain/(Loss) on the effective part of hedging instruments (cash flow hedge)	(169,708)	(127,640)
<b>Total items of other comprehensive income that will be subsequently reclassified to profit/(loss) for the year net of taxes</b>	<b>(156,310)</b>	<b>186,909</b>
Defined benefit plans actuarial gains (losses)	(51,579)	30,438
<b>Total items of other comprehensive income that will not be subsequently reclassified to profit/(loss) for the year net of taxes</b>	<b>(51,579)</b>	<b>30,438</b>
<b>Total profit/(loss) of Comprehensive Income net of taxes</b>	<b>(207,889)</b>	<b>217,346</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>240,126</b>	<b>782,293</b>
<b>Attributable to:</b>		
<b>Minority interests</b>	<b>133,678</b>	

Parent Company shareholders 106,448 782,293

## Consolidated Statement of Cash Flows

	31 December 2019	31 December 2018
Profit (loss) from continuing operations	448,015	564,947
<b>Net profit (loss) for the period</b>	<b>448,015</b>	<b>564,947</b>
Non-monetary costs for Stock Options	23,793	-
Non-monetary interest	74,768	278,642
Change in fair value of monetary instruments	833,264	971,127
Current income taxes	3,667,762	274,663
Change in deferred taxes	(1,558,755)	(367,373)
Depreciation/amortisation, impairment and provisions	2,730,117	1,911,442
Other non-monetary expenses	-	2,280
Other changes	4,715	-
<b>Cash flows from (used in) operating activities (before change in working capital)</b>	<b>6,223,680</b>	<b>3,635,728</b>
(Increase) / Decrease in trade receivables	(2,667,219)	1,234,849
(Increase) / Decrease in inventories	(995,020)	(318,406)
Increase / (Decrease) in trade payables	(111,527)	(90,425)
Increase / (Decrease) in other assets/liabilities	(3,024,156)	(2,562,347)
Increase / (Decrease) in post-employment benefits	(259,822)	51,147
<b>Changes in operating assets and liabilities</b>	<b>(7,057,744)</b>	<b>(1,685,182)</b>
Paid income taxes	(470,552)	(535,626)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(1,304,616)</b>	<b>1,414,920</b>
	<i>of which due to related parties</i>	<i>(1,201,689)</i>
Increase in tangible assets	(902,391)	(439,737)
Increase in intangible assets	(14,432)	(85,805)
Decrease in tangible and intangible assets	75,840	-
Net cash flow from acquisition/assignment	(2,253,658)	1,314,141
(Increase) / Decrease in trading securities	25,225,790	(110,010,118)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>22,131,149</b>	<b>(109,221,529)</b>
	<i>of which due to related parties</i>	<i>48,000</i>
Loans issued	6,700,000	42,979,140
Loans repaid	(13,790,335)	(2,172,541)
Payment of lease liabilities	(1,143,541)	(963,404)
Increase/(Decrease) in financial payables	-	19,807
Increase / (Decrease) in other financial receivables	-	3,156,172
Distribution of dividends	(5,780,767)	(11,709,799)
Interest expense	-	(35,013)
Other changes in shareholders' equity	-	-
Net change in financial liabilities	7,081	-
(Purchase)/Sale of treasury shares	(999,412)	(4,377,109)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(15,006,974)</b>	<b>26,897,253</b>
	<i>of which due to related parties</i>	<i>(4,900,000)</i>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,819,559</b>	<b>(80,909,346)</b>
Effect of changes in exchange rates on cash flows	13,398	(25,017)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>5,593,125</b>	<b>86,527,488</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (note 8.12)</b>	<b>11,426,083</b>	<b>5,593,125</b>
Assets acquired that did not generate cash flows (initial recognition IFRS 16)	(2,992,223)	(3,751,131)
Liabilities acquired that did not generate cash flows (initial recognition IFRS 16)	2,992,223	3,751,131

## Statement of changes in Consolidated Shareholders' Equity as at 31 December 2019

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva cash flow Hedge	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Totale patrimonio netto	Totale patrimonio netto (Terzi)	Totale patrimonio netto
<b>Saldi al 31 dicembre 2018</b>	6,503,125	1,300,625	11,223,612	1,911,444	-	-	(883,406)	-127,640	14,504	65,840,063	564,947	86,347,274		86,347,274
Utile al 31 dicembre 2018										564,947	(564,947)	-		-
Acquisizioni minoranze										(325,326)		(325,326)	34,548	(290,778)
Incremento/acquisto						23,793		(42,068)		4,715		(13,560)	-	(13,560)
Distribuzione dividendi										(5,780,767)		(5,780,767)	-	(5,780,767)
Vendita azioni proprie			2,386,146									2,386,146	-	2,386,146
Acquisto azioni proprie			(1,038,309)									(1,038,309)	-	(1,038,309)
Attualizzazione TFR							(51,579)					(51,579)	-	(51,579)
Delta cambi									13,398			13,398	-	13,398
Utile al 31 dicembre 2019											314,337	314,337	133,678	448,015
<b>Saldi al 31 dicembre 2019</b>	6,503,125	1,300,625	12,571,449	1,911,444	0	23,793	(934,985)	(169,708)	27,902	60,303,632	314,337	81,851,614	168,226	82,019,840

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva cash flow Hedge	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Totale patrimonio netto
<b>Saldi al 31 dicembre 2017</b>	6.503.125	1.005.000	12.136.607	1.911.444	140.667	1.164.184	(913.844)	0	(300.045)	9.691.188	68.555.495	99.893.822
Utile al 31 dicembre 2017		295.625							327.517	67.932.354	(68.555.495)	-
Destinazione Riserve					(140.667)	(1.164.184)				1.304.851		-
Distribuzione dividendi										(11.709.799)		(11.709.799)
Vendita azioni proprie			221.309									221.309
Acquisto azioni proprie			(4.598.419)									(4.598.419)
Aggregazioni aziendali			3.464.115									3.464.115
Attualizzazione TFR							30.438					30.438
Delta cambi									(12.968)			(12.968)
Cambiamento Principi contabili										(1.378.531)		(1.378.531)
Altri componenti conto economico complessivo								(127.640)				(127.640)
Utile al 31 dicembre 2018											564.947	564.947
<b>Saldi al 31 Dicembre 2018</b>	6.503.125	1.300.625	11.223.612	1.911.444	0	0	(883.406)	(127.640)	14.504	65.840.063	564.947	86.347.274



# NOTES TO THE FINANCIAL STATEMENTS

## 1 Group's structure and scope of consolidation

The Parent Company TXT e-solutions S.p.A. and its subsidiaries operate both in Italy and abroad in the IT sector, and provide software and service solutions in extremely dynamic markets that require advanced technological solutions.

The table below shows the companies included in the scope of consolidation under the line-by-line method as at 31 December 2019 (see also the organisational diagram in the section "Organisational structure and scope of consolidation") and the relative share of legal interest in the share capital:

Company name of the subsidiary	Currency	% holding	Share capital
PACE GmbH	€	79%	295,000
PACE America Inc.	USD	79%	10
TXT e-solutions SagL	CHF	100%	40,000
TXT NEXT Sarl	€	100%	100,000
TXT NEXT Ltd	GBP	100%	100,000
Cheleo Srl	€	100%	99,000
TXT Risk Solutions S.r.l.	€	51%	79,592
Assioma Net Srl	€	100%	30,000
AssioPay Srl	€	51%	10,000

The Group has signed option contracts for minority interests in PACE GMBH, which directly controls PACE America Inc., and in TXT Risk Solutions S.r.l. which, following an assessment of the terms and conditions of exercise, were deemed capable of attributing a present ownership interest on the same as at 31 December 2019. Consequently, for the purposes of presenting the consolidated financial statements, no third party rights have been restated in the shareholders' equity with reference to said interests. However, these rights are recorded as liabilities with regard to potential payments, including contingent considerations, still to be made on the basis of the aforementioned option contracts.

TXT e-solutions Group's consolidated financial statements are presented in Euro. Here below are the foreign exchange rates used for translating the amounts expressed in foreign currency of the subsidiaries into Euro:

- Income statement, (average exchange rate in the year)

Currency	2019	2018
British Pound (GBP)	0.8777	0.8847
US Dollar (USD)	1.1195	1.1815
Swiss Franc (CHF)	1.1124	1.1549

- Balance sheet (exchange rates as at 31 December 2019 and 31 December 2018)

Currency	31/12/2019	31/12/2018
British Pound (GBP)	0.8508	0.8945
US Dollar (USD)	1.1234	1.1450
Swiss Franc (CHF)	1.0854	1.1269

## 2 Acquisition of the Assioma Group

On 30 April 2019, the Company entered into an agreement for the acquisition of the share capital of Link Software S.r.l., which at that date held (i) a 100% stake in the share capital of Assioma.Net S.r.l., which in turn holds a 51% stake in the share capital of Assiopay S.r.l. and (ii) 70% of the share capital of Assioma.Itec S.r.l. (www.assioma.net). On 12 June 2019, Link Software S.r.l. purchased the remaining 30% of Assioma.Itec S.r.l. unacquired to date, paying € 450,000 in cash. For the sake of completeness of information, we also point out the following subsequent extraordinary transactions, which however did not have any impact for the purposes of consolidation: i) on 18 July 2019 the respective shareholders' meetings approved the merger between Link Software S.r.l. and Assioma.Itec S.r.l. ii) on 11 October 2019 the respective shareholders' meetings approved the (reverse) merger between Link Software S.r.l. and Assioma.Net S.r.l.

Please refer to the Directors' Report for further details.

This Italian group specialises in the governance of applications' software quality, with know-how gained from almost thirty years experience in the industry and with around 150 employees in its Turin, Milan and Bari offices.

The fair value of the consideration for the purchase of 100% of the share capital of Link Software Srl was agreed upon by the parties to be in the amount of € 10.9 million, structured as follows:

Component	Euro
Price paid in cash	4,530,000
Price paid in shares	2,386,146
Earn-Out 2019-2020	2,354,112
Contractual NFP	1,611,971
<b>Total (100%)</b>	<b>10,882,229</b>

- The countervalue of the treasury shares of TXT e-solutions Spa has been calculated considering the Fair Value of the share on the Closing date, corresponding to € 9.40 for the number of treasury shares 253,846.
- The amount paid as a function of the Net Financial Position (NFP) as defined contractually in the purchase agreement;
- The amount envisaged for the Earn-Out is estimated on the basis of specific operating objectives, insofar as price components deferred over a medium-term period of time, subject to the fulfilment of specific conditions envisaged in the purchase agreement, considered likely, such as the completion of projects underway and the surpassing of specific sales volumes of certain categories of products and services.

As at 31 December 2019, an intangible asset of € 822,000 relating to Customer Relationships was identified, which brings the goodwill relating to the acquisition of the Assioma Group to a value of € 6,855,129.

As at 31 December 2019 the provisional allocation of net assets acquired and the recognition of goodwill (IFRS3) is as follows:

Allocation		
Total price		10,882,229
Net Financial Position	1,611,971	
Other net assets (liabilities)	1,822,467	
Customer Relationship	822,000	
Deferred tax liabilities		229,338
<b>Goodwill</b>	<b>6,855,129</b>	

For the purposes of the acquisition, a total of € 0.1 million in consulting and legal fees were incurred and were fully expensed in the second quarter of 2019. The cash flow statement, under item "Net

cash flow from acquisition” shows a net amount of € 1.8 million, represented by the financial disbursement actually made (€ 6.1 million) in the second quarter of 2019, net of the Cash acquired on the acquisition date (€ 4.3 million).

### **3 Operating segments**

The TXT Group identifies its Business Units within two operating segments: a) "Aerospace, Aviation & Transportation" and b) "Fintech".

The "Fintech" operating segment includes companies such as Cheleo, TXT Risk Solutions and the Assioma Group, including the B&F division of TXT e-solutions SpA.

The "Aerospace, Aviation & Transportation" operating segment includes the activities of TXT e-solutions SpA linked to A,A&A and Pace GmbH.

The two operating segments identified are largely organised and managed separately, depending on the nature of the services and products provided and the reference market.

### **4 Basis of preparation of the consolidated financial statements**

TXT e-solutions Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at the date of drafting these financial statements, as well as with the implementing measures for Article 9 of Italian Legislative Decree no 38/2005 and with any other applicable provisions and Consob regulations on financial statements. The consolidated financial statements have been prepared on a cost basis, except for derivative financial instruments and other items for which the IFRS prescribe different assessment criteria. The carrying amount of underlying assets and liabilities of fair value hedges which would otherwise be carried at amortised cost is adjusted to take into account the changes in fair value attributable to the hedged risks.

The consolidated financial statements were prepared on the basis of the accounting records as at 31 December 2019 on a going concern basis, taking into account the Group's operating performance and operating, economic and financial outlook referred to in the Directors' report on operations, to which reference should be made for a description of these aspects. The accounting policies applied in preparing the financial statements, as well as the composition of, and changes in, individual items, are illustrated below.

All amounts are expressed in Euro, unless otherwise indicated.

The publication and release of this report were approved by the Board of Directors' Meeting held on 12 March 2020.

## **BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of TXT e-solutions S.p.A. and its subsidiaries as at 31 December 2019.

The subsidiaries are consolidated line-by-line from the acquisition date, or the date when control is obtained, and cease to be consolidated on the date when control is lost. The financial statements of the subsidiaries used for consolidation purposes are prepared for the same reporting period as the parent company, using consistent accounting policies. Intragroup balances and transactions, including any unrealised profits and losses resulting from intragroup transactions and dividends, are eliminated in full.

Unrealised profits and losses on transactions with associates or jointly controlled entities are eliminated to the extent of the Group's equity interest in those companies.

Total comprehensive income of a subsidiary is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

If the Parent Company loses control of a subsidiary, it:

- Derecognises the assets (including any goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amounts of any non-controlling interests in the former subsidiary;
- Derecognises the cumulative exchange differences recognised in equity;
- Recognises the fair value of the consideration received;
- Recognises the investment retained in the former subsidiary at its fair value;
- Recognises any gain or loss in profit or loss;
- Reclassifies to profit or loss, or transfers directly to retained earnings if required, the Parent Company's share in the amounts previously recognised in other comprehensive income.

## **Foreign currency transactions**

The financial statements are presented in Euro, which is the functional and presentation currency adopted by the Group.

Foreign currency transactions are recorded on initial recognition in the functional currency by applying the spot exchange rate at the date of the transaction.

The monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the exchange rate at the reporting date.

Exchange differences are recognised in profit or loss with the exception of monetary items that form part of the net investment in a foreign operation. Such differences are recognised initially in other comprehensive income until the disposal of the net investment, and only then will be recognised in profit or loss. Taxes and tax credits attributable to exchange differences on monetary items are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of initial recognition of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. Gains or losses arising from the translation of non-monetary items are treated in line with the recognition of gains and losses arising from changes in the fair value of said items (foreign currency differences on the items with changes in fair value recognised in other comprehensive income or profit or loss are recognised in other comprehensive income or profit or loss, respectively).

## **Consolidation of foreign operations**

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Parent Company. Each company of the Group determines its own functional currency, which is used to measure the items included in the individual financial statements. The Group decided to carry forward the gains or losses arising from the application of the direct method of consolidation, which is the method the Group used for its consolidation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation, and therefore are expressed in the functional currency of the foreign operation and translated at the closing rate.

## **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value,

and the recognised amount of the non-controlling interest in the acquiree. For each business combination, the Group defines whether to measure the non-controlling interest in the acquiree at fair value or the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. Acquisition costs are expensed in the year and classified as administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed on the basis of the contractual terms, economic conditions, and other pertinent conditions as they exist on the acquisition date. This includes the assessment of whether an embedded derivative should be separated from the host contract.

If the business combination is achieved in stages, the pre-existing equity interest is carried at fair value at the date of acquisition of control and the resulting gain or loss, if any, is recognised in the income statement or in the statement of comprehensive income. This is taken into account in determining goodwill.

The acquirer recognises any contingent consideration at the acquisition-date fair value. The change in fair value of the contingent consideration classified as an asset or liability, within the scope of IAS 9 Financial Instruments, will be recognised in the income statement or in other comprehensive income. Where the contingent consideration does not fall within the scope of IFRS 9, it is remeasured at fair value at the reporting date and any changes are recognised in the income statement. If the contingent consideration is classified as equity, it shall not be remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests over the identifiable net assets acquired and liabilities assumed by the Group. If the fair value of net assets acquired exceeds the aggregate of the consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts which are required to be recognised at the acquisition date. If that excess remains after applying the new measurement, the resulting gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost net of any accumulated impairment loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Transactions in previous years*

With reference to the PACE business combination that occurred in 2016, which established an immediate acquisition of 79% of the company's shares and an option on the remaining 21% of capital to be exercised by 2021, the directors, for the purposes of drafting the Consolidated Financial Statements, decided to classify the signing of the put/call option contract with PACE minority shareholders as the acquisition of a present ownership interest including in the residual 21% of PACE's capital. Therefore, no minority interests have been recorded in these consolidated financial statements.

In addition to considering the acquisition of 79% of the capital and subscription of the put/call option as strictly correlated in terms of substance, the assessment made by the directors also took into consideration the following factors: - existence of a call/put option with the same exercise conditions - regulation of the rights on any dividends distributable to minority shareholders during the period prior to that of the first possible exercise of the option - existence of qualified majorities to make specific decisions in the Shareholders' Meeting - price that can be determined with a contractually established method, even though variable based on results - integration level designed and launched with the TXT structure.



Similarly, also with reference to the acquisitions made in 2018 of Cheleo S.r.l. and TXT Risk solutions S.r.l. (formerly T3M S.r.l.), the related put/call options on minority interests (both equal to 49%) had been equated to the acquisition of a present ownership interest also in the residual share capital. As a result, no minorities were found with regard to these acquisitions. It should be noted that in 2019, following the exercise of the option on Cheleo, the relative share of interest became 100%.

## **ASSETS AND LIABILITIES**

### **Intangible assets**

Intangible assets acquired separately are initially measured at cost, while those acquired in business combinations are recognised at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and the corresponding costs are recognised in profit or loss as incurred.

The useful life of intangible assets is assessed as finite or indefinite.

Intangible assets with a finite useful life are amortised systematically over their useful lives and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The changes in the expected useful life or in the expected pattern of consumption of the future economic benefits embodied in the assets are recognised by changing the amortisation period or method, as required, and are accounted for as changes in accounting estimates. The amortisation expense related to intangible assets with a finite useful life is recognised in profit or loss in the expense category consistent with the intangible asset's function.

Intangible assets with an indefinite useful life are not amortised, but they are tested for impairment annually both as an individual asset and as a cash-generating unit. The indefinite useful life assessment is reviewed annually to determine whether events and circumstances continue to support it. If they do not, the change in the useful life assessment from indefinite to finite is applied prospectively.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the intangible asset's carrying amount, and is recognised in profit or loss when the asset is derecognised.

### **Research and development costs**

Research costs are recognised as an expense in profit or loss when incurred. Development costs incurred in relation to a specific project are recognised as an intangible asset when the conditions provided for by IAS 38 apply.

After initial recognition, development costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation begins when development is completed and the asset is available for use. Development costs are amortised with reference to the period during which the related project is expected to generate economic benefits for the Group. During the period in which the asset is not yet in use, it will be tested for impairment annually.

### **Software licences**

Licences for use of intellectual property are carried at cost and amortised over 3 to 5 years, according to the specific type of licence.

### **Tangible assets**

Tangible assets are measured at acquisition or production cost including directly attributable costs necessary to bring the asset to its working condition.

Tangible assets are depreciated on a straight-line basis over their useful life, i.e. the period over which an asset is expected to be available for use by an entity. Depreciation begins when the asset is available for use and is calculated on a straight-line basis using the rate deemed representative

of the asset's estimated useful life. Given the nature of the assets within the separate classes, no significant parts having different useful lives were recognised.

Depreciation is calculated using the straight-line method over the estimated useful life of the relevant asset, as shown below:

Class	Useful life
Furniture and fixtures	8 years
Electronic office machinery	5 years
Motor vehicles	4 years

The costs of maintenance, repair, enhancement, upgrade, and replacement that have not lead to any significant and measurable increase in the production capacity or in the useful life of the asset concerned are recognised as an expense in the period in which they are incurred.

Leasehold improvements shall be recognised in the asset class to which they refer and, if separable, they shall be depreciated in accordance with their useful life; if they are not separable, they shall be depreciated based on the shorter of the lease term or the asset's useful life.

## Leases

The right to use of assets held under leases is accounted for as tangible fixed assets (historical cost of the asset and accumulated depreciation) and classified in the specific classes, recognising the financial payable to the lessor as a liability.

Lease payments are apportioned between the reduction of the outstanding liability and the finance charge to be allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability at each financial year-end.

The Group as lessee

### *(i) Activities for right to use*

The Group recognises the assets for the right to use on the start date of the lease (i.e. the date on which the underlying asset is available for use). Assets for the right to use are measured at cost, net of accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the assets for the right to use includes the amount of the lease liabilities recognised, the initial direct costs incurred and the lease payments made at the effective date or before commencement net of any incentives received. Assets for right to use are amortised on a straight-line basis from the effective date to the end of the useful life of the asset consisting of the right to use or at the end of the lease term, whichever is earlier.

If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right to use asset reflects the fact that the lessee will exercise the purchase option, the lessee must depreciate the right to use asset from the effective date until the end of the useful life of the underlying asset. Assets for the right to use are subject to Impairment. Please refer to the section "Impairment of non-financial assets".

### *(ii) Lease-related liabilities*

At the effective date of the lease, the Group recognises the lease liabilities by measuring them at the present value of the lease payments not yet paid at that date. Payments due include fixed payments (including fixed payments in substance) net of any lease incentives to be received, variable lease payments that depend on an index or rate, and amounts expected to be paid as guarantees of residual value. The lease payments also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised by the Group and the penalty payments for termination of the lease, if the lease term takes into account the exercise by the Group of the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognised as an expense in the period (unless they were incurred for the production of inventories) in which the event or condition giving rise to the payment occurs.

In calculating the present value of the payments due, the Group uses the marginal lending rate at the start date if the implicit interest rate is not available or easily determinable. After the effective date, the amount of the lease liability increases to account for interest on the lease liability and decreases to account for payments made. In addition, the carrying amount of lease liabilities is restated in the event of any changes in the lease or for changes in the contractual terms for the change in payments; it is also restated in the event of changes in the valuation of the option to purchase the underlying asset or for changes in future payments resulting from a change in the index or rate used to determine those payments.

The Group's leasing liabilities are included under Non-current Financial Liabilities (8.14) and Current Financial Liabilities (8.17).

*(iii) Short-term leases*

The Group applies the exemption for the recognition of short-term leases (i.e., leases that have a duration of 12 months or less from the start date and do not contain a purchase option).

The Group as lessor

The Group has no current financial leasing contracts in accordance with IFRS 16.

Application of IFRS 16

IFRS 16 was published in January 2016 (approved at the end of 2017) and 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 in the Legal Form of a Lease. IFRS 16 defines the principles for the recording, measurement, presentation and disclosure of leases and requires lessees to account for all lease contracts, including those classified according to previous practices as operating leases (for example certain rentals and hires), in the financial statements on the basis of a single model substantially similar to that used to account for financial leases in accordance with IAS 17. On the start date of the lease contract, the lessee will record a liability in relation to the lease payments (i.e. lease liabilities) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. the right to use the asset). Lessees must account separately for interest expenses on lease liabilities and amortisation of the right to use the asset.

Lessees must also remeasure liabilities related to lease contracts should certain events occur (for example a change in the conditions of the lease contract, a change in future lease payments resulting from a change in an index or rate used to determine these payments). The lessee generally recognises the remeasured amount of the lease liability as an adjustment of the right to use the asset.

The standard establishes two exemptions for recording by lessees:

- lease contracts on low-value assets;
- short-term lease contracts (for example contracts expiring within 12 months or less).

It should be noted that the Group has opted for early adoption of IFRS 16 "Leases" in accordance with the provisions of paragraph C1 of the standard. This standard was applied for the first time in the half-yearly report as at 30 June 2018.

On adoption, the Group took the following practical expedients into consideration:

- application of a single discounting rate on a portfolio of leases with reasonably similar characteristics;
- treatment of leases due to terminate within 12 months of the date of first-time adoption as "short-term leases" (in effect excluded from application of the IFRS 16 basic model);



- exclusion of any initial direct costs from measurement of a right of use asset as at the date of first-time adoption;
- confirmed significance of experience acquired, e.g. to determinate the duration of a lease containing extension or termination options.

The positions affected by the scope of application of IFRS 16 and which in principle had an appreciable effect are related to:

- lease contracts for the main office (Milan)
- lease contracts for the national (Milan, Turin, Brescia and Cesano Boscone) and foreign (PACE – Berlin) secondary offices
- portfolio of hire vehicles for the Company's staff

Lease contracts for offices:	Contractual years	Years remaining	Main Options
Milan	6	5	Renewal
Orbassano (Turin)	6	5	Renewal
Brescia	6	6	Renewal
Berlin	6	6	Renewal
Cesano Boscone	6	5	Acquisition
Turin	6	5	Acquisition
Texas	3	3	Renewal

For the lease contract for the main office in Milan, the contractually envisaged duration was used, just subject to renewal, without taking into account the early termination or further renewal options which are considered unlikely. A similar approach has been followed for leases for which the Group is still in the assessment phase.

As regards vehicle lease contracts, these refer to medium/long-term rental agreements, usually for 4 years with monthly instalments paid in advance with an average value of € 540.

In the absence of a readily-available implicit rate, the present value of the liabilities was determined using the Group's marginal lending rate, taking into account the duration, amount funded and underlying asset for each type of contract. The Group has established that the differences between the rates to be applied for the different contract categories do not lead to significant differences in impact.

For further details, see Note 8.3 "Tangible assets" and Note 9.6 "Financial income and charges".

## Impairment of non-financial assets

At the end of each reporting year, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when an annual impairment test is required, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. If the carrying amount of an asset is greater than its recoverable amount, said asset has become impaired and is consequently reduced to its recoverable amount.

In measuring value in use, the Group discounts estimated future cash flows using a rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If it is not possible to determine such transactions, an appropriate measurement model is used. These calculations are corroborated by the appropriate valuation multipliers, quoted share prices of investee companies whose securities are publicly traded, and other available indicators of fair value.

The Group bases its impairment test on detailed budgets and forecasts prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts generally cover a period of five years. For longer periods, a long-term growth rate used to extrapolate cash flow projections beyond the fifth year is calculated.

Impairment losses on operating assets, including losses on inventories, are recognised in profit or loss in the expense categories consistent with the intended use of the impaired asset. An exception is represented by revalued assets for which the revaluation has been recognised in other comprehensive income and classified as a revaluation surplus. In these cases, the impairment loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus.

At the end of each reporting period, the Group assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. An impairment loss recognised in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal of an impairment loss shall not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

The following criteria are used to recognise impairment losses on specific types of assets:

***a) Goodwill***

Goodwill is tested for impairment at least annually (as at 31 December) and, more frequently, when the circumstances indicate that the carrying amount may be impaired.

The impairment loss on goodwill is determined by measuring the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill can be allocated. Wherever the recoverable amount of the cash-generating unit is lower than the carrying amount of the cash-generating unit to which goodwill was allocated, an impairment loss is recognised. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

***b) Intangible assets***

An intangible asset with an indefinite useful life is tested for impairment at least annually (as at 31 December) both as an individual asset and as a cash-generating unit, whichever is more appropriate to determine whether any impairment exists.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

***IFRS 9 impacts***

In July 2014, IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the plan for accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard from the effective date (1 January 2018) and has opted not to restate the comparative data.

The Group has performed impact analysis on all aspects covered by IFRS 9. This analysis is based on information currently available, including the strategy for the use of financial instruments. Application details, with reference to the main areas of procedural intervention governed by the standard, are described below.

***Classification and measurement of financial assets and liabilities***

The Group does not foresee any significant impact on its balance sheet and shareholders' equity as a result of the application of IFRS 9 classification and measurement requirements. The Group does not have any financial liabilities designated at FVTPL as a result of adopting the fair-value option. For completeness it is reported that the change in financial liabilities relating to the acquisition of

minority shares in the extraordinary transactions described in the previous paragraphs will continue to be recorded entirely in the income statement. With regard to financial assets, the new principle establishes that the classification of assets depends on the characteristics of the financial flows relating to these assets and the business model used by the Group for managing them. The Group signed the following contracts during the year:

- 6 multi-segment life insurance contracts for € 77,725,206 (€ 94,113,921 as at 31 December 2018);
- Bond loan for € 510,000 subscribed below par for € 498,000;
- Treasury management for € 8,046,360
- Multi-year Treasury Bills for € 1,038,500

In view of the characteristics of these instruments, the Company arranged their designation at Fair Value as at 31 December. Furthermore, the Company does not have financial investments in the form of shareholdings that could fall within the scope of IFRS 9. With regard to derivative financial instruments, embedded or otherwise, the Company has exclusively entered into interest rate swap contracts linked to bank loans expenses for which hedge accounting has been activated. Trade receivables are held for the purposes of collection at the contractual due dates of the cash flows relating to them in capital share and interest, where applicable. The Company has analysed the characteristics of the contractual cash flows of these instruments and has concluded that they comply with the criteria for valuation at amortised cost in accordance with IFRS 9. Therefore, no reclassification of these financial instruments was necessary. Similar conclusions can be reached for the items relating to cash and cash equivalents.

### ***Impairment of financial assets***

IFRS 9 requires the Group to record expected losses on receivables on all bonds in the portfolio, loans and trade receivables, with reference to either a period of 12 months or the entire contractual duration of the instrument (e.g. lifetime expected loss). The Group applies the simplified approach and therefore records the expected losses on all trade receivables on the basis of their residual contractual duration. The standard allows the adoption of matrices for calculating the provision that are capable of incorporating information from forecasts and not limited to historical evidence, as a practical expedient. The Group will however continue to analytically consider the specific features of the sector and of certain customers in its evaluations.

### ***Hedge accounting***

In the past, the Group has established transactions to hedge currency risk, mainly relating to transactions, by signing currency forward contracts. In this case, the Group had not activated hedge accounting and consequently, on the basis of general IAS 39 rules for derivatives, had recorded all effects deriving from changes in their FV in the income statement. As mentioned above, the Group currently has an active hedging position exclusively with derivative financial instruments to hedge the interest rate risk associated with borrowings. Given that IFRS 9 does not change the general principle on the basis of which an entity accounts for effective hedge relations, in relation to the regulations in the previous IAS 39 the main changes concern: – the hedging efficacy test is solely prospective and can also be based on qualitative aspects, replacing the previous 80-125% test and focusing on the economic relationship between the hedging instrument and the hedged item – the possibility of designating only a risk component as a hedged item even for non-financial elements (provided that the risk component is separately identifiable and can be reliably estimated) – introduction of the “costs of hedging” concept – greater possibility of designating groups of items as a single hedged item, including stratifications and certain net positions. In the absence of hedge accounting, changes in the fair value of derivatives will continue to be recorded in the income statement.

### ***Initial recognition and measurement of financial assets***

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income (OCI) and at fair value through profit or loss. The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Group uses to manage them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied a practical expedient, the Group initially values 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. Trade receivables that do not contain a significant financing component or for which the Group has applied a practical expedient are valued at the transaction price determined in accordance with IFRS 15.

For a financial asset to be classified and measured at amortised cost or at fair value through OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid ('solely payments of principal and interest (SPPI)'). This assessment is referred to as the SPPI test and is carried out at instrument level.

The Group's business model for the management of financial assets refers to the way in which it manages its financial assets in order to generate financial flows. The business model determines whether the cash flows will arise from the collection of contractual cash flows, the sale of financial assets or both.

A purchase or sale of a financial asset that requires delivery within a time frame generally established by regulation or convention in the marketplace (regular way trade) is recognised on the trade date, i.e. the date on which the Group commits itself to purchase or sell an asset.

### ***Subsequent measurement of financial assets***

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value recognised in other comprehensive income with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value recognised in other comprehensive income without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through profit or loss

In general the most important categories for the Group are the first and the fourth.

#### **Financial assets at amortised cost**

The Group measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is owned as part of a business model whose objective is to own financial assets for the purpose of collecting contractual cash flows
- the contractual terms of the financial asset provide for cash flows at certain dates represented solely by payments of principal and interest on the amount of principal to be repaid

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.

Group financial assets at amortised cost include trade receivables and other receivables as well as investments that pass the SPPI test.

#### **Financial assets at fair value through profit or loss**

This category includes financial assets held for trading and assets designated as at fair value through profit or loss upon initial recognition with changes recognised in the income statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for the purpose of selling or repurchasing them in the near term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments (the Group does not currently hold derivatives that are not designated as hedges). Financial assets with cash flows that are not represented solely by principal and

interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be recognised at fair value through profit or loss at initial recognition if this results in the derecognition or significant reduction of an accounting mismatch.

Financial instruments at fair value through profit or loss are recognised in the balance sheet at fair value and net changes in fair value are recognised in the statements of profit/(loss) for the year.

#### Impairment of financial assets

The Group recognises an expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows payable under the contract and all cash flows expected to be received by the Group, discounted at an approximation of the original effective interest rate. Expected cash flows will include cash flows arising from the application of collateral held or other credit guarantees that are an integral part of the contractual conditions. Expected losses are recognised in two phases. With regard to credit exposures for which there has been no significant increase in credit risk since the initial recognition, it is necessary to recognise credit losses resulting from the estimate of default events that are possible within the next 12 months (12-month ECL). For credit exposures for which there has been a significant increase in credit risk since initial recognition, expected losses relating to the residual duration of the exposure must be fully recognised, regardless of when the default event is expected to occur ("Lifetime ECL").

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected losses. Therefore, the Group does not monitor changes in credit risk, but fully recognises the expected loss at each reference date. The Group has defined a matrix system based on historical information, revised to consider forward-looking elements with reference to specific types of borrowers and their economic environment, as a tool for determining expected losses.

A financial asset is derecognised when there is no reasonable expectation that the contractual cash flows will be recovered.

#### ***Initial recognition and measurement of financial liabilities***

Upon initial recognition, financial liabilities are classified under financial liabilities at fair value through profit or loss, under loans and borrowings, or under derivatives designated as hedging instruments.

Financial liabilities are initially recorded at fair value plus transaction costs directly attributable to them in the case of loans, borrowings and payables.

The Group's financial liabilities include trade payables and other payables, loans and borrowings, including bank overdrafts and derivative financial instruments.

#### ***Subsequent measurement of financial liabilities***

The measurement of financial liabilities depends on their classification, as described below:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include liabilities held for trading and financial liabilities designated as at fair value through profit or loss upon initial recognition.

Liabilities held for trading are all those taken on with the intention of settling or transferring them in the near term.

Gains and losses on financial liabilities held for trading are recognised in the statements of profit/(loss) for the year.

Financial liabilities are designated upon initial recognition as at fair value through profit or loss only if the conditions in IFSR 9 are met.



### *Loans and receivables*

This is the most important category for the Group. After initial recognition, loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss only when the liability is extinguished, as well as through amortisation.

The amortised cost is calculated accounting for acquisition discounts or premiums, fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised in financial charges in the statement of profit/(loss). This category generally includes interest-bearing loans and receivables.

### *Cancellation*

A financial liability is cancelled when the obligation underlying the liability is extinguished, annulled or fulfilled. If an existing financial liability is replaced by another one from the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a cancellation of the original liability, accompanied by the recognition of a new liability, with any differences in carrying amounts recognised in the statements of profit/(loss) for the year.

### ***Derivative financial instruments and hedge accounting***

The Group uses interest rate swaps to hedge against interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is signed and, subsequently, are re-measured at fair value. Derivatives are recorded as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, the aforementioned hedges are referred to as “cash flow hedges”.

When a hedging transaction is initiated, the Group formally designates and documents the hedge relationship to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and how the Group will assess whether the hedge relationship meets the hedging efficacy requirements (including analysis of sources of hedge ineffectiveness and how the hedge relationship is determined). The hedge relationship meets the eligibility criteria for hedge accounting if it meets all of the following hedging efficacy requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk effect does not prevail over the changes in value resulting from the aforementioned economic relationship;
- The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and how the Group will assess whether the hedge relationship meets the hedging efficacy requirements (including analysis of sources of hedge ineffectiveness and how the hedge relationship is determined).

The transactions carried out by the Group, since they meet all the criteria for hedge accounting, have been accounted for as follows:

The portion of gain or loss on the hedged instrument relating to the effective portion of the hedge is recognised in other comprehensive income in the cash flow hedge reserve, net of tax, while the ineffective portion is recognised directly in statements of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

### **Investments in associates**

An associate is a company over which the Group exercises significant influence. Significant influence refers to the power to participate in determining the financial and operating policies of the associate without having control or joint control of the same.

The considerations made to determine significant influence are similar to those required to determine control over subsidiaries.

The Group's shareholding in associates is valued using the equity method.

Under the equity method, an investment in an associate is initially recognised at cost. The carrying amount of the investment is increased or decreased to reflect the investor's share of the profits and losses of the investee after the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not subject to a separate impairment test.

The statement of profit/(loss) for the year reflects the Group's share of the associate's profit for the year. Any change in the other components of the comprehensive income statement relating to these investees is presented as part of the Group's comprehensive income statement. Furthermore, if an associate recognises a change that is directly attributable to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised gains and losses arising from transactions between the Group and associates are eliminated in proportion to the shareholding in the associates.

The Group's aggregate share of the result for the year of associates is recognised in the statement of profit/(loss) for the year after the operating result and represents the result after taxes and the shares due to the other shareholders of the associate.

The financial statements of associates are prepared on the same date as the Group's financial statements. Where necessary, the financial statements are adjusted to bring them into line with Group accounting standards.

Following the application of the equity method, the Group shall assess whether it is necessary to recognise a loss in value of its equity investment in associates. At each reporting date, the Group assesses whether there is objective evidence that the investment in associates has suffered a loss in value. In this case, the Group calculates the amount of the loss as the difference between the recoverable value of the associate and the carrying amount of the same in its financial statements, recording this difference in the statement of profit/(loss) for the year under the item "share of profit/loss of associates".

Upon the loss of significant influence over an associate, the Group values and recognises the residual investment at fair value. The difference between the carrying value of the investment at the date of the loss of significant influence and the fair value of the residual investment and the consideration received is recognised in the income statement.

## **Contractual assets**

Contractual assets are measured at the lower of acquisition or production cost and market value. This refers mainly to consumables measured at acquisition cost, determined by the last cost incurred, which is an excellent approximation of FIFO.

Contract work in progress, consisting of services not yet completed at the end of the financial year relating to indivisible contracts that will be completed during the next twelve months, are measured on the basis of the considerations agreed in relation to the stage of completion determined using the cost-to-cost method and recognised as revenues if they meet the requirements for recognition as indicated in the "revenues from contracts with customers" section. Advance payments received from customers are deducted from inventories, to the extent that they do not exceed the consideration accrued; the remaining part is recognised as a liability.

## **Cash and cash equivalents and short-term deposits**

Cash and cash equivalents and short-term deposits comprise cash on hand and demand and short-term deposits with maturity of up to three months.

## **Treasury shares**

Treasury shares purchased are measured at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of an entity's treasury shares. Any



difference between the consideration paid and received, when treasury shares are reissued, is recognised in the share premium reserve. Voting and dividend rights attached to treasury shares are suspended. If stock options are exercised, they are serviced with treasury shares.

## **Employee benefits expense**

### ***Post-employment benefits***

The liability relating to employee benefits paid upon or after the end of employment and relating to defined benefit plans, net of any plan assets, is determined based on actuarial assumptions made to estimate the amount of benefit that employees have earned to date. The liability is recognised on an accrual basis over the vesting period.

Employee post-employment benefits earned up to 31 December 2006, pursuant to Article 2120 of the Italian Civil Code, are included in defined benefit plans. Indeed, subsequent to the reform of supplementary pension schemes, since 1 January 2007 post-employment benefits earned are mandatorily paid into a supplementary pension fund, or into the special Treasury Fund set up at the National Social Security Institute (INPS) if the employee exercised the specific option. Therefore, the Group's defined benefit obligation to employees exclusively regards the provisions made up to 31 December 2006.

The accounting treatment adopted by TXT since 1 January 2007 reflects the prevailing interpretation of the new law and is consistent with the accounting approach defined by the relevant professional bodies. In particular:

- Post-employment benefits earned since 1 January 2007 are considered elements of a Defined Contribution Plan even if the employee exercised the option to allocate them to the Treasury Fund at INPS. These benefits, determined based on statutory provisions and not subject to any actuarial valuation, therefore represent negative income components recognised as labour costs.
- Post-employment benefits earned as at 31 December 2006 continue instead to represent the liability for the company's obligation under a Defined Benefit Plan. This liability will not be increased further in the future with additional provisions; therefore, unlike in the past, the component relating to future increases in salaries was excluded from the actuarial calculation made to determine the balance as at 31 December 2012.

External actuaries determine the present value of TXT's obligations using the Projected Unit Credit Method. With this method, the liability is projected into the future to determine the probable amount payable upon the end of employment and is then discounted to account for the time that will pass before the actual payment. The calculation takes into account the post-employment benefits earned for service in prior periods and is based on actuarial assumptions mainly regarding the interest rate, which reflects the market yields on high quality corporate bonds with a term consistent with the estimated term of the obligation and employee turnover.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of TXT's obligations at the end of the period, due to the change in the previously used actuarial parameters (described above), are recognised outside profit or loss (in comprehensive income) and directly in equity.

### ***Stock option plans***

TXT e-solutions S.p.A. may recognise additional benefits to particular categories of employees who work in the Company and its subsidiaries, deemed to be "key management personnel" in terms of authority and/or responsibility through stock option plans. Pursuant to IFRS 2 – Share-Based Payment – the overall amount of the present value of the stock options at grant date is recognised systematically on a monthly basis in profit or loss as a cost during the vesting period, with a specific reserve recognised in equity. This implicit cost is determined using specific income-equity models.

The fair value of the stock options is represented by the value of the option estimated by applying the "Black-Scholes" model which takes account of the exercise price of the option, the current price of the shares, the expected volatility, and the risk-free interest rate.

## **Guarantees issued, obligations**

As at 31 December 2019, the Group had issued guarantees on debts and obligations of third parties and associates in the form of bank guarantees for rental security deposits, and the remainder in the form of bank guarantees for bids in tenders.

The Company has contractual obligations with reference to lease contracts for the offices in Milan (expiring in June 2024), Turin (expiring in October 2022) and Berlin (expiring in November 2025) and for the vehicle fleet for staff use with contracts stipulated for an average duration of 48 months.

## **Contingent liabilities**

The Group's companies may be involved in legal proceedings regarding various issues. Owing to the uncertainties inherent to said issues, it is normally hard to make a reliable estimate of the outflow of resources that could arise from said disputes. In the ordinary course of business, the management consults with legal advisors as well as legal and fiscal experts. TXT recognises a liability for said disputes when it deems it probable that an outflow of financial resources will be required and when the amount of the losses resulting from it can be reliably estimated. If an outflow of financial resources is possible, this fact is reported in the notes to the financial statements.

## **Dividends distributed**

Dividends payable are recognised as movements in equity in the period in which they are approved by the Shareholders' Meeting.

## **Intragroup and transactions with related parties**

The following are considered related parties of the Group:

Entities that, directly or indirectly, even through subsidiaries, trustees or third parties:

- control TXT e-solutions S.p.A.
  - are subject to joint control with TXT e-solutions S.p.A.
  - have an interest in TXT e-solutions S.p.A. such as to exercise a significant influence.
- a) Associates of TXT e-solutions S.p.A.
  - b) The joint ventures in which TXT e-solutions S.p.A. holds an interest.
  - c) Managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies.
  - d) Close family members of the parties as per the above points a) and d).
  - e) Entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights.
  - f) An occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity.

As for transactions with related parties, it should be noted that they cannot be classified as atypical or unusual, as they fall within the course of ordinary activities of the Group's companies. Said transactions are conducted at arm's length, considering the characteristics of the goods and services provided.

Detailed information is provided in section 7 .

## **REVENUES AND COSTS**

### **Revenues from contracts with customers**

Revenues from contracts with customers are recognised when control of goods and services is transferred to the customer for an amount that reflects the fee that the Group expects to receive in exchange for those goods or services. The Group has generally concluded that it acts as the principal

for agreements that generate revenue as it controls the goods and services before they are transferred to the customer.

The Group considers whether there are other commitments in the contract that represent obligations to be carried out, for which a portion of the transaction fee is to be allocated (e.g. guarantees, customer loyalty schemes). In determining the price of the equipment sale transaction, the Group shall consider the effects of variable fees, significant financing components, non-monetary fees and fees payable to the customer (if any).

If the fee promised in the contract includes a variable element, the Group estimates the fee amount to which it will be entitled, in exchange for the transfer of the goods to the customer.

The variable fee is estimated when the contract is entered into and cannot be recognised until it is highly probable that when the uncertainty associated with the variable fee is subsequently resolved, there will be no significant downward adjustment to the amount of cumulative revenue that has been accounted for.

### Application of IFRS 15

IFRS 15 was issued in May 2014, amended in April 2016, and approved in September 2016.

The standard introduces a new 5-step model applied to revenues deriving from contracts with customers:

1. Identification of the contract
2. Identification of performance obligations
3. Determining the price of the transaction
4. Distribution of the price of the transaction across the performance obligations
5. Recognition of revenues for each performance obligation

### **(a) Revenues from software licences**

With reference to the recognition of revenues deriving from the granting of software licences (regardless of whether they are for an indefinite or fixed period), IFRS 15 establishes that in general the recognition may occur at “a certain moment” when there are no residual commitments or obligations or expectations on the customer’s part that the entity will make changes or carry out subsequent interventions or “over time” if the entity continues to be involved and carries out significant subsequent activities that could affect the intellectual property on which the customer is claiming rights.

#### **(i) Revenues from licence and maintenance contracts**

The Group has analysed whether maintenance services, which include an obligation to provide the customer with the right to updates and evolutions of the licence in addition to support activities, could be classified as a performance obligation distinct and separable from the granting of the right to the licences (granted for an indefinite period). This analysis was conducted both in the abstract and in the context of the contract and was corroborated by evaluating the commercial practices of the Group's business model. As, apart from marginal exceptions, licence rights and maintenance contracts are purchased together by the customer in the expectation of a certain degree of involvement, including subsequently, with reference to the licence itself and these subsequent maintenance activities cannot be carried out by entities other than the Group, since they are proprietary licences, the Group believes that the licence and the maintenance services have to be considered in application of IFRS 15 as a single contractual promise for which the overall fee is recognised over the period covered by the maintenance contract. The new model had an initial impact linked to the partial deferral of revenues from licences for which, on the date of transition, there were existing maintenance contracts. For the sake of full disclosure, in order to provide useful indications for the purpose of assessing the significance of the phenomenon, quantitative data deriving from the first-time application of IFRS 15 is indicated below.

**(ii) Revenues from subscription contracts**

Subscription contracts grant the customer the right to exploit the Group's software licences (which can be installed on the customer's server or provided in a cloud) for a predetermined period with payment of a periodic fee. Software update and support activities carried out periodically can influence the intellectual property that is the subject of the licence and expose the customer to the results of these activities. For this line of revenue, previously already recognised "over time" along the contractual period, the transition to IFRS 15 has not had any impact.

**(b) Provision of services for projects**

The Group previously recognised revenues from the provision of services for technological solutions projects on the basis of the projects' progress status. In accordance with IFRS 15, in order for the revenue to be recognised "over time" one of the following criteria must be satisfied:

- the customer simultaneously receives and uses benefits deriving from the service as and when provided by the entity;
- the entity's service creates or improves the activity (for example work in progress) that the customer controls as and when the activity is created or improved or
- the entity's service does not create an activity that presents an alternative use for the entity and the entity has the enforceable right to payment for the completed service until the date considered.

The Group has assessed compliance with this provision as well as the consistency of the previous accounting model with the means of measuring project progress as permitted by IFRS 15. Projects are not usually multi-year and the payment conditions do not present significant financial components. Consequently there was no significant impact on profits and the composition of shareholders' equity with reference to the recognition of revenues from services for projects.

**(c) Other aspects**

**(i) Principal vs agent considerations**

The Group has not identified, in the commercial relationships currently in existence, situations in which the fee is definitively charged to distributors or retailers only once the product is provided to the end user. Otherwise, for the purposes of IFRS 15, definitive recognition of the fee only once the product is provided to the end user would have resulted in deferring recognition of the revenues until that moment.

**(ii) Incremental costs**

In accordance with IFRS 15 the entity must record, under assets, incremental costs for obtaining the contract with the customer, if it envisages recovering them. Incremental costs for obtaining the contract are costs that the entity incurs for obtaining the contract with the customer and that would not have been incurred if the contract had not been obtained (for example a sale commission). Costs for obtaining the contract that would have been incurred even if the contract had not been obtained must instead be recorded as expenditure at the moment at which they are incurred (unless they can be explicitly charged to the customer even if the contract is not obtained). For reasons of practical expedience, the entity can record incremental costs for obtaining the contract as expenditure at the moment at which they are incurred, if the amortisation period of the asset that the entity would otherwise have recorded does not exceed one year. In view of the above the TXT Group does not recognise commercial costs incurred under assets as they are considered mostly recurring in nature.

Sales of other assets

Revenues from the sale of licences or other capital goods are recognised when control of the goods passes to the customer. Generally, no unusual commercial deferment terms have been applied.

**Interest income**

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is measured using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected

life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is classified as financial income in the income statement.

## **COSTS**

Expenses are recognised in the financial statements when ownership of the assets to which they refer has been transferred or the services acquired have been provided, or when the relevant future benefits cannot be estimated.

Personnel costs include, consistently with their substantial nature, stock options granted to employees. For determination of these costs, refer to the paragraph "Employee benefits expense".

Interest income and expense are recognised on an accrual basis based on interest accrued on the net value of the relevant financial assets and liabilities using the effective interest method.

## **Government grants**

Government grants are recognised when there is reasonable assurance that they will be received and the entity will comply with the conditions attached to them. When grants are related to expenses, they are recognised as income; however, they are recognised on a systematic basis over the periods in which the entity recognises the expenses that the grants are intended to compensate. If a grant is related to an asset, the grant is recognised as income on a straight-line basis over the expected useful life of the relevant asset.

When the TXT e-solutions Group receives a non-monetary grant, the asset and the grant are recognised at their nominal amount in profit or loss on a straight-line basis over the expected useful life of the relevant asset. In case of loans or similar forms of assistance granted by government bodies or similar institutions at a below-market rate of interest, the benefit associated with the favourable interest rate is treated as an additional government grant.

## **INCOME TAXES**

### **Current taxes**

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and laws used to calculate the amount are those that have been enacted or substantively enacted by the end of the reporting period.

Current tax is recognised outside profit or loss if the tax relates to items that are recognised outside profit or loss, and is therefore recognised in equity or in other comprehensive income, consistently with the recognition of the item it relates to. Management periodically assesses the tax position taken in the tax return with respect to situations in which tax laws are subject to interpretation and makes provisions where appropriate.

### **Deferred tax**

Deferred tax is calculated using the liability method on the temporary differences arising at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that it arises from:

- the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the reversal of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures that may be controlled and is unlikely to occur in the foreseeable future.



A deferred tax asset is recognised for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences as well as the unused tax losses and unused tax credits can be utilised, unless:

- the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the deferred tax asset for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures is recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed annually at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised outside profit or loss if the tax relates to items that are recognised outside profit or loss, and is therefore recognised in equity or in other comprehensive income, consistently with the recognition of the item it relates to.

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax relates to the same taxable entity and the same taxation authority.

Tax benefits acquired in a business combination, but that do not satisfy the criteria for separate recognition as of the acquisition date, are subsequently recognised where required when there is new information about changes in facts and circumstances. The adjustment is either treated as a reduction of goodwill (to the extent that it does not exceed goodwill), if it is recognised within the measurement period, or in profit or loss, if recognised afterwards.

## **Indirect taxes**

Expenses, revenue and assets are recognised net of value added tax, with the following exceptions:

- the tax applied to the purchase of goods or services cannot be deducted, in which case it is recognised as part of the asset's acquisition cost or part of the expense recognised in profit or loss;
- trade receivables and payables include the tax.

The net amount of indirect sales taxes that can be recovered from or paid to the tax authorities is recognised as part of trade receivables or payables, depending on whether the balance is positive or negative.

## **FAIR VALUE HIERARCHY**

For measurements of financial instruments recognised in the balance sheet, IFRS 13 requires that fair value measurements be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are as follows:

- Level 1: quoted prices in an active market for assets or liabilities subject to measurement;
- Level 2: inputs other than quoted prices included within level 1 that are observable in the market, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data.

No transfers between hierarchical levels occurred during the financial year 2019.

Comparison between fair value and carrying amount of the TXT Group's financial instruments is provided in the table below, subdivided by hierarchy level:

Amounts in €	Notes	31/12/2019	Level 1	Level 2	Level 3
<b>Financial assets for which the fair value is identified</b>					
- other non-current financial assets		-	-	-	-
- HFT securities at fair value	8.11	87,320,066	12,352,129	-	74,967,937
- other short-term financial receivables	8.10	-	-	-	-
<b>Total financial assets</b>		<b>87,320,066</b>	<b>12,352,129</b>	<b>-</b>	<b>74,967,937</b>
<b>Financial liabilities for which the fair value is identified</b>					
- other non-current financial liabilities	8.14	32,029,003	-	28,042,474	3,986,529
- other current financial liabilities	8.17	25,305,617	-	18,658,013	6,647,604
<b>Total financial liabilities</b>		<b>57,334,620</b>	<b>-</b>	<b>46,700,487</b>	<b>10,634,133</b>

Non-current financial liabilities (note 8.14) include the debt for:

- the TXT RISK SOLUTIONS acquisition as an estimate of the additional outlay for exercising the PUT/CALL option in the period 2020-2021 to purchase the remaining 49% of the company's shares.
- Assioma Net Srl Group Earn-Out
- a payable for medium/long-term bank loans
- a payable to the lessor for leases and rentals pursuant to IFRS 16.
- Non-current monetary flow swaps

While for current financial liabilities (note 8.17) the following are included:

- the portion of short-term payable for bank loans;
- the short-term portion of the payable to the lessor for leases and rentals pursuant to IFRS 16;
- the PACE acquisition as an estimate of the additional outlay for exercising the PUT/CALL option in the period 2020-2021 to purchase the remaining 21% of the company's shares;
- the acquisition of Cheleo, as an estimate of the additional outlays for additional Earn-Out to be paid to former shareholders as a result of the achievement of the established objectives.

The directors have furthermore checked that the fair value of cash and cash equivalents and short-term deposits, trade receivables and payables and other current assets and liabilities is close to the book value as a result of the short-term maturity of these instruments.

## Use of estimate and discretionary assessments

The preparation of the consolidated financial statements and the relevant notes in conformity with IFRSs requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures relating to contingent assets and liabilities at the reporting date. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and any changes are immediately recognised in profit or loss. Here below are the assumptions made about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.



## Revenues from contracts with customers

The Group has carried out the following assessments, which have a significant impact on the determination of the amount and timing of revenue recognition from contracts with customers:

### *Identification of the performance obligation in a joint sale*

The Group provides maintenance and assistance services to customers who have been sold, either separately or together, licenses for use, as well as professional services.

The Group has determined that for the product types offered for which it is reasonable to expect that the customer requires a level of continuous involvement from the Group over a period of time, and which require a certain period of implementation by the customer, the maintenance and assistance service contract cannot be considered separately from the license contract, even if the latter exclusively envisages an up-front fee. The fact that the Group does not regularly grant the right to use its licences separately from the signing of a first maintenance contract, together with the consideration that maintenance services cannot reasonably be provided by other suppliers, are indicators that the customer does not tend to separately benefit from both products independently.

The Group, on the other hand, has established that professional services must be distinguished within the context of the contract and that a price must be independently allocable to them.

### *Determination of the method for estimating the value of the recognisable variable fee*

In estimating any variable fee, the Group must use the expected value method or the most likely quantity method to estimate which method best determines the value of the fee to which it is entitled.

Before including any value of the variable fee in the transaction price, the Group shall assess whether a portion of the variable fee is subject to recognisability limits. The Group has determined that, on the basis of its past experience, economic forecasts and current economic conditions, the variable fee is not subject to uncertainties that could limit its recognisability. Furthermore, the uncertainty to which the variable fee is exposed will be subsequently resolved within a short period of time. *Considerations on the significant financing component in a contract*

The Group does not usually sell with formal or expected extension of payment terms exceeding one year, for which it believes that there are no significant financing components in the commercial transactions.

### *Determination of the time frame for project service satisfaction*

The Group has determined that the input method is the best method for determining the progress of services provided for projects (for example, the development of technological solutions, consultancy, integration services, training) since there is a direct relationship between the Group's activities (for example, the hours worked and costs incurred) and the transfer of the service to the customer. The Group recognises revenues on a cost-to-cost basis (including the total costs expected to be incurred to complete the service). Depending on the contractual clauses, orders can be managed on a Time & Material or Fixed Price basis. With the former type, revenues are recognised on the basis of the hours actually spent on the project, calculated and accepted by the customer. The agreement with the customer is essentially based on a number of hours to be invested in the project, which can be revised, including upwards, depending on the actual use of resources. Revenues for Fixed Price orders, for which a price is fixed in advance with no subsequent adjustments, are instead determined by applying the completion percentage to the amount of the fee for the project. The calculation of the completion percentage, determined using the Cost to Cost method, i.e. the ratio between the costs incurred and the total expected costs, takes into account the hours spent by personnel involved in the project on the reference date and any other direct costs.

## Impairment of non-financial assets

An impairment loss occurs when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is measured based on data available from binding sale agreements between knowledgeable, willing parties for similar assets or observable market prices, less the costs

of disposal. Value in use is calculated using a discounted cash flow model. Cash flow projections are based on the plan for the next five years and include neither restructurings for which the Group does not have a present obligation, nor significant future investments that will increase the return on the assets of the cash-generating unit subject to measurement. The recoverable amount significantly depends on the discount rate used in the discounted cash flow model, as well as on the expected future cash inflows and the growth rate used to extrapolate.

## **Taxes**

Deferred tax assets are recognised for all unused tax losses, to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. Management is required to make significant estimates to determine the amount of tax assets that can be recognised based on the level of future taxable profits, when they will arise, and tax planning strategies.

## **Pension funds**

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation requires assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates, and future benefit increases. Because of the long-term nature of these plans, the estimates are subject to a significant degree of uncertainty. All assumptions are reviewed annually.

In determining the appropriate discount rate, the directors use the interest rate of corporate bonds with average terms corresponding to the estimated term of the defined-benefit obligation. The bonds are subject to further qualitative analysis and those that present a credit spread deemed excessive are removed from the population of bonds on which the discount rate is based, as they do not represent high-quality bonds.

The mortality rate is based on mortality tables available for each country. Future salary and benefit increases are based on the expected inflation rates for each country.

## **Fair value measurement of contingent considerations for business combinations**

Contingent considerations associated with business combinations are measured at the acquisition-date fair value within the scope of the business combination. Whenever the contingent consideration is a financial liability, its value is subsequently re-measured as at each reporting date.

Fair value is measured using discounted cash flows. Key assumptions take account of the probability of achieving each performance objective and the discount rate.

# **4.1 New accounting standards, interpretations and amendments adopted by the Group**

The accounting standards adopted in preparing the consolidated financial statements as at 31 December 2019 are consistent with those used in preparing the Group financial statements as at 31 December 2018, except for the adoption of the new standards, amendments and interpretations effective since 01 January 2019.

In particular, it should be noted that for the latter, the Company has opted for early adoption of IFRS 16 “Leases” in accordance with the provisions of section C1 of the standard.

Detailed descriptions of these new standards, interpretations and amendments are provided below.

**IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments** The interpretation defines the accounting treatment for income tax when the tax treatment entails uncertainties, which impact IAS 12 and does not apply to taxes or duties that do not fall within the scope of IAS 12, nor does it include specific requirements relating to interest or sanctions relating to uncertainty in tax treatments. The interpretation specifically regards the following points: - If an entity considers uncertain tax treatments separately - The assumptions of the entity on the examination of the tax treatments by the tax

authorities - How an entity calculates taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates - How an entity treats changes in facts and circumstances.

An entity must decide whether to consider each uncertain tax treatment separately or together with others (one or more) uncertain tax treatments. It should adopt an approach that provides the best predictions of the resolution of the uncertainty. The Group applies a significant judgement to identify uncertainties in income tax treatments. Given that the Group operates in a complex multinational context, it has assessed whether the interpretation may have had an impact on its consolidated interim financial statements. At the time of the adoption of the interpretation, the Group examined the existence of uncertain tax positions, with specific reference to transactions between group companies, associates and related parties and not independently of the relative transfer pricing policy. The Company and its subsidiaries submit tax returns in various jurisdictions, deducting certain costs relating to transfer prices; this approach could be challenged by the relevant tax authorities. Based on studies conducted on transfer pricing, and to the best of its knowledge, the Group has decided that there is no reason to retain it likely that its tax treatments (including those of its subsidiaries) do not comply with the tax regulations of the competent authorities. Therefore, the interpretation had no impact on the Group's consolidated financial statements.

#### **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income (FVOCI), on condition that the contractual cash flows are "solely payments of principal and interest on the reference amount" (the SPPI criterion) and that the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event of the circumstance that caused the early termination of the contract and regardless of which is the party paying or receiving a reasonable compensation for the early termination of the contract. These amendments had no impact on the Group's consolidated financial statements.

#### **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 endorse the accounting rules in cases in which, during the reference period, an amendment, curtailment or settlement of the plan occurs. The amendments specify that when an amendment, curtailment or settlement of the plan take place during the year, the entity is obliged to determine the cost of the service for the rest of the period following the amendment, curtailment or settlement, adopting the reference actuarial assumptions to remeasure the net liabilities (assets) for defined benefits so that they reflect the benefits offered by the plan and the assets of the plan after said event. The entity is also obliged to determine the net interest for the remaining period after the amendment, curtailment or settlement of the plan: the net defined benefit liability (asset) reflecting the benefits provided by the plan and the plan assets after that event; and the discounting rate used to remeasure the net liability (asset) for defined benefits. These amendments had no impact on the consolidated financial statements insofar as the Group, in the reference period, did not record any amendment, curtailment or settlement of the plans.

#### **Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments specify that an entity applies IFRS 9 to long-term interests in associates and joint ventures, for which the equity method is not applied, but that are substantially part of the net investment in the associate or joint venture (long-term interests). This clarification is important because it implies that the model of expected losses on receivables of IFRS 9, applies to these long-term investments. The amendments also clarify that, when applying IFRS 9, an entity must not consider any losses of the associated company or joint venture or any impairment of the interest, recognised as adjustments of the net interest in the associate or joint venture that result from the application of IAS 28 Investments in Associates and Joint Ventures. These amendments did not have a significant impact on the consolidated financial statements, insofar as the Group does not have significant interests in associates or joint ventures that are not measured with the equity method.

## Annual improvements 2015-2017 Cycle

### - 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, which is carried out in different stages, including the remeasurement of the fair value of the interest previously held in the assets and liabilities of the joint operation. In doing this, the acquirer reassesses the interest previously held in the joint operation. The entity applies these amendments to business combinations whose date of acquisition coincides with or is later than the first financial year starting from 1 January 2019, with early application permitted. This amendment had no impact on the Group's consolidated financial statements insofar as no business combination took place in which joint control was obtained.

### - IFRS 11 Joint Arrangements

An entity that participates in a joint operation, without having joint control, could obtain joint control of the joint operation if the activity of the same constitutes a business as defined in IFRS 3. The amendments clarify that the interests previously held in said joint operation are not remeasured. The entity applies these amendments to operations in which it has joint control from the start of the financial year starting from 1 January 2019 or later, with early application permitted. This amendment had no impact on the Group's consolidated financial statements insofar as no business combination took place in which joint control was obtained.

### - IAS 12 Income Taxes

The amendments clarify that the tax consequences of dividends are related to past transactions or to events that generated distributable profits rather than to distributions to shareholders. Therefore, an entity recognises the income tax consequences of dividends in the profit/loss statement for the year, under other comprehensive income components or in shareholders' equity consistent with the way in which the entity previously recognised said past transactions or events. The entity applies said amendments to financial years beginning on or after 1 January 2019, and early application is permitted. When an entity applies these amendments for the first time, it applies them to the tax consequences of dividends recognised from the start of the first financial year. As the Group's current practice is in line with these amendments, the Group did not recognise any impact resulting from said amendments on its consolidated financial statements.

### - IAS 23 Borrowing Costs

The amendments clarify that any borrowing made, which right from the start was intended to improve an asset, must be treated by the entity as non-specific if all of the measures needed to prepare said asset for use or sale have been completed. The entity applies said amendments to financial charges incurred from the beginning of the year in which the entity applies these amendments for the first time. The entity applies said amendments to financial years beginning on or after 1 January 2019, and early application is permitted. The Group has no such cases.

## 5 Financial risk management

The Group is exposed to financial risks deriving from exchange rate and interest rate fluctuations, and from its customers' capacity to meet their obligations to the Group (credit risk).

### Currency risk

The Group's exposure to currency risk derives from the different geographical distribution of the Group's production operations and commercial activities. This exposure is mainly the result of sales in currencies other than the functional currency (in 2019, 12.16% of the Group's revenues were earned outside Italy).

Given the exposure in currencies other than the relatively low functional currency, in 2019 the Group did not enter into forward sale contracts to mitigate the impact of exchange rate volatility on the income statement.

The Group also holds controlling interests in entities that prepare their financial statements in currencies other than the Euro – the Group’s functional currency. This exposes the Group to a translation risk generated as a consequence of the conversion of those subsidiaries' assets and liabilities into Euro. Management periodically monitors the main exposures to translation risk; at present, the Group has chosen to not adopt specific hedging policies against such exposures.

The currencies other than the Euro are: the British Pound Sterling (0.3% of consolidated revenues as at 31 December 2019), the US Dollar (10.2% of consolidated revenues as at 31 December 2019), the Swiss Franc (1.6% of consolidated revenues as at 31 December 2019).

Indicated below are the effects on profit/loss for the year of a hypothetical appreciation/depreciation of currencies versus the Euro, other conditions being equal. The effects refer to companies outside the Euro area.

<b>US Dollar</b>	<b>Increase/Decrease</b>	<b>Effect on profit (loss)</b>
<b>2019</b>	+5%	(20,753)
	-5%	22,938
<b>British Pound Sterling</b>	<b>Increase/Decrease</b>	<b>Effect on profit (loss)</b>
<b>2019</b>	+5%	(902)
	-5%	997
<b>Swiss Franc (CHF)</b>	<b>Increase/Decrease</b>	<b>Effect on profit (loss)</b>
<b>2019</b>	+5%	(10,072)
	-5%	11,133

### Interest rate risk

The Group's active financial exposure is subject to floating interest rates, and therefore the Group is exposed to the risk deriving from their fluctuation.

At the closing date of the financial year, the company had Interest Rate Swap derivative contracts in place to hedge the interest rate risk on financial payables. For further details, reference should be made to the IFRS9 Financial instruments section of these explanatory notes.

The table below shows the impact on the consolidated income statements, deriving from a 1% increase or decrease of the interest rates to which the Group is exposed with all other conditions being equal:

<b>(Amounts in € thousands)</b>	<b>31/12/2019</b>	<b>Interest rate change</b>	<b>Financial income/charges</b>
Net Financial Position (NFP)	41,411,529		
Fixed rate payables	57,334,620		
Financial exposure (floating rate)	(15,923,091)	+1%	(159,231)
		-1%	159,231

### Credit risk

Credit risk represents the Group's exposure to potential losses arising from the non-fulfilment of obligations by counterparties.

To limit this risk, the Group mainly deals with well-known and reliable customers; sales managers assess the solvency of new customers and management continuously monitors the balance of relevant receivables so as to minimise the risk of potential losses.

The table below shows the concentration of the TXT e-solutions Group's trade receivables:

<b>Amount in €</b>	<b>Concentration %</b>
--------------------	------------------------



Total receivables due from customers	19,370,598	-
Receivables due from customers (Top 5)	10,221,008	52.77%
Receivables due from customers (Top 10)	12,141,345	62.68%

In general, trade receivables are mainly concentrated in Italy and in the European Union.

Receivables from an important Italian customer operating in the Aerospace business account for 29% of the Group's total trade receivables. The first five and ten customers respectively account for 52.77% and 62.68% of the total trade receivables collectible.

### Liquidity and investment risk

On the basis of cash and cash equivalents of € 11,426,083, and a positive Net Financial Position of € 41,411,529 (see note 11), the TXT e-solutions Group does not deem to be exposed to significant liquidity risks at present.

The net financial position (NFP) of the Group was positive at € 41,411,529.

The Group's financial instruments are exposed to market risk deriving from uncertainties around the market values of assets and liabilities produced by changes in interest rates, exchange rates and asset prices. The Group manages price risk through diversification and by setting individual or total limits on securities. Portfolio reports are regularly submitted to the Group's management. The Group's Board of Directors reviews and approves all investment decisions.

At the reporting date, the fair value of financial instruments was € 87 million. It should be noted that these instruments may be divested at any time, even before maturity, without incurring any charges.

### Other risks

The Group operates in the United Kingdom exclusively through its subsidiary TXT Next Ltd. Revenues from the United Kingdom's only end customers amount to € 933 thousand. The Group analysed the effects of Brexit and classified them as not being particularly significant.

The ECL as at 31 December 2019 was estimated on the basis of a number of economic conditions forecast at that date. Since the beginning of January 2020, the Coronavirus epidemic has spread throughout mainland China and beyond, disrupting economic and commercial activity. The impact on GDP and other key indicators will be taken into account when determining the severity and likelihood of downward economic scenarios that will be used to estimate the ECL under IFRS 9 in 2020.

## 6 Going concern

Pursuant to IAS 1 paragraph 25, the directors assessed that no material uncertainties regarding the Company's ability to continue as a going concern exist as at 31 December 2019, in view of the significant allocation of assets and cash and the positive current and prospective economic results.

## 7 Transactions with related parties

On 8 November 2010, the Board of Directors approved a new procedure governing transactions with related parties, pursuant to Article 2391-bis of the Italian Civil Code, the Consob Issuers' Regulation no. 17221 of 12 March 2010 as subsequently amended, and Article 9.C.1. of the Corporate Governance Code of Listed Companies as adopted by the Corporate Governance Committee of Borsa Italiana S.p.A.

This new procedure defines the rules governing the determination, approval and execution of transactions with related parties of TXT e-solutions S.p.A., either directly or through subsidiary companies. The purpose of this procedure is to ensure the formal and material transparency of said transactions. The procedure is available on the Company's website at [www.txtgroup.com](http://www.txtgroup.com) under the "Governance" section.

Transactions with related parties essentially refer to the exchange of services, as well as funding and lending activities with the Parent Company's subsidiaries.

For the Group, related parties are:

- a) Entities that, directly or indirectly, even through subsidiaries, trustees or third parties:
  - Control TXT e-solutions S.p.A.
  - Are subject to joint control with TXT e-solutions S.p.A.
  - Have an interest in TXT e-solutions S.p.A. such as to exercise a significant influence.
- b) Associates of TXT e-solutions S.p.A.
- c) Joint ventures in which TXT e-solutions S.p.A. participates.
- d) Managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies.
- e) Close members of the family of parties referred to in the above points a) and d).
- f) Entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights.
- g) An occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity. The following tables show the overall amounts of the transactions carried out with related parties.

### Trade transactions

Trade transactions with related parties of the Group exclusively refer to amounts paid to the directors and to key management personnel.

As at 31 December 2019	Receivables	Payables	Costs	Revenues
HSPI	-	39,040	52,000	-
AN-LIGHT Srl	-	-	1,500	-
Paradis Srl	-	1,830	4,816	-
Directors and key management personnel	-	1,331,011	1,004,551	-
<b>Total as at 31/12/2019</b>	-	<b>1,371,881</b>	<b>1,062,867</b>	-

As at 31 December 2018	Receivables	Payables	Costs	Revenues
Sense immaterial Reality Srl	89.426	-	-	77.345
Directors and key management personnel	-	1,421,276	1,153,142	-
<b>Total as at 31/12/2018</b>	<b>89.426</b>	<b>1,421,276</b>	<b>1,153,142</b>	<b>77.345</b>

### Financial transactions

The amounts with Related Parties as at 31 December 2019 are shown for financial transactions:

As at 31 December 2019	Receivables	Payables	Charges	Income
Sense immaterial Reality Srl	-	-	-	38,804
Directors and key management personnel	-	-	-	-
<b>Total as at 31 December 2019</b>	-	-	-	<b>38,804</b>



As at 31 December 2018	Receivables	Payables	Charges	Income
Sense immaterial Reality Srl	-	-	38.804	-
Directors and key management personnel	-	4,900,000	-	-
<b>Total as at 31 December 2018</b>	<b>-</b>	<b>4,900,000</b>	<b>38.804</b>	<b>-</b>

	Totale	Entità Correlate	Incidenza
TFR e altri fondi relativi al personale	3,110,062	1,207,217	38.8%
Debiti Commerciali	2,122,206	40,870	1.9%
Debiti vari e altre passività correnti	12,687,975	123,794	1.0%
Acquisti di materiali e servizi esterni	12,598,386	58,316	0.5%
Costi del personale	39,611,915	1,004,551	2.5%

	Totale	Entità Correlate	Incidenza
Disponibilità liquide nette derivanti dall'attività operativa	(1,304,616)	(1,201,689)	92.1%
Disponibilità liquide nette impiegate nell'attività di investimento	22,131,149	48,000	0.2%
Disponibilità liquide nette impiegate nell'attività di finanziamento	(15,006,974)	(4,900,000)	32.7%

## EXPLANATORY NOTES

### 8 Balance sheet

#### 8.1 Goodwill

Goodwill increased by € 6,855,129 compared to 31 December 2018. After the assignment of the TXT Retail Division, but above all following the two acquisitions in 2018, the Group consists of two Divisions, "Aerospace, Aviation & Automotive" and "Fintech". The Aerospace Cash Generating Unit (CGU) includes Pace as well as the operating segment of the parent company, while the Fintech CGU includes Cheleo, TXT Risk Solutions Srl, Assioma Group as well as the operating segment of the parent company.

A breakdown of the item as at 31 December 2019 and the comparison with 31 December 2018 is shown below:

Goodwill	Amount as at 31 December 2019	Amount as at 31 December 2018
Acquisition of PACE	5,369,231	5,369,231
Acquisition of Cheleo	6,002,072	6,002,072
Acquisition of TXT RISK SOLUTIONS	1,413,241	1,413,241
Acquisition of Assioma	6,855,129	-
<b>TOTAL GOODWILL</b>	<b>19,639,673</b>	<b>12,784,544</b>

Goodwill derives from the acquisition of Pace, which took place in 2016, and the two acquisitions in 2018 of Cheleo Srl and TXT Risk Solutions Srl, and from the acquisition of the Assioma group in 2019, and was determined, in its various components, as follows.

- The goodwill of Pace of € 5,369 thousand, derives from the acquisition price of € 9,097 thousand, net of the fair value of shareholders' equity on the acquisition date of € 1,352 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 1,112 thousand, "Intellectual property of software" of € 1,350 thousand and deferred tax assets and liabilities of € 86 thousand. The purchase price was determined by including the fixed price agreed in the contract and earn-outs linked to changes in variables such as revenues and EBITDA and by applying the corresponding multiples, and the other variable figures linked to PACE's greater available liquidity on the acquisition date. Furthermore, for the purpose of drafting the Consolidated Financial Statements, the directors decided to classify the signing of the put/call option contract with PACE's minority shareholders as the acquisition of a present ownership interest in the residual 21% of PACE capital and consequently to designate the liabilities

for exercising this option at fair value on the initial recognition date (obtained by means of maturity estimate based on forecast data and the updating of this estimate to take account of the time factor). These price components are to be considered definitively determined, except for variations in the valuation of financial liabilities for exercising the option on PACE minority shares (these variations in the year, linked only to the updating component, have impacted the income statement).

- Cheleo's goodwill of € 6,002 thousand, derives from the acquisition price of € 10,951 thousand, net of the fair value of shareholders' equity on the acquisition date of € 2,613 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 3,239 thousand and deferred tax of € 904 thousand.
- The goodwill of TXT Risk Solutions of € 1,413 thousand derives from the acquisition price of € 1,910, net of the fair value of shareholders' equity on the acquisition date, a negative of € 21 thousand, the valuation of "Intellectual property" intangible assets with a finite useful life of € 287 thousand and deferred tax assets and liabilities of € 80 thousand.
- Assioma's goodwill of € 6,855 thousand, derives from the acquisition price of € 10,882 thousand, net of the fair value of shareholders' equity on the acquisition date of € 3,439 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 822 thousand and deferred tax of € 229 thousand.

For further details on the business combinations for the year, reference should be made to the "Extraordinary transactions" section.

### **Impairment test**

Pursuant to IAS 36, goodwill is not subject to amortisation, but is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired. For the purposes of this test, goodwill is allocated to the cash-generating units or groups of cash-generating units, in compliance with the highest aggregation which shall not be larger than an operating segment as defined by IFRS 8.

The impairment test consists of measuring the recoverable value of each cash-generating unit and comparing the latter with the net carrying amount of the relevant assets, including goodwill. On 12 March 2020, the methodologies and projections on which the recoverable amounts were measured were approved by the Company's Board of Directors.

The Group confirmed the connection between the operating segments and the CGUs.

Assumptions made by management were used in making these forecasts, including an estimation of future sales volumes, direct and indirect costs, changes in the working capital and investments.

### **Terminal Value**

The terminal value in the DCF method, recognised at the end of the explicit forecast period of 5 years, is calculated assuming the investment produces a constant cash flow starting from that moment. The approach used consisted of the present value of a perpetuity growing at a constant rate  $g$ .

Terminal value = net cash flow at the end of the explicit forecast period adjusted for rate  $g$  and divided by the difference between the discount rate ( $Wacc$ ) and the constant rate  $g$ . The residual value is calculated as a perpetuity obtained by capitalising the last cash flow for the explicit period at a specific rate corresponding to  $Wacc$  adjusted for a growth or decline factor ( $g$ ).

The rate  $g$  used was equal to 1.50%.

### **Discount rate**

The discount rate used in discounting cash flows represents the estimated rate of return expected for each cash-generating unit on the market.

The discount rate used to discount cash flows, including those of the Assioma Group, is 8.24%, for the **Fintech** Cash Generating Unit based on the following assumptions:

- The TXT Fintech Division operates entirely in Italy. The "Free Risk" rate used was therefore the rate on 10-year BTPs as at 31 December 2019, equal to 1.43%
- The risk premium relative to the market was estimated at 5.50%.
- Beta was estimated at 1.00, in line with the previous year.

The cost of own capital is therefore:  $1.43\% + 5.50\% \times 1.00 = 6.93\%$ ;

The discount rate used to discount cash flows is 8.24%, for the **Aerospace, Aviation & Automotive** Cash Generating Unit (which includes Pace goodwill) based on the following assumptions:

- The risk-free interest rate of 1.03% includes 161 basis points of "systematic" risk compared to the German rate (-0.19%), considering the weighted mean profile of the geographical distribution of TXT's activities.
- The risk premium relative to the market was estimated at 5.50%.
- Beta was estimated at 1.00, in line with the previous year.

The cost of own capital is therefore:  $1.03\% + 5.50\% \times 1.00 = 6.53\%$ ;

The decision to consider own capital alone stems from the following considerations.

As at 31 December 2019, TXT had a positive net financial position of € 41,412 thousand, which unlike other years, consists of medium/long-term bank debts and liquidity investments, with the following breakdown as at 31 December 2019:

In consideration of the Net Financial Position, which remains largely positive and as a precaution, it was decided not to consider, for the purposes of determining the discount rate, medium/long-term loans as a source of financing for invested capital (which would have reduced the cost of capital, given that the loans have gross interest costs between 0.50% and 0.70%), but to consider the entire invested capital covered by equity and therefore calculate the cost of capital entirely consisting of the cost of own capital.

### Sensitivity analysis

In order to test the fair value measurement model for changes in variables, changes in four key variables were simulated:

1. An increase in the interest rate used to discount cash flows by 200 bps, other conditions being equal (CGU Fintech from 6.93% and 8.93% - CGU Aerospace from 6.53% and 8.53%).
2. A reduction in the growth rate in calculating the terminal value of 50 bps, other conditions being equal (from 1.50 to 1.00).
3. A reduction in the growth rate of revenues forecast in the business plan for each year of the 2020-2024 period of -75% for the Aerospace CGU and -50% for the Fintech CGU.
4. Reduction in the EBITDA Margin applied to the terminal value of 200 bps, other conditions being equal.

Using the variables indicated above, as those considered most sensitive in relation to the company plans, the recoverable value was recalculated in relation to the baseline scenario and the difference from the carrying value was determined. Below is a table summarising the differences in the various scenarios:

Amounts in € thousand	Recoverable value and carrying value (baseline) difference
CGU Aerospace	62,496
CGU Fintech	38,136

Recoverable value and carrying value (post sensitivity) difference			
Δ WACC	Δ g-rate	Δ Revenue CAGR	Δ EBITDA Margin TC
49,442	59,580	47,734	54,655
28,591	36,066	23,677	33,328

In all scenarios the difference between the recoverable value and the net book value remains very positive.

## 8.2 Intangible assets with a finite useful life

Net of amortisation, intangible assets with a finite useful life amounted to € 4,740,503 as at 31 December 2019. The changes that occurred during the year are detailed below:

Intangible assets	Software licences	Intellectual Property	Customer Relationship	TOTAL
<b>Balances as at 31 December 2018</b>	<b>147,639</b>	<b>1,097,078</b>	<b>3,721,347</b>	<b>4,966,064</b>
Acquisitions	94,747		822,000	916,747
Depreciation	(87,812)	(250,257)	(804,238)	(1,142,306)
<b>Balances as at 31 December 2019</b>	<b>154,573</b>	<b>846,821</b>	<b>3,739,109</b>	<b>4,740,503</b>

The breakdown of the item is as follows:

- **Software licences:** relate to software use licences acquired by the Company for the enhancement of software programs and for the development of advanced technologies for business purposes. Investments for the year of € 94,747 mainly refer to software licences acquired in 2019, also following the acquisition of the Assioma Group.
- **Intellectual Property and Customer Relationship:** these intangible assets were acquired as part of the company acquisition transactions.
  - The value of these assets relating to Pace was allocated in 2016 by the directors with the help of an independent expert. Intellectual Property represents the intellectual property rights over the software developed and owned by Pace; the Pace Group's Customer Relationship was also considered in the allocation of the higher price paid. As at 31 December 2019, the residual value of the intellectual property in question was € 626,788, net of 2019 amortisation of € 192,857. The residual value as at 31 December 2019 of the Customer Relationship is equal to € 516,288 net of 2019 amortisation equal to € 158,857.
  - The value of Cheleo's Customer Relationship was allocated last year with the help of an independent expert. Customer Relationship was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2019 is equal to € 2,583,488 net of 2019 amortisation equal to € 462,714.
  - The value of TXT Risk Solutions' Intellectual Property was allocated in the previous year. Intellectual property was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2019 is equal to € 220,033 net of 2019 amortisation equal to € 57,400.
  - The value of Assioma's Customer Relationship was allocated this year with the help of an independent expert. Customer Relationship was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2019 is equal to € 639,333 net of 2019 amortisation equal to € 182,668.

## 8.3 Tangible assets

Tangible assets as at 31 December 2019 amounted to € 7,928,901, net of depreciation, rising € 4,248,855 mainly due to the signature of new rental contracts for application of international accounting standard IFRS 16 and to the acquisition of the Assioma group.

The changes during the year and a summary schedule of the results of the application of the new standard are reported below:

Tangible fixed assets	Buildings (lease)	Vehicles (lease)	Electronic machinery (lease)	Buildings	Electronic machinery	Furniture and fixtures	Other tangible fixed assets	TOTAL
<b>Balances as at 31 December 2018</b>	<b>1,894,268</b>	<b>855,513</b>	<b>49,070</b>	-	<b>816,123</b>	<b>51,355</b>	<b>13,717</b>	<b>3,680,046</b>
IFRS 3 Business Combinations	1,141,974	12,624	3,817	616,450	142,645	48,942	51,439	2,017,891
Acquisitions	2,545,433	446,789	-	10,401	635,605	184,812	71,574	3,894,614
Disposals	-	(55,370)	-	-	(19,337)	(1,133)	-	(75,840)
Depreciation	(634,652)	(432,594)	(18,087)	(12,477)	(432,867)	(36,451)	(20,679)	(1,587,809)
<b>Balances as at 31 December 2019</b>	<b>4,947,022</b>	<b>826,961</b>	<b>34,799</b>	<b>614,373</b>	<b>1,142,168</b>	<b>247,524</b>	<b>116,050</b>	<b>7,928,901</b>

Investments in the “Electronic machinery” category mainly refer to the purchase of computer systems and hardware to bolster productive capacity. The increases in the “Buildings (lease)” category are mainly attributable to the right to use the buildings in which the registered office of the subsidiary company PACE GmbH is located, which is finalising renewal of the lease contract on the registered office for 6 years, renewable for a further 6.

The majority of the increases in the “Vehicles (lease)” category refer to TXT e-solutions S.p.A.’s vehicle fleet for a total Group amount net of depreciation of € 446,789.

## 8.4 Investments in associates

In 2017 TXT Sense was launched with the aim of developing proprietary technologies for a 3D representation and New Augmented Reality with applications designed for the industry, communication and service sectors.

On 11 October 2018, TXT participated in the establishment of the start-up Sense immaterial Reality Srl by subscribing shares representing 24% of the share capital for a total value of € 48 thousand.

On 27 November 2019, TXT sold its equity investment in the start-up Sense immaterial Reality Srl, representing 24% of its share capital, for a total value of € 48,000 to its shareholder Alvisè Braga IIIa.

Alvisè Braga IIIa, Chairperson of the Board of Directors and shareholder of TXT with an interest of 14.02% of the share capital, held a majority interest in the share capital of Sense immaterial Reality S.r.l., amounting to 76%. Therefore, Alvisè Braga IIIa qualifies as a related party in the transaction.

The value of the equity investment as at 31 December 2018 amounted to € 9,196 and had generated a write-down charge of € 38,804. In 2019, following the sale, income of € 38,804 was recorded.

## 8.5 Sundry receivables and other non-current assets

“Sundry receivables and other non-current assets” as at 31 December 2019 amounted to € 258,607 compared with € 73,780 as at 31 December 2018. The item included security deposits paid by the Group companies as part of their operations and relating to motor vehicle rentals and bids in public tenders.

The increase is mainly attributable to the payment of the deposit by the subsidiary company PACE GmbH for the lease of the new offices in Berlin (€ 160,317).

## 8.6 Deferred tax assets/liabilities

The breakdown of deferred tax assets and liabilities as at 31 December 2019, compared to the figures as at the end of 2018, is shown below:

	Balances as at 31 December 2019	Balances as at 31 December 2018	Change
Deferred tax assets	2,066,759	1,428,441	638,317
Deferred tax provision	(1,279,762)	(1,344,340)	64,579
<b>Total</b>	<b>786,996</b>	<b>84,101</b>	<b>702,897</b>

Deferred tax assets mainly refer to Revenue Recognition in accordance with IFRS15 for Boeing and America Airlines licenses.

The deferred tax provision mainly refers to the recognition of deferred taxes on assets acquired in 2016 with the acquisition of Pace GmbH (Customer List and Intellectual Property), in 2018 with the acquisition of Cheleo (Customer List), with the acquisition of TXT Risk Solutions (Intellectual Property) and in 2019 with the acquisition of the Assioma Group.

The total net change of € 702,897 is the result of different movements: a) provision for deferred tax assets on revenues deriving from the application of the new international accounting standard IFRS 15, b) provision for deferred tax assets on the Fair Value of interest rate hedging instruments, c) provision for prepaid taxes on previous tax losses of TXT RISK.

The temporary differences of deferred tax assets and liabilities are shown by type in the tables below and compared with the previous year's figures:

	31 December 2018		Change	31 December 2019	
	Temporary differences	Tax effect	Temporary differences	Temporary differences	Tax effect
Recoverable losses	3,874,033	1,061,768	(3,347,844)	526,189	126,285
Provisions	118,905	28,537	-	118,905	28,537
Provision for bad debts	293,918	70,540	61,362	355,280	85,267
Write-down on treasury shares	244,664	58,719	-	244,664	58,719
Fair Value MTM Interest Rate Swap	167,947	40,307	40,928	208,875	50,130
Costs allocated on an accrual basis and deductible on a cash basis	143,000	34,320	23,674	166,674	40,002
Revenue Recognition IFRS 15	479,215	133,701	5,082,674	5,561,862	1,668,559
Other	2,283	548	36,446	38,729	9,260
<b>Total</b>	<b>5,323,965</b>	<b>1,428,441</b>	<b>1,897,213</b>	<b>5,323,965</b>	<b>2,066,759</b>

	31 December 2018		Change	31 December 2019	
	Temporary differences	Tax effect	Temporary differences	Temporary differences	Tax effect
Customer Relationship + Intellectual Property (PPA PACE)	1,390,150	417,045	(327,093)	1,063,057	318,917
Customer Relationship (PPA CHELEO)	3,046,201	849,890	(462,717)	2,583,484	720,792
Intellectual Property (PPA TXT Risk Solutions)	277,434	77,404	(57,401)	220,032	61,389
Assioma (Customer Relationship)	0	0	639,337	639,337	178,375
Other	8	2	(1,024)	1,032	288
<b>Total</b>	<b>4,713,792</b>	<b>1,344,341</b>	<b>(206,850)</b>	<b>4,506,942</b>	<b>1,279,762</b>

Not all changes in equity were offset by the income statement. For further details, reference should be made to note 8.13 on shareholders' equity and taxes in the income statement, note 9.7. It should also be noted that as at 31 December 2019 the Group had no tax losses that could be carried forward for which there are no allocations for deferred tax assets.

## 8.7 Contractual assets

Contractual assets as at 31 December 2019 amounted to € 4,155,631 and recorded an increase of € 1,014,718 compared with the end of 2019.



Contract work in progress is recognised on the basis of the stage of completion, using the cost-to-cost method for each contract. This is mainly attributable to the Parent Company.

## 8.8 Trade receivables

Trade receivables as at 31 December 2019, net of the provision for bad debts, amounted to € 19,370,598, up € 5,341,943 compared with the end of 2018. The average DSO for 2019 was no greater than in the previous year.

The item is detailed in the table below:

Trade receivables	31 December 2019	31 December 2018	Change
Gross value	19,725,878	14,415,677	5,310,201
Provision for bad debts	(355,280)	(387,022)	31,742
<b>Net value</b>	<b>19,370,598</b>	<b>14,028,655</b>	<b>5,341,943</b>

The provision for bad debts changed as follows during the year:

Provision for bad debts	31 December 2019
Opening amount	(387,022)
Allocation	(46,453)
Use	78,195
<b>Closing amount</b>	<b>(355,280)</b>

The provision decreased due to the closure of customer balances that are no longer recoverable.

The breakdown of trade receivables into coming due and past due as at 31 December 2019, compared to 31 December 2018, is shown below:

Due date	Total	Coming due	Past due	
			0-90 days	More than 90 days
31 December 2019	<b>19,370,598</b>	14,696,990	3,951,705	721,903
31 December 2018	<b>14,028,655</b>	10,090,735	3,231,219	706,701

## 8.9 Sundry receivables and other current assets

The item "Sundry receivables and other current assets", which included receivables for research grants, tax and other receivables, as well as accrued income and prepaid expenses, amounted to € 4,779,327 as at 31 December 2019, compared to € 2,963,467 as at 31 December 2018. The breakdown is shown below:

Sundry receivables and other current assets	31 December 2019	31 December 2018	Change
Receivables for research grants	1,056,392	602,129	454,263
Tax receivables	1,576,414	1,143,650	432,758
Other receivables	820,333	265,821	551,521
Accrued income and prepaid expenses	1,326,188	951,868	374,320
<b>Total</b>	<b>4,779,327</b>	<b>2,963,467</b>	<b>1,815,860</b>

The item "receivables for research grants" includes receivables for research financed by various institutes relating to contributions to expenditure to support research and development activities,



subject to specific grant competitions; such grants will be disbursed upon completion of the development stages for the projects concerned. The balance is down from the previous year, as a result of the reduction in research activities carried out with grants.

Tax receivables, amounting to € 1,576,414, include the receivables due from taxation authorities for IRES credit deriving from the tax-deductibility of IRAP on personnel costs relating to the years 2007-2011 amounting to 405,147, withholding taxes paid on self-employment and employment income and tax credits for post-employment benefits.

Other receivables amount to € 820,333 and show an increase of € 551,521. The item includes the VAT credit for an amount of € 590,163.

Accrued income and prepaid expenses, amounting to € 1,326,188, consist of reversals of prepaid expenses that did not relate to the period. The increase with respect to the previous year is mainly due to the consolidation of the Assioma Group (€ 300,497).

## **8.10 Other short-term financial receivables**

Short-term financial receivables amounted to € 5,000,000 as at 31 December 2018 were fully liquidated as at 31 December 2019.

## **8.11 Financial instruments at fair value**

As at 31 December 2019, this item included Financial instruments at fair value of € 87,320,066 million.

They consist of investments in multi-segment life insurance contracts with partially guaranteed capital for a fair value of € 78,763,706, bond loan for € 510,000, treasury management for € 8,046,360. The fair value hierarchy for insurance instruments, hybrid or otherwise, was classified as level 3, whilst for the second category it was considered as qualifying at level 1.

The figure reported by the issuer was adopted as confirmation of the fair value, where possible (level 1 instruments) comparing this with the market values.

## **8.12 Cash and cash equivalents**

The Group's cash and cash equivalents amount to € 11,426,083 (€ 5,593,125 as at 31 December 2018). Reference should be made to the cash flow statement for details on the generation and movement of cash; the movements in the year with the main impact relate to the following:

- investment in financial instruments (notes 8.10 and 8.11 )
- payment of dividends (note 8.13 )
- operations in treasury shares (note 8.13 )
- obtaining loans (note 8.14 )

Cash and cash equivalents refer to ordinary current accounts held with Italian banks, amounting to € 9,216,995, as well as with foreign banks, totalling € 2,204,810.

Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability in Italy.

## **8.13 Shareholders' Equity**

The Company's share capital as at 31 December 2019 consisted of 13,006,250 ordinary shares with a par value of € 0.5, totalling € 6,503,125.

The reserves and retained earnings include the legal reserve (€ 1,300,625), the share premium reserve (€ 12,571,449), the merger surplus reserve (€ 1,911,444), the "reserves for actuarial differences on post-employment benefits" (negative € 934,985), the "Cash flow hedge reserve" (negative

by € 169,708 net of the related tax effect), the “translation reserve” (€ 27,902), the reserve for stock options (€ 23,793) and reserves for retained earnings (€ 60,303,632).

Description	Free	Required	Established by	TOTAL
		by Law	Shareholders' Meeting	
Share premium reserve	12,571,449	-	-	12,571,449
Legal reserve	-	1,300,625	-	1,300,625
Merger surplus	-	-	1,911,444	1,911,444
Reserve for actuarial differences on post-employment benefits	-	-	(934,985)	(934,985)
IRS Fair Value	(169,708)	-	-	(169,708)
Reserve for retained earnings	-	-	60,303,632	60,303,632
Stock option reserve	-	-	23,793	23,793
Translation reserve	-	-	27,902	27,902
<b>Total</b>	<b>12,401,741</b>	<b>1,300,625</b>	<b>61,331,786</b>	<b>75,034,152</b>

### Incentive plans

The Shareholders' Meeting held on 18 April 2019 approved a stock option plan for the Group's executive directors and senior managers, involving up to 600,000 shares subject to the achievement of specific performance objectives, such as performance of revenues, profit or specific individual performance objectives.

On 27 May 2019, the Board of Directors, upon favourable opinion by the Remuneration Committee, assigned 135.00 options for the purchase of an equal number of shares of the company to 8 individuals, comprising executive directors, managers with strategic responsibilities and other directors and managers of the Group, for the period 2019-2021, at the exercise price of € 8.67.

### Treasury shares

On 25 November 2019, the share price of TXT e-solutions reached a high of € 10.86 and a low of € 8.04 on 3 June 2019. On 30 December 2019, the share price was € 9.66, a value of € 1.48 higher than that recorded as at 31/12/2018 of € 8.18. Average daily trade volumes in 2019 amounted to 22,878 shares, a net decrease against the daily average of 56,800 shares in the previous year.

As at 31 December 2019, 1,220,971 treasury shares were held (1,359,717 in December 2018), accounting for 9.3876% of shares outstanding, at an average carrying amount of € 3.32 per share. In 2019, 115,100 treasury shares were purchased at an average price of € 9.02. In May 2019, in exchange for the acquisition of the shares of the company Link Software Engineering srl (Assioma Group), as partial consideration for the price agreed with its shareholders, 253,846 were sold at the agreed price of € 8.98.

## 8.14 Non-current financial liabilities

“Non-current financial liabilities” amounted to € 32,029,003 (€ 36,882,347 as at 31 December 2018).

Non-current financial liabilities	31 December 2019	31 December 2018	Change
Assioma Earn-Out	2,369,408	-	2,369,408
Cheleo Earn-Out payable	-	1,492,727	(1,492,727)
Pace Put/Call payable	-	1,691,763	(1,691,763)
TXT RISK Put/Call payable	1,617,121	1,601,462	15,659
Bank loans	23,268,457	29,873,162	(6,604,706)
Non-current monetary flow swaps	256,997	167,947	89,050
Non-current payables to suppliers for leasing	4,517,020	2,055,285	2,461,734
<b>Total non-current financial liabilities</b>	<b>32,029,003</b>	<b>36,882,347</b>	<b>(4,853,344)</b>

This item includes: a) medium/long-term loans taken out in 2018 for the amount due after 12 months, b) the valuation of the amount payable for the Put/Call option for € 1,617,121, for the acquisition of TXT Risk Solutions, as an estimate of the additional outlay for exercising the put/call option in the period 2020-2021 for the purchase of the remaining 49% of the interest in the company, c) the debt for an amount of € 2,369,408 for the Earn-Out to be paid to Assioma shareholders on fulfilment of the contractual conditions (see § 2.), d) the non-current part of the financial debt for € 4,517,020 in accordance with IFRS 16 and e) the non-current portion of bank loans entered into in 2018 for € 23,268,457 and the payable for hedging against interest rate risk (fair value Interest Rate Swap) for € 256,997.

Note that to calculate the present value of the liabilities related to the lease agreements within the scope of IFRS 16, in the absence of a readily-available implicit rate, the present value of the liabilities was determined using the Group's marginal lending rate, taking into account the duration, amount funded and underlying asset for each type of contract. The Group has established that the differences between the rates to be applied for the different contract categories do not lead to significant differences in impact.

The loans referred to in point a) consist of:

- A loan for € 20,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.53% spread, granted to the parent company on 01/08/2018 by UNICREDIT SPA. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.17% per annum. As at 31 December, the residual portion amounted to € 15,021,536, the non-current portion was € 11,028,450.

- A loan for € 10,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.60% spread, granted to the parent company on 27/07/2018 by BANCA NAZIONALE DEL LAVORO SPA. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.08% for a quarter. As at 31 December, the residual portion amounted to € 7,500,000, the non-current portion was € 5,500,000.

- A loan for € 10,000,000.00 at a fixed rate of 0.50, granted to the parent company on 01/08/2018 by UNIONE DI BANCHE ITALIANE SpA. As at 31 December, the residual portion amounted to € 7,351,626, the non-current portion was € 4,690,008.

- A loan for € 1,700,000 at a 3-month EURIBOR floating rate (360) + 1% spread, granted to Assioma.Net Srl on 01/10/2018 by BANCA NAZIONALE DEL LAVORO SPA. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.68% for a quarter. As at 31 December, the residual portion amounted to € 1,345,833.

- A loan for € 1,100,000 at a 3-month EURIBOR floating rate (360) with a minimum of 1% paid to Assioma.Net Srl on 17/07/2019 by BANCA NAZIONALE DEL LAVORO SPA. A derivative product was taken out on the same loan to protect the floating rate, setting it at -0.20 % for a quarter. As at 31 December, the residual portion amounted to € 641,666.

- A loan for € 500,000 at a 3-month EURIBOR floating rate (360) + 0.75% spread, granted to Assioma.Net Srl on 29/06/2017 by BANCA NAZIONALE DEL LAVORO SPA. As at 31 December, the residual portion amounted to € 62,500.

In line with market practice, the loan agreements require compliance with:

- financial covenants based on which the company undertakes to comply with certain levels of financial indexes, contractually defined, the most significant of which relate the gross or net financial indebtedness with the gross operating margin (EBITDA) or the Shareholders' equity, measured on the basis of the consolidated scope of the Group according to the definitions agreed upon with the financing counterparties;
- negative pledge commitments pursuant to which the company may not create security interests or other restrictions on the corporate assets;
- pari-passu clauses based on which the loans have the same degree of priority for their repayment as the other financial liabilities and clauses for change of control, which are activated in the event of a divestment by the majority shareholder;

- limitations to the extraordinary transactions that the company can carry out, if exceeding certain thresholds;
- some obligations toward the issuers which may make the distribution of reserves or capital, inter alia, subject to prior notification to and consent by the lending party; certain extraordinary transactions; certain transactions for the transfer or assignment of its assets.

The measurement of financial covenants and other contractual obligations is constantly monitored by the Group. As at 31 December 2019 the following requirements were met.

UNICREDIT SPA Loan	31/12/2019	31/12/2018	Change
Maturity 1-2 years	8,013,772	4,038,125	3,975,647
Maturity 2-5 years	3,014,678	11,028,449	(8,013,771)
<b>Total</b>	<b>11,028,450</b>	<b>15,066,574</b>	<b>(4,038,124)</b>

BANCA NAZIONALE DEL LAVORO SPA Loan	31/12/2019	31/12/2018	Change
Maturity 1-2 years	4,000,000	2,000,000	2,000,000
Maturity 2-5 years	1,500,000	5,500,000	(4,000,000)
<b>Total</b>	<b>5,500,000</b>	<b>7,500,000</b>	<b>(2,000,000)</b>

UNIONE BANCHE ITALIANE SPA Loan	31/12/2019	31/12/2018	Change
Maturity 1-2 years	4,690,008	2,693,411	1,996,596
Maturity 2-5 years	-	4,613,178	(4,613,178)
<b>Total</b>	<b>4,690,008</b>	<b>7,306,589</b>	<b>(2,616,582)</b>

BANCA NAZIONALE DEL LAVORO (Assioma) Loan	31/12/2019	31/12/2018	Change
Maturity 1-2 years	1,270,833	-	1,270,833
Maturity 2-5 years	779,166	-	779,166
<b>Total</b>	<b>2,050,000</b>	<b>-</b>	<b>2,050,000</b>

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.

	01/01/2019	Cash flows	Reclassify Current - Non-Current	Business Combinations IFRS3	Change in fair value	New funding	31/12/2019
Payable for PACE PUT/CALL option	1,691,763	-	(1,691,763)	-	-	-	-
Payable for Cheleo Earn-Out	1,492,727	-	(1,492,727)	-	-	-	-
Payable for TXT RISK Earn-Out	1,601,462	-	-	-	15,659	-	1,617,121
Payable for Assioma Put/Call	-	-	-	-	-	2,369,408	2,369,408
Obligations for financial leases and rental contracts with purchase option - NON current	2,055,285	-	(1,500,855)	970,366	-	2,992,223	4,517,020
Interest-bearing loans and financing - NON-current	30,041,109	-	(9,685,955)	1,281,250	89,052	1,800,000	23,525,455
<b>Total liabilities deriving from financial assets</b>	<b>36,882,346</b>	<b>-</b>	<b>(14,371,300)</b>	<b>2,251,616</b>	<b>104,711</b>	<b>7,161,631</b>	<b>32,029,003</b>

## 8.15 Provision for post-employment benefits and other employee provisions

The “Employee benefits expense” item as at 31 December 2018 amounted to € 3,110,062, relating mainly to obligations to employees of the Parent Company. The breakdown of and changes in the Post-employment/Severance Benefits item over the period are presented below:

Provision for post-employment benefits and other employee provisions	31 December 2018	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	31 December 2019
Post-employment benefits	1,774,705	(1,471,791)	1,569,413	12,682	17,836	1,902,845
Provision for severance for end of term of office	1,182,217	25,000				1,207,217
<b>Total provisions for employee benefits</b>	<b>2,956,922</b>	<b>(1,446,791)</b>	<b>1,569,412</b>	<b>12,682</b>	<b>17,836</b>	<b>3,110,062</b>

Post-employment benefits for personnel of € 1,902,845 as at 31 December 2019 (€ 1,774,705 as at 31 December 2018) were measured as a defined benefit provision.

Below is the reconciliation of the provision for post-employment benefits based on statutory regulations and IAS – IFRS carrying amount.

	2019	2018
<b>Provision for post-employment benefits</b>	<b>1,708,895</b>	<b>1,641,346</b>
Current cost	(8,824)	(27,720)
Financial charges	17,836	9,630
Actuarial differences	12,682	(30,438)
Actuarial differences following acquisitions	38,897	50,543
Retained earnings	133,359	131,343
<b>Total</b>	<b>1,902,845</b>	<b>1,774,705</b>

To calculate the present value of post-employment benefits, the following assumptions regarding the future trends in the variables included in the algorithm have been used:

- The probability of death was estimated based on the census of the Italian population by age and gender taken in 2000 by ISTAT [Italy's National Institute for Statistics], reducing it by 25%.
- The probability of removal due to total and permanent disability of the employee, such as to become disabled and leave the company, was estimated based on disability tables currently used in the reinsurance practice, differentiated by age and gender.
- The retirement age of a generic worker was estimated assuming that the first retirement requirement for the purpose of obtaining the Mandatory General Insurance was satisfied and that the employees started paying into INPS [Italy's Social Security Institute] no later than 28 years of age. This measurement accounts for the changes to the retirement age introduced by the Monti reform in late 2011.
- As for the probability of termination of employment due to resignations and dismissals, as at the measurement date an annual 6% staff turnover rate was calculated.
- As for the probability of requests for advance payment of benefits in TXT, an annual 1.00% advance payment rate was estimated, with advance payments amounting to 70% of the post-employment benefits outstanding held with the company.

Change in wages and salaries had no impact on the actuarial valuation. The estimated inflation rate used for measurement purposes was 1.50% per year.

The discount rate used for measurement purposes was 0.1663% per year, i.e. the rate on Bonds issued by AA-rated European Companies as at 31 December 2018 with maturities of between 5 and 7 years. The average duration of the liability was calculated at 5.99 years.

The table below shows the potential impact on post-employment benefits of the increase/decrease of certain “key” variables used for the actuarial calculation, and the consequent absolute values of

the liability in alternate scenarios compared to the base scenario (which resulted in a carrying amount of € 1,902,845):

Sensitivity analysis as at 31 December 2019	% Change in liabilities (DBO)			
	Decrease	Increase	Decrease	Increase
Type of change for the specific assumption				
Decrease or increase of 50% in company staff turnover	1.62%	-1.10%	1,933,670	1,881,913
Decrease or increase of 50% in frequency of advance payments	0.12%	-0.10%	1,905,128	1,900,942
Decrease or increase of inflation by one percentage point	-1.51%	1.54%	1,874,111	1,932,148
Decrease or increase of discount rate by one percentage point	0.42%	-0.41%	1,910,836	1,895,043

The end-of-term severance debt refers to the fee for the Chairperson of the Board of Directors to be paid when the term of office ends, equal to 25% of the fees resolved upon and accrued each year, as resolved by the pro-tempore Shareholders' Meetings and also confirmed by the latest Shareholders' Meeting on 21 April 2017.

## 8.16 Provisions for future risks and charges

"Provisions for future risks and charges" as at 31 December 2019 amounted to € 118,905 and mainly includes provisions for contingent liabilities of a contractual nature. It decreased (€ 718,905 - December 2018) due to the release of the allocation to provisions for potential liabilities relating to the sale of the Retail Division in 2017, for which, following new information gathered by Directors, the likelihood that the same could result in a financial outlay by the Group was no longer deemed to exist.

## 8.17 Current financial liabilities

The "current financial liabilities" item amounted to € 25,305,617 (€ 17,304,435 as at 31 December 2018).

Current financial liabilities	31 December 2019	31 December 2018	Change
Bank loans	17,353,014	11,657,394	5,695,620
Payable for the purchase of equity investments	-	4,900,000	(4,900,000)
IFRS16 loans	1,304,999	747,041	557,958
Short term Put/Call	5,920,000	-	5,920,000
Short-term Earn-Out	727,604	-	727,604
<b>Total current financial liabilities</b>	<b>25,305,617</b>	<b>17,304,435</b>	<b>8,001,182</b>

Bank loans amounting to € 17,353,014 includes:

- the short-term portion of medium/long-term loans, and in particular includes the following:
  - € 3,993,087 on the loan granted by UNICREDIT SPA
  - € 2,661,619 on the loan granted by UNIONE BANCHE ITALIANE SPA
  - € 2,000,000 on the loan granted by BANCA NAZIONALE DEL LAVORO SPA
  - Short-term payables due to banks/hot money of € 7,900,000.
  - € 774,999 on the loan granted by BANCA NAZIONALE DEL LAVORO SPA for the Assioma Group

The payable for the Earn-Out refers to the debt to pay to Cheleo shareholders. The Earn-Out is linked to the EBITDA performance of the company acquired and the application of a multiple. The Earn-Out is approximately € 727,604.



The amount of the PUT/CALL option payable referred to the residual liability associated with the 2016 acquisition of the PACE Group. This liability has been adjusted to the fair value of the liability linked to the acquisition of the ownership interest in the remaining 21% of the PACE capital, determined taking into account the valuation formula indicated in the contract. The recognition of this liability follows identification by the directors of the existence of a present ownership interest of the TXT Group with regard to the minority interests. The liability was reclassified in the short term in relation to the option exercise deadline and adjusted to € 5,920,000 (€ 1,691,763 in 2018) according to the application of the contractually agreed price formula. The change compared to the previous year was due to the acquisition of significant contracts by the subsidiary during the year with a consequent effect on the calculation parameters used for the estimate.

The IFRS16 Loans item includes the € 1,304,999 payable to the Lessors due to the application of IFRS 16, relating to the amount due within 12 months.

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.

	01 January 2019	Decision on distribution of dividends	Cash flows	Business Combinations IFRS3	Reclassify Current – Non-Cur-rent	Interest	New loan agreements	31 December 2019
Interest-bearing loans and borrowings - current portion	8,632,289	-	(8,890,335)	-	9,685,955		4,900,000	14,327,909
Pace Put/Call payable		-	-	-	1,691,763	-	4,228,237	5,920,000
"Hot Money"	3,025,105	-	-	-	-			3,025,105
Obligations for financial leases and rental contracts - current portion	747,041	-	(1,143,541)	188,049		12,595	-	1,304,999
Dividend payables	-	5,780,767	(5,780,767)	-		-	-	-
Payable for the purchase of equity investments	4,900,000	-	(4,900,000)	-		-	-	-
Cheleo Earn-Out payable	-	-	-	-	727,604	-	-	727,604
<b>Total liabilities deriving from financial assets</b>	<b>17,304,435</b>	<b>5,780,767</b>	<b>(20,714,643)</b>	<b>-</b>	<b>13,606,177</b>		<b>9,128,237</b>	<b>25,305,617</b>

## 8.18 Trade payables

Trade payables amounted to € 2,122,206 as at 31 December 2019 and rose by € 687,760 compared to 31 December 2018, mainly due to the consolidation of the Assioma group. Payables due to suppliers are of a trade, non-interest bearing nature and are due within twelve months.

## 8.19 Tax payables

Tax payables as at 31 December 2019 totalled € 3,012,776 and refer to VAT payables of the subsidiary PACE GmbH and income taxes of the parent company and other Group companies net of advances paid during the year.

## 8.20 Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 12,687,975 as at 31 December 2019, compared with € 10,311,238 as at 31 December 2018, as detailed in the table below:

Sundry payables and other current liabilities	31 December 2019	31 December 2018	Change
Other payables	1,594,516	993,028	601,488
Accrued expenses and deferred income	3,493,160	2,046,409	1,446,752
Advance payments for multi-year orders	1,469,995	2,481,879	(1,011,884)
Payables due to social security institutions	1,722,238	1,139,330	582,908
Payables due to employees and external staff	4,408,065	3,650,592	757,473
<b>Sundry payables and other current liabilities</b>	<b>12,687,975</b>	<b>10,311,238</b>	<b>2,376,736</b>



“Other payables” mainly included the payables due to taxation authorities for withholding taxes on salaries of employees and external staff, VAT payables, and payables on cost accounting of ongoing projects and funded research projects.

The item “Accrued expenses and deferred income” essentially referred to adjustments to maintenance and service invoices made to recognise only revenues for the period. The net change of € 1.4 million refers mainly to the effect of the consolidation of the Assioma group and to the deferment of revenues invoiced in advance by the subsidiary company PACE GmbH on software contracts in application of international accounting standard IFRS15.

The item “Advance payments from customers for professional services” included the advance payments received from customers against orders currently being processed.

The item “Payables due to employees and external staff” included payables for wages and salaries relating to December 2019 as well as payables due to employees for unused annual leave. The difference of € 757,473 compared to the end of last year is due to the consolidation of the Assioma Group.

## 9 Income Statement

### 9.1 Total revenues and other income

Consolidated revenues and other income amounted to € 59,090,675 (€ 39,956,617 as at 31 December 2018), up 48% compared with the previous year, as detailed below:

	31 December 2019	31 December 2018	Change	% change
Revenues and other income	59,090,675	39,956,617	19,134,058	48%
<b>Total</b>	<b>59,090,675</b>	<b>39,956,617</b>	<b>19,134,058</b>	<b>48%</b>

The increase compared to 31/12/2018 is mainly due to the consolidation of Cheleo Srl and the Assioma Group. A breakdown of revenues into categories, that essentially reflect how their nature, total, distribution over time and any uncertainties affect the recognition of revenues and related cash flows, as well as the analysis of changes and performance compared to the first half of the previous year, is described in the Report on Operations to which reference should be made for further details.

### 9.2 Purchases of materials and external services

Purchases of materials and external services amounted to € 12,598,386, up from 2018, when they totalled € 7,508,968.

The item is detailed below:

	31 December 2019	31 December 2018	Change
Consumables and resale items	1,562,874	446,105	1,116,770
Technical consulting	5,327,360	2,171,589	3,155,771
Travel expenses	1,525,020	1,467,334	57,687
Utilities	496,920	434,554	62,366
Media & marketing services	414,820	350,957	63,863
Maintenance and repair	758,926	831,037	(72,110)
Canteen and ticket services	711,404	575,575	135,830
Administrative and legal services	658,129	497,928	160,201
Directors' fees	1,113,896	703,772	410,123
Subcontractors	29,036	30,117	(1,081)
<b>Total</b>	<b>12,598,386</b>	<b>7,508,968</b>	<b>5,089,417</b>

As a percentage of consolidated revenues, costs for purchasing materials and services were 21.32%, in line with the previous year (18.79% as at 31 December 2018).

The overall change of € 5,089,417 compared to 31 December 2018 is mainly due to the increase of technical consulting costs of the parent company and of the subsidiaries PACE, Cheleo and Assioma.

There was an increase in directors' remuneration. For further details, reference should be made to the Remuneration Report.

## 9.3 Personnel costs

Personnel costs for 2018 amounted to € 39,611,915, growing by € 11,135,685 (39%) compared to 31 December 2018.

This increase is mainly due to the consolidation of the subsidiaries (Cheleo Srl, TXT Risk solutions Srl and the Assioma Group) and the expansion of the workforce.

This item includes *non-recurring reorganisation costs for personnel* of € 1,262 thousand. For further details see the Directors' Report and paragraph 12 of these notes.

	31 December 2019	31 December 2018	Change
Wages and salaries	30,195,915	21,796,993	8,398,922
Social security costs	7,688,487	5,355,746	2,332,741
Provision for post-employment benefits and other pension funds	1,471,791	1,038,569	433,222
Other personnel costs	255,722	284,922	(29,200)
<b>Total</b>	<b>39,611,915</b>	<b>28,476,230</b>	<b>11,135,685</b>

The employees of the TXT Group, excluding directors and external consultants, numbered 786 as at 31 December 2019 (534 as at 31 December 2018), with an increase of 252 employees.

	White-collar staff	Middle managers	Executives	Total
31/12/2018	491	31	12	534
31/12/2019	726	52	8	786

## 9.4 Other operating costs

"Other operating costs" in 2019 amounted to € 593,609, compared to € 178,873 in 2018, an increase of € 419,736 compared to the same period of 2018.

This item mainly included expenses for miscellaneous rentals, not recognised in the accounts according to IFRS16 and sundry operating costs (including contingent liabilities and deductible taxes).

	31 December 2019	31 December 2018	Change
Rental expense for premises and condominiums	95,231	47,520	47,711
Rental expense for motor vehicles	74,910	83,118	(8,208)
Contingent liabilities	54,712	(117,133)	171,845
Other operating costs	368,756	160,368	208,388
<b>Total</b>	<b>593,609</b>	<b>173,873</b>	<b>419,736</b>

## 9.5 Amortisation, depreciation and impairment

Amortisation, depreciation and impairment in 2019 amounted to € 2,734,482. In detail, € 2,730,119 is attributable to depreciation for the period, the remaining € 4,363 refers to losses on the sale of non-current assets.

The increase is due to the consolidation of the subsidiaries Cheleo and Assioma Group.

Amortisation and Depreciation	31/12/2019	31/12/2018
<b>Intangible assets</b>		
Software licences	87,812	56,114
Intellectual Property	250,257	202,424
Customer Relationship	804,238	351,655
<b>Total intangible assets</b>	<b>1,142,307</b>	<b>610,193</b>
<b>Tangible assets - IFRS16 leases</b>		
Buildings	634,652	560,790
Vehicles	432,594	370,327
Electronic machinery	18,087	18,254
<b>Total tangible assets - IFRS16 leases</b>	<b>1,085,333</b>	<b>949,371</b>
<b>Other tangible assets</b>		
Electronic machinery	432,867	342,753
Buildings	12,477	-
Furniture and fixtures	36,451	27,756
Other fixed assets	20,679	807
<b>Total other tangible assets</b>	<b>502,477</b>	<b>371,316</b>
<b>TOTAL AMORTISATION AND DEPRECIATION</b>	<b>2,730,119</b>	<b>1,930,880</b>

They have been calculated based on the useful life of the capitalised asset or cost and its use in company activities.

With regard to the rates used, please refer to the description in the “4.Accounting standards and basis of consolidation” section.

## 9.6 Financial income and charges

The negative balance between financial income and charges in 2019 amounts to € 1,275,935, compared to € 1,244,556 in 2018. The effect is due to the change in the Put/Call for the purchase of 21% of Pace offset by the change in fair value of investments.

*Financial charges* include the adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the residual 21% of the PACE capital, determined taking into account the valuation formula indicated in the contract. This amount initially recorded for € 1.7 million was recalculated to € 5.9 million at a cost of € 4.2 million charged to the year. For further details, reference should be made to the Directors' Report.

*Financial income* includes the effect of changes in the Fair Value of investments and the lower cost to be paid for the Earn-Out related to the average EBITDA performance of Cheleo in 2017-2019 and the application of the related multiple. The Earn-Out initially estimated at approximately € 1.5 million, has been restated to € 0.8 million.

Financial income (charges) as at 31 December 2019 is broken down as follows:

	31 December 2019	31 December 2018	Change
Bank interest income	8,600	35,276	(26,676)
Exchange rate gains		65,931	(65,931)
Change in instruments valued at FV	3,681,262	2,618	3,678,644
<b>Total financial income</b>	<b>3,689,862</b>	<b>103,825</b>	<b>3,586,038</b>
Bank interest expense	(249,577)	(87,027)	(162,550)
Other financial charges	(193,363)	(1,261,353)	1,067,990
Change in instruments valued at FV	(303,202)	-	(303,202)
(Pace) Put/Call change	(4,203,997)	-	(4,203,997)
Exchange rate losses	(15,657)	-	(15,657)
<b>Total financial charges</b>	<b>(4,965,797)</b>	<b>(1,348,381)</b>	<b>(3,617,417)</b>
<b>Total</b>	<b>(1,275,935)</b>	<b>(1,244,556)</b>	<b>(31,379)</b>

	31 December 2019	31 December 2018	Change
Bank interest income	8,600	35,276	(26,676)
Exchange rate gains	-	65,931	(65,931)
Change in instruments valued at FV	3,681,262	2,618	3,678,644
<b>Total financial income</b>	<b>3,689,862</b>	<b>103,825</b>	<b>3,586,038</b>
Change in fair value of financial instruments	-	(971,913)	971,913
Bank expenses	(86,345)	(132,932)	46,587
Bank interest expense	(249,577)	(87,027)	(162,550)
Change in financial instruments	(303,202)	(84,877)	(218,325)
PUT/CALL update - Earn-Out	(62,983)	(32,873)	(30,110)
Interest expense IFRS16	(26,198)	(16,879)	(9,319)
Other financial charges	-	(12,250)	12,250
Pace Put/Call change	(4,203,997)		(4,203,997)
Interest expense for post-employment benefit discounting	(17,836)	(9,630)	(8,206)
Exchange rate losses	(15,657)	-	(15,657)
<b>Total financial charges</b>	<b>(4,965,797)</b>	<b>(1,348,381)</b>	<b>(3,617,417)</b>
<b>Total</b>	<b>(1,275,935)</b>	<b>(1,244,556)</b>	<b>(31,379)</b>

## 9.7 Income taxes

The net effect of income taxes as at 31 December 2019 was a negative effect of € 1,867,137 on the income statement. The items are detailed as follows:

	31 December 2019	31 December 2018	Change
Total current taxes	2,574,824	274,663	2,300,161
Previous years' taxes	212,751	48,370	164,382
Total deferred tax assets	(626,522)	(184,157)	(442,365)
Total deferred tax liabilities	(293,917)	(142,428)	(151,489)
<b>Total taxes</b>	<b>1,867,137</b>	<b>(3,552)</b>	<b>1,870,689</b>

Current taxes include € 237,749 for IRAP (regional business tax) and the difference in income taxes for the year.

Deferred tax assets and liabilities correspond to the change in the respective balance sheet items, those relating to the amortisable intangible assets recognised at the time of company acquisitions and those relating to the value of cash flow hedging instruments linked to interest on loans.

Below is the reconciliation note between the theoretical and effective tax rate.

The main impact is provided by the permanent differences related to the 4.2 million capital loss on the Pace Put-Call.

### Effective/theoretical rate reconciliation:

Utile ante-imposte		2,315,152
Aliquota fiscale paese (24.5%)		567,212
Rettifiche per imposte periodi precedenti		212,751
Utilizzo delle perdite		118,587
Differenze permanenti		905,887
Differenze temporanee tassabili in esercizi successivi	-	87,603
Differenze temporanee deducibili in esercizi successivi		16,969
Effetto delle aliquote degli altri paesi	-	104,416
IRAP*		237,749
	<b>81%</b>	<b>1,867,137</b>

### \* IRAP reconciliation:

Descrizione	Valore	Imposte
Differenza tra valore e costi della produzione	3,957,965	
Costi non rilevanti ai fini IRAP:		
Oneri del personale	513,899	
Altri oneri non deducibili ai fini Irap	2,511,832	
Ricavi non rilevanti ai fini irap	-985,230	
	5,998,466	
Onere fiscale teorico (3,90%)		233,940
<b>Differenze che non si riverteranno negli esercizi successivi:</b>		
Costi fiscalmente non deducibili	97,658	
Agevolazione Patent Box	-	
Ricavi non imponibili	-	
Variazioni permanenti	97,658	
Imposta		3,809
<b>Imposta a carico dell'esercizio</b>		<b>237,749</b>

## 10 Net earnings per share

### Basic net earnings per share

The *basic net earnings per share* for 2019 calculated on the net profit of € 314,337 attributable to Parent Company shareholders (€ 564,947 as at 31 December 2018) divided by the average number of ordinary shares outstanding in 2019 of 11,721,889 amounted to € 0.03 (€ 0.05 in 2018).

### Diluted earnings per share

The diluted earnings per share is calculated by dividing the Group's results by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares and assuming the conversion of all potentially dilutive ordinary shares. The diluted earnings per share are not calculated in case of losses, as any dilutive effect would determine an increase in earnings per share.

## 11 Segment disclosures

For operating purposes, the Group is organised into two Business Units based on the end-use of the products and services provided.

The main financial and operating data broken down by business segment were as follows:

<i>(€ thousand)</i>	Aerospace, A&A	Fintech	Not Allocated	TOTAL TXT
<b>REVENUES</b>	<b>38,737</b>	<b>20,354</b>	-	<b>59,091</b>
<b>OPERATING COSTS:</b>				
Direct costs	20,424	11,400	-	31,824
Research and development costs	3,773	2,298	-	6,071
Commercial costs	5,282	3,328	-	8,610
General and administrative costs	3,566	2,016	-	5,582
<b>TOTAL OPERATING COSTS</b>	<b>33,045</b>	<b>19,042</b>	-	<b>52,087</b>
<b>EBITDA</b>	<b>5,692</b>	<b>1,312</b>	-	<b>7,004</b>
Amortisation of intangible fixed assets	409	733	-	1,142
Depreciation of tangible fixed assets	1,041	547	-	1,588
Impairment	473	249	-	722
<b>OPERATING PROFIT (EBIT)</b>	<b>3,769</b>	<b>(217)</b>	-	<b>3,552</b>
Financial income (charges)	(2,765)	1,528	-	(1,237)
<b>EARNINGS BEFORE TAXES (EBT)</b>	<b>1,004</b>	<b>1,311</b>	-	<b>2,315</b>
Taxes	(810)	(1,057)	-	(1,867)
<b>NET PROFIT</b>	<b>194</b>	<b>254</b>	-	<b>448</b>
<i>(€ thousand)</i>	Aerospace, A&A	Fintech	Not allo- cated	TOTAL TXT
Intangible assets	6,612	17,760	-	24,378
Tangible assets	5,197	2,731	-	7,928
Other fixed assets	1,526	802	-	2,328
<b>FIXED ASSETS</b>	<b>13,355</b>	<b>21,299</b>	-	<b>34,634</b>
Inventories	4,156	-	-	4,156
Trade receivables	15,506	3,865	-	19,371
Sundry receivables and other short-term assets	3,131	1,645	-	4,779
Trade payables	(1,346)	(776)	-	(2,122)
Tax payables	(1,861)	(2,430)	-	(4,292)
Sundry payables and other short-term liabilities	(8,124)	(4,681)	-	(12,808)
<b>NET WORKING CAPITAL</b>	<b>11,462</b>	<b>(2,377)</b>	-	<b>9,084</b>
<b>POST-EMPLOYMENT BENEFITS AND OTHER NON-CURRENT LIABILITIES</b>	<b>(2,306)</b>	<b>(804)</b>	-	<b>(3,110)</b>
<b>CAPITAL EMPLOYED</b>	<b>22,491</b>	<b>18,118</b>	-	<b>40,608</b>
Shareholders' Equity	-	-	-	82,020
Net financial debt	-	-	-	(41,412)
<b>CAPITAL EMPLOYED</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,608</b>

## 12 Net financial position

Pursuant to Consob communication dated 28 July 2006 and in conformity with the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", it is noted that the TXT e-solutions Group's net financial position as at 31 December 2019 is as follows:

Amounts in €	31/12/2019	31/12/2018	Change
Cash and cash equivalents	11,426,083	5,593,125	5,832,958
Financial instruments at fair value	87,320,066	108,948,873	(21,628,807)
Current financial assets	-	-	-
Current bank loans	(17,353,014)	(11,657,394)	(5,695,620)
Options related to acquisitions (PUT/CALL - Earn-Out)	(6,647,604)	(4,900,000)	(1,747,604)
Current financial liabilities - IFRS16	(1,304,999)	(747,041)	(557,958)
Other short-term financial payables	-	-	-
<b>Short-term financial resources</b>	<b>73,440,532</b>	<b>97,237,563</b>	<b>(23,797,031)</b>
Non-current financial liabilities - IFRS16	(4,517,020)	(2,055,285)	(2,461,734)
Non-current bank loans	(23,525,454)	(30,041,110)	6,515,655
Options related to acquisitions (PUT/CALL - Earn-Out)	(3,986,529)	(4,785,952)	799,423
<b>Financial resources - non-current portion</b>	<b>(32,029,003)</b>	<b>(36,882,347)</b>	<b>4,853,344</b>
<b>Net Available Financial Resources</b>	<b>41,411,529</b>	<b>60,355,216</b>	<b>(18,943,687)</b>

## 13 Disclosure of public funds

This section has been prepared for the purpose of fulfilling the disclosure obligations pursuant to Italian Law no. 127/2017, Article 1, paragraphs 125-129.

In 2019, the Group did not receive considerations from the national public administration for services that were not performed in the ordinary course of business, nor did it underwrite paid assignments to the same counterparty for such activities.

With regard to grants, contributions and economic benefits of any kind granted by the public administration, the following information is provided with reference to that already collected/used in 2019:

Beneficiary	Award date	Date of collection/use	Amount collected/used	Paying entity/grantor	Purpose
TXT e-solutions (Tax Code: 09768170152)	15/05/2018	17/04/2019	€ 5,000	FonARCom	Training aid (Art.31)
TXT e-solutions (Tax Code: 09768170152)	02/08/2019	27/09/2019	€ 3,960	FonARCom	Training aid (Art.31)



Beneficiary	Award date	Date of collection/use	Amount collected/used	Paying entity/grantor	Purpose
Assioma.Net Srl (Tax Code: 08187300010)	17/04/2019	02/10/2019	€ 5,760	FONDIMPRESA	Funds for Regulation EC 651/2014 and 1407/2013
Assioma.Net Srl (Tax Code: 08187300010)	12/09/2018	09/04/2019	€ 1,412	FONDIMPRESA	interprofessional funds for continuing training, training plan no. 205712
Assioma.Net Srl (Tax Code: 08187300010)	25/09/2017	15/05/2019	€ 234,717	Lombardy Region	Ubicumque Project
Assioma.Net Srl (Tax Code: 08187300010)	21/11/2018	31/07/2019	€ 2,680	FONDIMPRESA	interprofessional funds for continuing training, training plan no. 211571
Link Software Engineering Srl (Tax Code: 05323950013)	18/04/2018	05/06/2019	€ 1,200	FONDIMPRESA	interprofessional funds for continuing training, training plan no. 200594

It should be noted that TXT e-solutions Spa:

- received further training aid from Fondir for € 23 thousand, granted on 20 June 2019 and still in progress.
- received additional training aid from Fonarcom for € 34 thousand not yet collected or used only in part by 2020.

In addition, for the sake of completeness, it should be noted that in 2018 the Group benefited from the following tax incentives and benefits: so-called super-amortisation (Italian Law no. 208 of 28 December 2015, as amended).

Finally, it should be noted that the Group participates in the "New Horizon 2020 - European Framework Programme for Research and Innovation" initiative with four active H2020 projects (ADMITTED, FASTEN, ICARUS, QU4LITY), a German national research project (OPSTIMAL) and a regional one in Lombardy (SMART4CPPS). There are 4 project proposals awaiting evaluation that could lead to funding in 2020.

During 2019, TXT participated in a call for tenders from the European Commission, acquiring funding from the commission for an amount of approximately € 790,000.

## 14 Subsequent events

The spread of Covid-19 is having a significant impact on the global economy. Starting with a strong slowdown in the Chinese market, it spread in the West with the spread of the virus having a strong impact in Italy: isolating areas, closing companies and schools, cancelling events. It has affected all sectors of the economy.

For Italy in particular, which was already starting from a negative position (GDP Q4 2019 - 0.3%), the Coronavirus emergency is likely to lead to a further black quarter, with the country entering a "technical recession". Covid-19 also caused a sharp increase in the spread, from 140 basis points at the beginning of the crisis, to 180 basis points (and is likely to increase further), with an impact on the health of all business customers.

TXT faces the crisis with a significant backlog of purchased licenses (IFRS15), an excellent net financial position, and continuity in delivery, thanks to the efficient organisation of smart working teams and geographical distribution of operations (including in areas not at risk). To date, 98% of resources are operational.

Among the market sectors in which TXT operates, the most at risk is that of airlines (with consequent impacts on aircraft manufacturers). IATA estimates damage to the sector at over 100Bln. The probable risks for TXT relate to slowdowns in the closing of new contracts. Possible (but unlikely, given

that the current customers are the world's largest airlines) cancellation of agreements as a result of the default of the companies themselves. The banking sector, although in crisis, has opened up through remote working activities for employees and external staff. The experience of smart working during the crisis, could even lead to a benefit (remote services vs. On-site) with new business opportunities.

In general, given the cancellation of several events, fairs and meetings in general, a slowdown in the acquisition of new contracts is expected. There is a risk of delays on the main programmes, leading to delays in maturation. As the crisis situation continues along with the consequent economic impact on clients, we anticipate the risk of not re-confirming work activities and/or suspension/discontinuation of services. TXT has activated trade union agreements to mitigate any costs concerning interruption of operations.

For further details, reference should be made to the Directors' report on operations.

## 15 Remuneration of Directors, Statutory Auditors and Management

Transactions with directors and key management personnel refer exclusively to the fixed and variable components of their remuneration (composed of salaries as Company's managers and compensation for offices held). The Remuneration Report details the amounts paid to each beneficiary and the underlying policy.

## 16 External Auditors' fees

Information pursuant to Article 149-duodecies of Consob Issuers' Regulation.

The statement, prepared pursuant to Article 149-duodecies of the Consob Issuers' Regulation (resolution no. 11971), shows the fees for the financial year 2019 for auditing services and for services other than auditing rendered by the Auditing firm and by companies belonging to its network. These fees represent the costs incurred and recognised in the financial statements for the year, net of reimbursements of expenses and non-deductible VAT.

Type of service	Provider	Beneficiary	Fees (€ '000)
Auditing	Ernst & Young	Parent Company TXT e-solutions S.p.A.	62
Auditing	Ernst & Young	PACE GmbH	13
Auditing	Ernst & Young	Cheleo Srl	12
Audit of non-financial declarations pursuant to Italian Legislative Decree no. 254/2016	Ernst & Young	Parent Company TXT e-solutions S.p.A.	16
Auditing	Ernst&Young	Assioma Group	21

## 17 Certification of the consolidated financial statements

**pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented**

The undersigned Enrico Magni, as CEO, and Eugenio Forcinito, as Manager responsible for preparing corporate accounting documents for TXT e-solutions S.p.A. certify, also pursuant to Article 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy, in relation to the company's characteristics, and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2019.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2019 is based on a process defined by TXT in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission which represents a reference framework that is generally accepted at an international level.

We also certify that the consolidated financial statements as at 31 December 2019:

- correspond to the accounting books and records;
- were prepared in compliance with the International Financial Reporting Standards endorsed by the European Union as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005;
- are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer.

Manager responsible for preparing corporate accounting documents The Chief Executive Officer

Eugenio Forcinito

Enrico Magni

Milan, 12 March 2020

# **TXT e-solutions S.p.A.**

## **Financial statements as at 31 December 2019**

## **TXT e-solutions S.p.A.**

Registered office, management, and administration:

Via Frigia, 27 - 20126 Milan - Italy

Share capital: € 6,503,125 fully paid-in

Tax code and Milan Business Register number: 09768170152

## **Corporate bodies**

### **BOARD OF DIRECTORS**

Members' terms of office expire upon approval of the financial statements as at 31 December 2019:

Alvise Braga Illa	Chairman	(1)
Enrico Magni	Chief Executive Officer	(2)
Daniele Misani	Director	(3)
Fabienne Anne Dejean Schwalbe	Independent Director	(4)
Stefania Saviolo	Independent Director	(4)
Valentina Cogliati	Independent Director	(5)
Alessandro Arrigoni	Independent Director	(3) (4)

(1) Powers assigned: proxy.

(2) Powers assigned: ordinary and extraordinary administration, except for the purchase and sale of property.

(3) Co-opted on 15 July 2019 to replace Marco Edoardo Guida and Paolo Matarazzo, who resigned. In office until the next Shareholders' Meeting.

(4) Member of the Remuneration Committee, the Risks and Internal Controls Committee and the Related Parties Committee.

(5) Member of the Risks and Internal Controls Committee.

### **BOARD OF STATUTORY AUDITORS**

Members' terms of office expire upon approval of the financial statements as at 31 December 2019:

Mario Basilico	Chairman
Luisa Cameretti	Standing auditor
Giampaolo Vianello	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate auditor

### **EXTERNAL AUDITORS**

EY S.p.A.

### **INVESTOR RELATIONS**

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## Balance Sheet

ASSETS	Notes	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties
<b>NON-CURRENT ASSETS</b>					
Intangible assets with a finite useful life	8.1	76,331		99,743	
<b>Intangible assets</b>		<b>76,331</b>		<b>99,743</b>	<b>-</b>
Property, plant and equipment	8.2	2,781,524		3,109,384	
<b>Tangible assets</b>		<b>2,781,524</b>		<b>3,109,384</b>	<b>-</b>
Investments	8.3	29,555,456		13,821,227	48,000
Sundry receivables and other non-current assets	8.4	22,762		21,202	
Deferred tax assets	8.5	261,017		634,740	
<b>Other non-current assets</b>		<b>29,839,235</b>		<b>14,477,169</b>	<b>48,000</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>32,697,090</b>		<b>17,686,296</b>	<b>48,000</b>
<b>CURRENT ASSETS</b>					
Contractual assets	Error! Reference source not found.	4,085,593		3,088,829	
Trade receivables	8.7	9,347,970	850,814	10,784,943	258,712
Sundry receivables and other current assets	8.8	2,856,141		2,483,740	
Other short-term financial receivables	8.9	200,000	200,000	5,050,000	50,000
Financial instruments at fair value	8.10	86,281,566		103,948,873	
Cash and cash equivalents	8.11	6,053,126		3,092,107	
<b>TOTAL CURRENT ASSETS</b>		<b>108,824,396</b>	<b>1,050,814</b>	<b>128,448,492</b>	<b>308,712</b>
Assets held for sale		2,665,165		-	
<b>TOTAL ASSETS</b>		<b>144,186,651</b>	<b>1,050,814</b>	<b>146,134,788</b>	<b>356,712</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes		Of which with related parties		Of which with related parties
<b>SHAREHOLDERS' EQUITY</b>					
Share capital		6,503,125		6,503,125	
Reserves		14,768,860		13,421,349	
Retained earnings (accumulated losses)		59,573,709		66,024,933	
Profit (loss) for the year		3,208,566		(670,457)	
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>8.12</b>	<b>84,054,260</b>		<b>85,278,950</b>	
<b>NON-CURRENT LIABILITIES</b>					
Non-current financial liabilities	8.13	25,228,715		33,475,475	
Provision for post-employment benefits and other employee provisions	8.14	2,064,678	1,207,217	2,583,245	1,249,026
Deferred tax provision	8.5	288		1	
Provisions for future risks and charges	8.15	118,905		718,905	
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>27,412,585</b>	<b>1,207,217</b>	<b>36,777,626</b>	<b>1,249,026</b>
<b>CURRENT LIABILITIES</b>					
Current financial liabilities	8.16	23,073,219	5,190,646	14,725,058	2,550,000
Trade payables	8.17	2,527,913	155,323	3,495,288	61,945
Tax payables	8.18	387,086		29,665	
Sundry payables and other current liabilities	8.19	5,024,432	123,794	5,828,201	172,250
<b>TOTAL CURRENT LIABILITIES</b>		<b>31,012,650</b>	<b>5,469,763</b>	<b>24,078,212</b>	<b>2,784,195</b>
<b>TOTAL LIABILITIES</b>		<b>58,425,236</b>	<b>6,676,980</b>	<b>60,855,838</b>	<b>4,033,221</b>
Liabilities held for sale		1,707,156			
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>144,186,651</b>	<b>6,676,980</b>	<b>146,134,788</b>	<b>4,033,221</b>

## Income Statement

	Note s	31/12/2019	Of which with related parties	31/12/2018	Of which with re- lated parties
Revenues and other income		24,218,635	1,086,684	19,873,141	824,195
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>9.1</b>	<b>24,218,635</b>	<b>1,086,684</b>	<b>19,873,141</b>	<b>824,195</b>
Purchases of materials and external services	<b>9.2</b>	(5,037,561)	(334,463)	(5,216,354)	(846,371)
Personnel costs	<b>9.3</b>	(18,038,771)	(1,004,551)	(14,436,067)	(546,370)
Other operating costs	<b>9.4</b>	(154,228)		(9,249)	
Depreciation and amortisation/Impairment	<b>9.5</b>	(888,741)		(853,556)	
<b>OPERATING RESULT</b>		<b>99,334</b>	<b>(252,330)</b>	<b>(642,084)</b>	<b>(568,546)</b>
Financial income (charges)	<b>9.6</b>	2,958,776	(40,807)	(1,290,981)	(50,390)
<b>EARNINGS BEFORE TAXES (EBT)</b>		<b>3,058,110</b>	<b>(293,137)</b>	<b>(1,933,066)</b>	<b>(618,936)</b>
Income taxes	<b>9.7</b>	(591,946)		291,029	
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>		<b>2,466,164</b>		<b>(1,642,037)</b>	<b>(618,936)</b>
Net profit from discontinued operations		742,403		971,579	
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>		<b>3,208,566</b>		<b>(670,457)</b>	

## Statement of Comprehensive Income

(Amount in €)	2019	2018
<b>Profit (loss) for the period</b>	<b>3,208,566</b>	<b>(670,457)</b>
Change in fair value of available-for-sale financial assets	(31,105)	(127,640)
<b>TOTAL ITEMS OF OTHER COMPREHENSIVE INCOME THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS) FOR THE YEAR NET OF TAXES</b>	<b>(31,105)</b>	<b>(127,640)</b>
Defined benefit plans actuarial gains (losses)	6,986	27,152
<b>TOTAL ITEMS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS) FOR THE YEAR NET OF TAXES</b>	<b>6,986</b>	<b>27,152</b>
<b>TOTAL PROFIT/(LOSS) OF COMPREHENSIVE INCOME NET OF TAXES</b>	<b>(24,119)</b>	<b>(100,488)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>3,184,447</b>	<b>(770,945)</b>

## Statement of Cash Flows

	31 December 2019	31 December 2018
Profit (loss) from continuing operations	2,466,163	(670,457)
Profit (loss) from discontinued operations	742,403	-
<b>Net profit (loss) for the period</b>	<b>3,208,566</b>	<b>(670,457)</b>
Non-monetary costs for Stock Options	23,793	-
Non-monetary interest	24,280	249,212
Change in fair value of monetary instruments	(3,323,606)	971,127
Current income taxes	357,421	29,665
Change in deferred taxes	374,010	(392,418)
Depreciation/amortisation, impairment and provisions	959,178	917,831
<b>Cash flows from (used in) operating activities (before change in working capital)</b>	<b>1,623,642</b>	<b>1,104,960</b>
	<i>of which due to related parties</i>	<i>(568,547)</i>
(Increase) / Decrease in trade receivables	(1,456,999)	1,158,710
(Increase) / Decrease in inventories	(996,764)	(629,305)
Increase / (Decrease) in trade payables	(967,375)	297,403
Increase / (Decrease) in other assets/liabilities	(97,171)	(1,639,697)
Increase / (Decrease) in post-employment benefits	(270,779)	20,621
<b>Changes in operating assets and liabilities</b>	<b>(3,789,088)</b>	<b>(792,268)</b>
Paid income taxes	-	(364,914)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(2,165,446)</b>	<b>(52,222)</b>
	<i>of which due to related parties</i>	<i>(713,300)</i>
Increase in tangible assets	(451,908)	(262,890)
Increase in intangible assets	(2,039)	(73,316)
Net cash flow from acquisition/assignment	(10,993,971)	(1,148,000)
Increase/(Decrease) in trading securities	25,146,438	(110,131,257)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>13,698,520</b>	<b>(111,615,463)</b>
Loans issued	7,540,646	44,924,000
Loans repaid	(8,632,289)	(2,090,953)
Payment of lease liabilities	(668,158)	(668,646)
Increase/(Decrease) in other financial receivables	-	3,255,387
Increase/(Decrease) in financial payables	6,823	40,307
Distribution of dividends	(5,780,767)	(11,709,799)
Interest expense	-	(35,013)
Other changes in shareholders' equity	-	-
(Purchase)/Sale of treasury shares	(1,038,309)	(4,377,109)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(8,572,054)</b>	<b>29,338,174</b>
	<i>of which due to related parties</i>	<i>6,848,827</i>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,961,020</b>	<b>(82,329,511)</b>
Effect of changes in exchange rates on cash flows	-	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>3,092,108</b>	<b>85,421,619</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>6,053,126</b>	<b>3,092,108</b>
Assets acquired that did not generate cash flows (initial recognition IFRS 16)	(368,199)	(916,560)
Liabilities acquired that did not generate cash flows (initial recognition IFRS 16)	368,199	916,560

In accordance with IFRS 5, the flow attributable to "discontinued operations" of the Banking & Finance division amounts to € 813 thousand.

# Statement of changes in Shareholders' Equity as at 31 December 2019

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	Stock options	Differenze attuariali TFR	Riserva cash flow Hedge	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Totale patrimonio netto	Totale patrimonio netto (Terzi)	Totale patrimonio netto
<b>Saldi al 31 dicembre 2018</b>	6,503,125	1,300,625	11,223,612	1,911,444	-	(886,692)	(127,640)	-	66,024,933	(670,457)	85,278,950		85,278,950
Utile al 31 dicembre 2018									(670,457)	670,457	-		-
Incremento/acquisto					23,793		(31,105)		-		(7,312)		(7,312)
Distribuzione dividendi									(5,780,767)		(5,780,767)		(5,780,767)
Vendita azioni proprie			2,386,146								2,386,146		2,386,146
Acquisto azioni proprie			(1,038,309)								(1,038,309)		(1,038,309)
Attualizzazione TFR						6,986					6,986		6,986
Delta cambi											-		-
Utile al 31 dicembre 2019										3,208,566	3,208,566		3,208,566
<b>Saldi al 31 dicembre 2019</b>	6,503,125	1,300,625	12,571,449	1,911,444	23,793	(879,706)	(158,745)	-	59,573,709	3,208,566	84,054,260		84,054,260

(importo in euro)	Capitale	Riserva Legale	Riserva Sovrapprezzo azioni	Avanzo Fusione	Riserva stockoption	Differenze attuariali	Riserva Cash Flow Hedge	Risultato periodo precedenti	Risultato di periodo	Totale
<b>Al 31 dicembre 2017</b>	6.503.125	1.005.000	12.136.607	1.911.444	1.164.184	(913.844)	0	1.271.553	75.594.620	98.672.689
Destinazione risultato eserc. precedente		295.625						75.298.995	(75.594.620)	0
Destinazione Riserve					(1.164.184)			1.164.184		0
Distribuzione dividendi								(11.709.799)		(11.709.799)
Acquisto Azioni proprie			(4.598.419)							(4.598.419)
Vendita Azioni proprie			221.309							221.309
Aggregazioni Aziendali			3.464.115							3.464.115
Altri componenti conto economico complessivo							(127.640)			(127.640)
Attualizzazione TFR						27.152				27.152
Risultato di esercizio									(670.457)	(670.457)
<b>Utile complessivo 31 dicembre 2018</b>						27.152	(127.640)		(670.457)	(770.945)
<b>Al 31 dicembre 2018</b>	6.503.125	1.300.625	11.223.612	1.911.444	0	(886.692)	(127.640)	66.024.934	(670.457)	85.278.950

## Introduction

Founded in 1989, TXT e-solutions S.p.A. is a world leader in the supply of software products and strategic solutions. It operates in dynamic markets that require high specialisation and the capacity to innovate. TXT is focused on software for the aerospace, aeronautical and automotive sector, where it offers specific products and specialist engineering services, and for the financial sector, where it concentrates on services linked to testing and software quality. Listed on the Italian Stock Market since July 2000 in the Star segment (TXT.MI), TXT has its registered office in Milan and offices in Italy, France, the UK, Germany, Switzerland and the USA.

The Company adopted the international accounting and financial reporting standards (IAS/IFRS) starting on 1 January 2006.

This report refers to the financial year ended 31 December 2019 and all relevant accounting information was prepared in accordance with IFRS endorsed by the European Union.

In accordance with IAS 1, the balance sheet items were subdivided into current and non-current assets/liabilities, the income statement items were subdivided by type and the statement of cash flows was prepared using the indirect method.

The year 2019 was characterised by development and growth of external lines, mainly in the Fintech sector. More details are provided in the "Extraordinary Transactions" chapter of the consolidated financial statements.

### 1 Basis of preparation of the financial statements

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at the date of drafting these financial statements, as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005 and with any other applicable provisions and Consob regulations on financial statements.

The financial statements as at 31 December 2019 have been prepared on a cost basis, except for derivative financial instruments and other items for which the IFRS prescribe different assessment criteria. The carrying amount of underlying assets and liabilities of fair value hedges which would otherwise be carried at amortised cost is adjusted to take into account the changes in fair value attributable to the hedged risks.

In accordance with IFRS 5, the income statement and the corresponding notes with comments have taken into account a comparative homogeneous scope. As at 31 December 2019 there were residual assets or liabilities held for sale. Financial statements have been prepared based on accounting entries as at 31 December 2019 and on a going concern basis. Comparative data for the corresponding period of 2018 have been restated to reflect the new accounting policies. For further information reference should be made to paragraph 14 "Extraordinary transactions".

As for further information relating to the nature of the company's business, business areas and operations, reference should be made to the Directors' report on operations.

The accounting policies applied in preparing the financial statements, as well as the composition of, and changes in, individual items, are illustrated below.

All amounts are expressed in Euro, unless otherwise indicated.

The publication and release of this report were approved by the Board of Directors' Meeting. TXT e-solutions S.p.A. is a joint-stock company listed, registered and domiciled in Italy.

In its capacity as Parent Company, TXT e-solutions S.p.A. has prepared the TXT Group's consolidated financial statements as at 31 December 2019.

## 2 Acquisition of the Assioma Group

On 30 April 2019, the Company entered into an agreement for the acquisition of the share capital of Link Software S.r.l., which at that date held (i) a 100% stake in the share capital of Assioma.Net S.r.l., which in turn holds a 51% stake in the share capital of Assiopay S.r.l. and (ii) 70% of the share capital of Assioma.Itec S.r.l. (www.assioma.net). On 12 June 2019, Link Software S.r.l. purchased the remaining 30% of Assioma.Itec S.r.l. unacquired to date, paying € 450,000 in cash.

For the sake of completeness of information, we also point out the following subsequent extraordinary transactions, which however did not have any impact for the purposes of consolidation: i) on 18 July 2019 the respective shareholders' meetings approved the merger between Link Software S.r.l. and Assioma.Itec S.r.l. ii) on 11 October 2019 the respective shareholders' meetings approved the (reverse) merger between Link Software S.r.l. and Assioma.Net S.r.l.

This Italian group specialises in the governance of applications' software quality, with know-how gained from almost thirty years experience in the industry and with around 150 employees in its Turin, Milan and Bari offices.

The fair value of the consideration for the purchase of 100% of the share capital of Link Software Srl was agreed upon by the parties to be in the amount of € 10.9 million, structured as follows:

Component	Euro
Price paid in cash	4,530,000
Price paid in shares	2,386,146
Earn-Out 2019-2020	2,354,112
Contractual NFP	1,611,971
Total (100%)	10,882,229

- The countervalue of the treasury shares of TXT e-solutions Spa has been calculated considering the Fair Value of the share on the Closing date, corresponding to € 9.40 for the number of treasury shares 253,846.
- The amount paid as a function of the Net Financial Position (NFP) as defined contractually in the purchase agreement;
- The amount envisaged for the Earn-Out is estimated on the basis of specific operating objectives, insofar as price components deferred over a medium-term period of time, subject to the fulfilment of specific conditions envisaged in the purchase agreement, considered likely, such as the completion of projects underway and the surpassing of specific sales volumes of certain categories of products and services.

As at 31 December 2019 the value of the investment is equal to the cost of € 10.8 million.

For the purposes of the acquisition, a total of € 0.1 million in consulting and legal fees were incurred and were fully expensed in the second quarter of 2019. The cash flow statement, under item "Net cash flow from acquisition" shows a net amount of € 1.8 million, represented by the financial disbursement actually made (€ 6.2 million) in the second quarter of 2019, net of the Cash acquired on the acquisition date (€ 4.3 million).

## 3 Relevant accounting standards

### ASSETS AND LIABILITIES

#### Intangible assets

Intangible assets acquired separately are initially measured at cost, while those acquired in business combinations are recognised at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and the corresponding costs are recognised in profit or loss as incurred.

The useful life of intangible assets is assessed as finite or indefinite.

Intangible assets with a finite useful life are amortised systematically over their useful lives and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The changes in the expected useful life or in the expected pattern of consumption of the future economic benefits embodied in the assets are recognised by changing the amortisation period or method, as required, and are accounted for as changes in accounting estimates. The amortisation expense related to intangible assets with a finite useful life is recognised in profit or loss in the expense category consistent with the intangible asset's function.

Intangible assets with an indefinite useful life are not amortised, but they are tested for impairment annually both as an individual asset and as a cash-generating unit. The indefinite useful life assessment is reviewed annually to determine whether events and circumstances continue to support it. If they do not, the change in the useful life assessment from indefinite to finite is applied prospectively.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the intangible asset's carrying amount, and is recognised in profit or loss when the asset is derecognised.

### **Research and development costs**

Research costs are recognised as an expense in profit or loss when incurred. Development costs incurred in relation to a specific project are recognised as an intangible asset when the conditions provided for by IAS 38 apply.

After initial recognition, development costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation begins when development is completed and the asset is available for use. Development costs are amortised with reference to the period during which the related project is expected to generate economic benefits for the Company. During the period in which the asset is not yet in use, it will be tested for impairment annually.

### **Software licences**

Licences for use of intellectual property are carried at cost and amortised over 3 to 5 years, according to the specific type of licence.

### **Tangible assets**

Tangible assets are measured at acquisition or production cost including directly attributable costs necessary to bring the asset to its working condition.

Tangible assets are depreciated on a straight-line basis over their useful life, i.e. the period over which an asset is expected to be available for use by an entity. Depreciation begins when the asset is available for use and is calculated on a straight-line basis using the rate deemed representative of the asset's estimated useful life. Given the nature of the assets within the separate classes, no significant parts having different useful lives were recognised.

Depreciation is calculated using the straight-line method over the estimated useful life of the relevant asset, as shown below:

Class	Useful life
Furniture and fixtures	8 years
Electronic office machinery	5 years
Motor vehicles	4 years

The costs of maintenance, repair, enhancement, upgrade, and replacement that have not led to any



significant and measurable increase in the production capacity or in the useful life of the asset concerned are recognised as an expense in the period in which they are incurred.

Leasehold improvements shall be recognised in the asset class to which they refer and, if separable, they shall be depreciated in accordance with their useful life; if they are not separable, they shall be depreciated based on the shorter of the lease term or the asset's useful life.

## Leases

The right to use of assets held under leases is accounted for as tangible fixed assets (historical cost of the asset and accumulated depreciation) and classified in the specific classes, recognising the financial payable to the lessor as a liability. Depreciation is calculated in accordance with the previously mentioned method.

Lease payments are apportioned between the reduction of the outstanding liability and the finance charge to be allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability at each financial year-end.

The positions affected by the scope of application of IFRS 16 and which in principle had an appreciable effect are related to:

- Lease contracts for the main office (Milan)
- Lease contracts for the national secondary offices
- Portfolio of hire vehicles for the Company's staff

Lease contracts for offices:	Contractual years	Years remaining	Main Options
Milan	6	5	Renewal
Orbassano (Turin)	6	5	Renewal

For the lease contract for the main office in Milan, the contractually envisaged duration was used, just subject to renewal, without taking into account the early termination or further renewal options which are considered unlikely.

As regards vehicle lease contracts, these refer to medium/long-term rental agreements, usually for 4 years with monthly instalments paid in advance with an average value of € 540.

In the absence of a readily-available implicit rate, the present value of the liabilities was determined using the Group's marginal lending rate, taking into account the duration, amount funded and underlying asset for each type of contract. The Group has established that the differences between the rates to be applied for the different contract categories do not lead to significant differences in impact.

For further details, see Note 8.3 "Tangible assets" and Note 9.6 "Financial income and charges".

The Group's leasing liabilities are included under Non-current Financial Liabilities (8.13) and Current Financial Liabilities (8.16).

## Impairment of non-financial assets

At the end of each reporting period, TXT assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when an annual impairment test is required, TXT estimates the recoverable amount of the asset. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. If the carrying amount of an asset is greater than its recoverable amount, said asset has become impaired and is consequently reduced to its recoverable amount.

In measuring value in use, TXT discounts estimated future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If it is not possible to determine such transactions, an appropriate measurement model is used. These calculations are corroborated by the appropriate valuation multipliers, quoted share prices of investee

companies whose securities are publicly traded, and other available indicators of fair value.

TXT bases its impairment test on detailed budgets and forecasts prepared separately for each of the cash-generating units to which the individual assets are allocated. These budgets and forecasts generally cover a period of five years. For longer periods, a long-term growth rate used to extrapolate cash flow projections beyond the fifth year is calculated.

Impairment losses on operating assets, including losses on inventories, are recognised in profit or loss in the expense categories consistent with the intended use of the impaired asset. An exception is represented by revalued assets for which the revaluation has been recognised in other comprehensive income and classified as a revaluation surplus. In these cases, the impairment loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus.

At the end of each reporting period, TXT assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, TXT estimates the recoverable amount of that asset. An impairment loss recognised in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal of an impairment loss shall not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

The following criteria are used to recognise impairment losses on specific types of assets:

**a) Goodwill**

Goodwill is tested for impairment at least annually (as at 31 December) and, more frequently, when the circumstances indicate that the carrying amount may be impaired.

The impairment loss on goodwill is determined by measuring the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill can be allocated. Wherever the recoverable amount of the cash-generating unit is lower than the carrying amount of the cash-generating unit to which goodwill was allocated, an impairment loss is recognised. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

**b) Intangible assets with an indefinite useful life**

An intangible asset with an indefinite useful life is tested for impairment at least annually (as at 31 December) both as an individual asset and as a cash-generating unit, whichever is more appropriate to determine whether any impairment exists.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

**IFRS 9 impacts**

In July 2014, IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the plan for accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company adopted the new standard from the effective date (1 January 2018) and has opted not to restate the comparative data.

The Company has performed impact analysis on all aspects covered by IFRS 9. This analysis is based on information currently available, including the strategy for the use of financial instruments. Application details, with reference to the main areas of procedural intervention governed by the standard, are described below.

### **a) Classification and measurement of financial assets and liabilities**

The Company has significantly impacted its balance sheet and shareholders' equity as a result of the application of IFRS 9 classification and measurement requirements. The Company does not have any financial liabilities designated at FVTPL as a result of adopting the fair-value option. For completeness it is reported that the change in financial liabilities relating to the acquisition of minority shares in the extraordinary transactions described in the previous paragraphs will continue to be recorded entirely in the income statement. With regard to financial assets, the new principle establishes that the classification of assets depends on the characteristics of the financial flows relating to these assets and the business model used by the Group and by the Company for managing them. The Company holds the following contracts in its portfolio:

- 6 multi-segment life insurance contracts for Euro 77,725,206 (€ 94,113,921 as at 31/12/2018);
- Bond loan for € 510,000 subscribed below par for € 498,000;
- Treasury management for € 8,046,360

Furthermore, the Company does not have financial investments in the form of shareholdings that could fall within the scope of IFRS 9. With regard to derivative financial instruments, embedded or otherwise, the Company has exclusively entered into interest rate swap contacts linked to bank loans expenses for which hedge accounting has been activated. Trade receivables are held for the purposes of collection at the contractual due dates of the cash flows relating to them in capital share and interest, where applicable. The Company has analysed the characteristics of the contractual cash flows of these instruments and has concluded that they comply with the criteria for valuation at amortised cost in accordance with IFRS 9. Therefore, no reclassification of these financial instruments was necessary. Similar conclusions can be reached for the items relating to cash and cash equivalents.

### **b) Impairment of financial assets**

IFRS 9 requires the Company to record expected losses on receivables on all bonds in the portfolio, loans and trade receivables, with reference to either a period of 12 months or the entire contractual duration of the instrument (e.g. lifetime expected loss). The Company applies the simplified approach and therefore records the expected losses on all trade receivables on the basis of their residual contractual duration. The standard allows the adoption of matrices for calculating the provision that are capable of incorporating information from forecasts and not limited to historical evidence, as a practical expedient. However, the Company will continue to analytically consider the specific features of the sector and of certain customers in its evaluations.

### **c) Hedge accounting**

In the past, the Company has established operations to hedge currency risk, mainly relating to transactions, by signing currency forward contracts. In this case, the Company had not activated hedge accounting and consequently, on the basis of general IAS 39 rules for derivatives, had recorded all effects deriving from changes in their FV in the income statement. As mentioned above, the Company currently has an active hedging position exclusively with derivative financial instruments to hedge the interest rate risk associated with borrowings. Given that IFRS 9 does not change the general principle on the basis of which an entity accounts for effective hedge relations, in relation to the regulations in the previous IAS 39 the main changes concern: – the hedging efficacy test is solely prospective and can also be based on qualitative aspects, replacing the previous 80-125% test and focusing on the economic relationship between the hedging instrument and the hedged item – the possibility of designating only a risk component as a hedged item even for non-financial elements (provided that the risk component is separately identifiable and can be reliably estimated) – introduction of the “costs of hedging” concept – greater possibility of designating groups of items as a single hedged item, including stratifications and certain net positions. In the absence of hedge accounting, changes in the fair value of derivatives will continue to be recorded in the income statement.

**d) Other adjustments**

The Company's adoption of IFRS 9 did not entail any significant adjustment of other items in the financial statements recorded as at 1 January 2018.

**Initial recognition and measurement of financial assets**

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income (OCI) and at fair value through profit or loss. The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied a practical expedient, the Company initially values 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. Trade receivables that do not contain a significant financing component or for which the Company has applied a practical expedient are valued at the transaction price determined in accordance with IFRS 15.

For a financial asset to be classified and measured at amortised cost or at fair value through OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid ('solely payments of principal and interest (SPPI)'). This assessment is referred to as the SPPI test and is carried out at instrument level.

The Group's business model for the management of financial assets refers to the way in which it manages its financial assets in order to generate financial flows. The business model determines whether the cash flows will arise from the collection of contractual cash flows, the sale of financial assets or both.

A purchase or sale of a financial asset that requires delivery within a time frame generally established by regulation or convention in the marketplace (regular way trade) is recognised on the trade date, i.e. the date on which the Company commits itself to purchase or sell an asset.

**Subsequent measurement of financial assets**

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value recognised in other comprehensive income with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value recognised in other comprehensive income without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through profit or loss

In general, the most important categories for the Company are the first and the fourth.

**Financial assets at amortised cost**

The Company measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is owned as part of a business model whose objective is to own financial assets for the purpose of collecting contractual cash flows
- the contractual terms of the financial asset provide for cash flows at certain dates represented solely by payments of principal and interest on the amount of principal to be repaid

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.

Group financial assets at amortised cost include trade receivables and other receivables as well as investments that pass the SPPI test.

**Financial assets at fair value through profit or loss**

This category includes financial assets held for trading and assets designated as at fair value through profit or loss upon initial recognition with changes recognised in the income statement, or financial

assets that must be measured at fair value. Assets held for trading are all those assets acquired for the purpose of selling or repurchasing them in the near term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments (the Company does not currently hold derivatives that are not designated as hedges). Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be recognised at fair value through profit or loss at initial recognition if this results in the derecognition or significant reduction of an accounting mismatch.

Financial instruments at fair value through profit or loss are recognised in the balance sheet at fair value and net changes in fair value are recognised in the statements of profit/(loss) for the year.

### Impairment of financial assets

The Company recognises an expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows payable under the contract and all cash flows expected to be received by the Company, discounted at an approximation of the original effective interest rate. Expected cash flows will include cash flows arising from the application of collateral held or other credit guarantees that are an integral part of the contractual conditions. Expected losses are recognised in two phases. With regard to credit exposures for which there has been no significant increase in credit risk since the initial recognition, it is necessary to recognise credit losses resulting from the estimate of default events that are possible within the next 12 months (12-month ECL). For credit exposures for which there has been a significant increase in credit risk since initial recognition, expected losses relating to the residual duration of the exposure must be fully recognised, regardless of when the default event is expected to occur ("Lifetime ECL").

For trade receivables and contract assets, the Company applies a simplified approach in calculating expected losses. Therefore, the Company does not monitor changes in credit risk, but fully recognises the expected loss at each reference date. The Company has defined a matrix system based on historical information, revised to consider forward-looking elements with reference to specific types of borrowers and their economic environment, as a tool for determining expected losses.

A financial asset is derecognised when there is no reasonable expectation that the contractual cash flows will be recovered.

### ***Initial recognition and measurement of financial liabilities***

Upon initial recognition, financial liabilities are classified under financial liabilities at fair value through profit or loss, under loans and borrowings, or under derivatives designated as hedging instruments.

Financial liabilities are initially recorded at fair value plus transaction costs directly attributable to them in the case of loans, borrowings and payables.

The Group's financial liabilities include trade payables and other payables, loans and borrowings, including bank overdrafts and derivative financial instruments.

### ***Subsequent measurement of financial liabilities***

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include liabilities held for trading and financial liabilities designated as at fair value through profit or loss upon initial recognition.

Liabilities held for trading are all those taken on with the intention of settling or transferring them in the near term.

Gains and losses on financial liabilities held for trading are recognised in the statements of profit/(loss) for the year.

Financial liabilities are designated upon initial recognition as at fair value through profit or loss only if the conditions in IFSR 9 are met.

#### *Loans and receivables*



This is the most important category for the Company. After initial recognition, loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss only when the liability is extinguished, as well as through amortisation.

The amortised cost is calculated accounting for acquisition discounts or premiums, fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised in financial charges in the statement of profit/(loss). This category generally includes interest-bearing loans and receivables.

#### *Cancellation*

A financial liability is cancelled when the obligation underlying the liability is extinguished, annulled or fulfilled. If an existing financial liability is replaced by another one from the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a cancellation of the original liability, accompanied by the recognition of a new liability, with any differences in carrying amounts recognised in the statements of profit/(loss) for the year.

#### **Derivative financial instruments and hedge accounting**

The Company uses interest rate swaps to hedge against interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is signed and, subsequently, are re-measured at fair value. Derivatives are recorded as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, the aforementioned hedges are referred to as “cash flow hedges”.

When a hedging transaction is initiated, the Company formally designates and documents the hedge relationship to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and how the Company will assess whether the hedge relationship meets the hedging efficacy requirements (including analysis of sources of hedge ineffectiveness and how the hedge relationship is determined). The hedge relationship meets the eligibility criteria for hedge accounting if it meets all of the following hedging efficacy requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk effect does not prevail over the changes in value resulting from the aforementioned economic relationship;
- the hedge ratio of the hedge relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge this quantity of hedged item.

The transactions carried out by the Group, since they meet all the criteria for hedge accounting, have been accounted for as follows:

The portion of gain or loss on the hedged instrument relating to the effective portion of the hedge is recognised in other comprehensive income in the cash flow hedge reserve, net of tax, while the ineffective portion is recognised directly in statements of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

#### **Investments in subsidiaries and associates**

Subsidiaries are companies in which the company exercises control. Control is obtained when the Company is exposed or entitled to variable yields, deriving from its relationship with the investee company and, simultaneously, has the capacity to impact said yields by exercising its power over said entity.

Specifically, the company controls an investee company if, and only if, it has:

- power over the subject entity of the investment (or rather it holds valid rights that grant it the current power to manage significant assets of the entity subject to investment);
- exposure or rights to variable yields deriving from the relationship with the entity subject to

investment;

- the capacity to exercise its power on the entity subject to investment in order to influence the amount of its yields.

Associates are companies over which TXT e-solutions S.p.A. exercises a significant influence. Significant influence refers to the power to participate in determining the financial and operating policies of the associate without having control or joint control of the same. Significant influence is presumed when the Company holds at least 20% of the voting rights.

The considerations made to determine significant influence or joint control are similar to those required to determine control over subsidiaries.

Investments in subsidiaries and associates are recognised at cost less impairment.

On acquisition of the investment, any positive difference between the acquisition cost and the Company's share of the present value of the subsidiary's or associate's equity is therefore included in the investment's carrying amount.

Investments in subsidiaries and associates are tested for impairment at least annually, or more frequently, if necessary. If there is evidence that an impairment loss has been incurred, such loss is recognised in profit or loss under impairments. If the Company's share of loss of the investee company exceeds the carrying amount of the investment, and the Company has incurred legal or constructive obligations to cover such losses, the company's interest is reduced to zero and the additional losses are recorded among liabilities. If subsequently the impairment loss no longer exists or has decreased, a reversal of the impairment loss is recognised in profit or loss to the extent of the original purchase cost.

The cost of investments in foreign companies is converted into Euro at the historical acquisition and subscription exchange rates.

### **Contractual assets**

Contractual assets are measured at the lower of acquisition or production cost and market value. This refers mainly to consumables measured at acquisition cost, determined by the last cost incurred, which is an approximation of FIFO.

Contractual assets relating to projects, consisting of services not yet completed at the end of the financial year relating to indivisible contracts that will be completed during the next twelve months, are measured on the basis of the considerations agreed in relation to the stage of completion determined using the cost-to-cost method. Advance payments received from customers are deducted from inventories, to the extent that they do not exceed the consideration accrued; the remaining part is recognised as a liability.

### **Cash and cash equivalents and short-term deposits**

Cash and cash equivalents and short-term deposits comprise cash on hand and demand and short-term deposits with maturity of up to three months.

### **Treasury shares**

Treasury shares are measured at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of an entity's treasury shares. Any difference between the consideration paid and received, when treasury shares are reissued, is recognised in the share premium reserve. Voting and dividend rights attached to treasury shares are suspended. If stock options are exercised, they are serviced with treasury shares.

### **Employee benefits expense**

#### **Post-employment benefits**

The liability relating to employee benefits paid upon or after the end of employment and relating to defined benefit plans, net of any plan assets, is determined based on actuarial assumptions made to estimate the amount of benefit that employees have earned to date. The liability is recognised on



an accrual basis over the vesting period.

Employee post-employment benefits earned up to 31 December 2006, pursuant to Article 2120 of the Italian Civil Code, are included in defined benefit plans. Indeed, subsequent to the reform of supplementary pension schemes, since 1 January 2007 post-employment benefits earned are mandatorily paid into a supplementary pension fund, or into the special Treasury Fund set up at the National Social Security Institute (INPS) if the employee exercised the specific option. Therefore, TXT's defined benefit obligation to employees exclusively regards the provisions made up to 31 December 2006.

The accounting treatment adopted by TXT since 1 January 2007 reflects the prevailing interpretation of the new law and is consistent with the accounting approach defined by the relevant professional bodies. In particular:

- Post-employment benefits earned since 1 January 2007 are considered elements of a Defined Contribution Plan even if the employee exercised the option to allocate them to the Treasury Fund at INPS. These benefits, determined based on statutory provisions and not subject to any actuarial valuation, therefore represent negative income components recognised as labour costs.
- Post-employment benefits earned as at 31 December 2006 continue instead to represent the liability for the company's obligation under a Defined Benefit Plan. This liability will not be increased further in the future with additional provisions; therefore, unlike in the past, the component relating to future increases in salaries was excluded from the actuarial calculation made to determine the balance as at 31 December 2017.

External actuaries determine the present value of TXT's obligations using the Projected Unit Credit Method. With this method, the liability is projected into the future to determine the probable amount payable upon the end of employment and is then discounted to account for the time that will pass before the actual payment. The calculation takes into account the post-employment benefits earned for service in prior periods and is based on actuarial assumptions mainly regarding the interest rate, which reflects the market yields on high quality corporate bonds with a term consistent with the estimated term of the obligation and employee turnover.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of TXT's obligations at the end of the period, due to the change in the previously used actuarial parameters (described above), are recognised outside profit or loss (in comprehensive income) and directly in equity.

## **Stock option plans**

TXT e-solutions S.p.A. may recognise additional benefits to particular categories of employees who work in the Company and its subsidiaries, deemed to be "key management personnel" in terms of authority and/or responsibility through stock option plans. Pursuant to IFRS 2 – Share-Based Payment – the overall amount of the present value of the stock options at grant date is recognised systematically on a monthly basis in profit or loss as a cost during the vesting period, with a specific reserve recognised in equity. This implicit cost is determined using specific income-equity models.

The fair value of the stock options is represented by the value of the option estimated by applying the "Black-Scholes" model, which takes account of the exercise price of the option, the current price of the shares, the expected volatility, and the risk-free interest rate.

## **Contingent liabilities**

The Company may be involved in legal proceedings regarding various issues. Owing to the uncertainties inherent to said issues, it is normally hard to make a reliable estimate of the outflow of resources that could arise from said disputes. In the ordinary course of business, the management consults with legal advisors as well as legal and fiscal experts. TXT recognises a liability for said disputes when it deems it probable that an outflow of financial resources will be required and when the amount of the losses resulting from it can be reliably estimated. If an outflow of financial resources is possible, this fact is reported in the notes to the financial statements.

## **Dividends**

Dividends received are recorded in profit or loss on an accrual basis, i.e. in the period in which the relevant right arises, following the shareholders' resolution to distribute the investee companies' dividends. If the dividend received exceeds the total comprehensive income of the subsidiary or associate, in the year in which it is declared, the Company assesses whether this situation may constitute an indicator of impairment of the investment.

Dividends payable are recognised as movements in equity in the period in which they are approved by the Shareholders' Meeting.

## **Intragroup and transactions with related parties**

The following are considered to be related parties of TXT e-solutions S.p.A:

- a) entities that, directly or indirectly, even through subsidiaries, trustees or third parties:
  - control TXT e-solutions S.p.A.
  - are subsidiaries of TXT e-solutions S.p.A.
  - are subject to joint control with TXT e-solutions S.p.A.
  - Have an interest in TXT e-solutions S.p.A. such as to exercise a significant influence.
- b) associates of TXT e-solutions S.p.A.
- c) joint ventures in which TXT e-solutions S.p.A. participates.
- d) managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies.
- e) close members of the family of parties as per the above points a) and d).
- f) entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights.
- g) an occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity.

As for transactions with related parties, including intra-group transactions, it should be noted that they cannot be classified as atypical or unusual, as they fall within the course of ordinary activities of the Group's companies. Said transactions are conducted at arm's length, considering the characteristics of the goods and services provided.

Disclosure on transactions with related parties, comprising disclosure required by Consob communication dated 27 July 2006, is provided in the "Transactions with Related Parties" section of this note to the financial statements.

## **Translation of foreign currency items**

The financial statements are presented in Euro, which is the functional and presentation currency adopted by the Company.

Foreign currency transactions are recorded on initial recognition in the functional currency by applying the spot exchange rate at the date of the transaction.

The monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the exchange rate at the reporting date.

Exchange differences are recognised in profit or loss with the exception of monetary items that form part of the net investment in a foreign operation. Such differences are recognised initially in other comprehensive income until the disposal of the net investment, and only then will be recognised in profit or loss. Taxes and tax credits attributable to exchange differences on monetary items are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of initial recognition of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date

when the fair value was determined. Gains or losses arising from the translation of non-monetary items are treated in line with the recognition of gains and losses arising from changes in the fair value of said items (foreign currency differences on the items with changes in fair value recognised in other comprehensive income or profit or loss are recognised in other comprehensive income or profit or loss, respectively).

## **REVENUES AND COSTS**

### **Revenues from contracts with customers**

Revenues from contracts with customers are recognised when control of goods and services is transferred to the customer for an amount that reflects the fee that the Company expects to receive in exchange for those goods or services. The Company has generally concluded that it acts as the principal for agreements that generate revenue as it controls the goods and services before they are transferred to the customer.

The Company considers whether there are other commitments in the contract that represent obligations to be carried out, for which a portion of the transaction fee is to be allocated (e.g. guarantees, customer loyalty schemes). In determining the price of the equipment sale transaction, the Company shall consider the effects of variable fees, significant financing components, non-monetary fees and fees payable to the customer (if any).

If the fee promised in the contract includes a variable element, the Company estimates the fee amount to which it will be entitled, in exchange for the transfer of the goods to the customer.

The variable fee is estimated when the contract is entered into and cannot be recognised until it is highly probable that when the uncertainty associated with the variable fee is subsequently resolved, there will be no significant downward adjustment to the amount of cumulative revenue that has been accounted for.

#### Sales of other assets

Revenues from the sale of licences or other capital goods are recognised when control of the goods passes to the customer. Generally, no unusual commercial deferment terms have been applied.

### **Interest income**

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is measured using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is classified as financial income in the income statement.

## **COSTS**

Expenses are recognised in the financial statements when ownership of the assets to which they refer has been transferred or the services acquired have been provided, or when the relevant future benefits cannot be estimated.

Personnel costs include, consistently with their substantial nature, stock options/grants provided to employees. In determining these costs, reference is made to the comments in the "Employee benefits expense" section concerning the policies adopted in preparing the consolidated financial statements.

Interest income and expense are recognised on an accrual basis based on interest accrued on the net value of the relevant financial assets and liabilities using the effective interest method.

### **Government grants**

Government grants are recognised when there is reasonable assurance that they will be received and the entity will comply with the conditions attached to them. When grants are related to expenses, they are recognised as income; however, they are recognised on a systematic basis over the periods

in which the entity recognises the expenses that the grants are intended to compensate. If a grant is related to an asset, the grant is recognised as income on a straight-line basis over the expected useful life of the relevant asset.

When TXT receives a non-monetary grant, the asset and the grant are recognised at their nominal amount in profit or loss on a straight-line basis over the expected useful life of the relevant asset. In case of loans or similar forms of assistance granted by government bodies or similar institutions at a below-market rate of interest, the benefit associated with the favourable interest rate is treated as an additional government grant.

## **INCOME TAXES**

### **Current taxes**

Current taxes are measured at the amount expected to be paid to the taxation authorities. The tax rates and laws used to calculate the amount are those that have been enacted or substantively enacted by the end of the reporting period.

Current tax is recognised outside profit or loss if the tax relates to items that are recognised outside profit or loss, and is therefore recognised in equity or in other comprehensive income, consistently with the recognition of the item it relates to. Management periodically assesses the tax position taken in the tax return with respect to situations in which tax laws are subject to interpretation and makes provisions where appropriate.

### **Deferred tax**

Deferred tax is calculated using the so-called “liability method” on the temporary differences arising at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that it arises from:

- the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the reversal of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures that may be controlled and is unlikely to occur in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences as well as the unused tax losses and unused tax credits can be utilised, unless:

- the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the deferred tax asset for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, is recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed annually at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised outside profit or loss if the tax relates to items that are recognised outside profit or loss, and is therefore recognised in equity or in other comprehensive income, consistently with the recognition of the item it relates to.

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax relates to the same taxable entity and the same taxation authority.

Tax benefits acquired in a business combination, but that do not satisfy the criteria for separate recognition as of the acquisition date, are subsequently recognised where required when there is new information about changes in facts and circumstances. The adjustment is either treated as a reduction of goodwill (to the extent that it does not exceed goodwill), if it is recognised within the measurement period, or in profit or loss, if recognised afterwards.

## Indirect taxes

Expenses, revenue and assets are recognised net of value added tax, with the following exceptions:

- the tax applied to the purchase of goods or services cannot be deducted, in which case it is recognised as part of the asset's acquisition cost or part of the expense recognised in profit or loss;
- trade receivables and payables include the tax.

The net amount of indirect sales taxes that can be recovered from or paid to the tax authorities is recognised as part of trade receivables or payables, depending on whether the balance is positive or negative.

## FAIR VALUE HIERARCHY

For measurements of financial instruments recognised in the balance sheet, IFRS 13 requires that fair value measurements be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are as follows:

- Level 1: quoted prices in an active market for assets or liabilities subject to measurement;
- Level 2: inputs other than quoted prices included within level 1 that are observable in the market, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data.

No transfers between hierarchical levels occurred during the financial year 2019.

Comparison between fair value and carrying amount of the TXT Group's financial instruments is provided in the table below, subdivided by hierarchy level:

Amounts in €	Notes	31/12/2019	Level 1	Level 2	Level 3
<b>Financial assets for which the fair value is identified</b>					
- other non-current financial assets		-	-	-	0
- other short-term financial receivables	8.9	-	-	-	-
- Financial instruments at fair value	8.10	86,281,566	8,556,360	-	77,725,206
<b>Total financial assets</b>		<b>86,281,566</b>	<b>8,556,360</b>	<b>-</b>	<b>77,725,206</b>
<b>Financial liabilities for which the fair value is identified</b>					
- other non-current financial liabilities	8.13	25,228,715	-	22,859,307	2,369,408
- other current financial liabilities	8.16	23,073,219	-	22,345,615	727,604
<b>Total financial liabilities</b>		<b>48,301,934</b>	<b>-</b>	<b>45,204,922</b>	<b>3,097,012</b>

Non-current financial liabilities (note 8.13) include the debt for:

- Assioma Group Earn-Out



- Non-current monetary flow swaps
- a payable for medium/long-term bank loans
- a payable to the lessor for leases and rentals, pursuant to IFRS 16 (for the portion to be repaid beyond 12 months).

While for current financial liabilities (note 8.16) the following are included:

- the portion of short-term payable for bank loans;
- the acquisition of Cheleo, as an estimate of the additional outlays for additional Earn-Out to be paid to former shareholders as a result of the achievement of the established objectives.
- the short-term portion of the payable to the lessor for leases and rentals pursuant to IFRS 16;
- the payable for loans received from subsidiaries through cash pooling contracts.

The directors have furthermore checked that the fair value of cash and cash equivalents and short-term deposits, trade receivables and payables and other current assets and liabilities is close to the book value as a result of the short-term maturity of these instruments.

### **Guarantees issued, obligations**

As at 31 December 2019, the Company had issued guarantees on debts and obligations of third parties and associates amounting to € 718 thousand, in particular € 265 thousand in the form of bank guarantees for rental security deposits, and the remainder in the form of bank guarantees for bids in tenders.

The Company has contractual obligations with reference to lease contracts for the offices in Milan (expiring in June 2024) and Turin (expiring in October 2022) and for the vehicle fleet for staff use with contracts stipulated for an average duration of 48 months.

## **4 Use of estimates and discretionary assessments**

The preparation of the Company's financial statements and the relevant notes in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures relating to contingent assets and liabilities at the reporting date. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and any changes are immediately recognised in profit or loss. Here below are the assumptions made about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### ***Revenues from contracts with customers***

The Company has carried out the following assessments, which have a significant impact on the determination of the amount and timing of revenue recognition from contracts with customers:

#### *Identification of the performance obligation in a joint sale*

The Company provides maintenance and assistance services to customers who have been sold, either separately or together, licenses for use, as well as professional services.

The Company has determined that for the product types offered for which it is reasonable to expect that the customer requires a level of continuous involvement from the Group over a period of time, and which require a certain period of implementation by the customer, the maintenance and assistance service contract cannot be considered separately from the license contract, even if the latter exclusively envisages an up-front fee. The fact that the Group does not regularly grant the right to use its licences separately from the signing of a first maintenance contract, together with the consideration that maintenance services cannot reasonably be provided by other suppliers, are indicators that the customer does not tend to separately benefit from both products independently.

The Company, on the other hand, has established that professional services must be distinguished within the context of the contract and that a price must be independently allocable to them.

### *Determination of the method for estimating the value of the recognisable variable fee*

In estimating any variable fee, the Group must use the expected value method or the most likely quantity method to estimate which method best determines the value of the fee to which it is entitled.

Before including any value of the variable fee in the transaction price, the Group shall assess whether a portion of the variable fee is subject to recognisability limits. The Group has determined that, on the basis of its past experience, economic forecasts and current economic conditions, the variable fee is not subject to uncertainties that could limit its recognisability. Furthermore, the uncertainty to which the variable fee is exposed will be subsequently resolved within a short period of time.

### *Considerations on the significant financing component in a contract*

The Company does not usually sell with formal or expected extension of payment terms exceeding one year, for which it believes that there are no significant financing components in the commercial transactions.

### *Determination of the time frame for project service satisfaction*

The Company has determined that the input method is the best method for determining the progress of services provided for projects (such as the development of technological solutions, consultancy, integration services, training) since there is a direct relationship between the Group's activities (for example, the hours worked and costs incurred) and the transfer of the service to the customer. The Group recognises revenues on a cost-to-cost basis (including the total costs expected to be incurred to complete the service). Depending on the contractual clauses, orders can be managed on a Time & Material or Fixed Price basis. With the former type, revenues are recognised on the basis of the hours actually spent on the project, calculated and accepted by the customer. The agreement with the customer is essentially based on a number of hours to be invested in the project, which can be revised, including upwards, depending on the actual use of resources. Revenues for Fixed Price orders, for which a price is fixed in advance with no subsequent adjustments, are instead determined by applying the completion percentage to the amount of the fee for the project. The calculation of the completion percentage, determined using the Cost to Cost method, i.e. the ratio between the costs incurred and the total expected costs, takes into account the hours spent by personnel involved in the project on the reference date and any other direct costs.

## ***Impairment of non-financial assets***

An impairment loss occurs when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is measured based on data available from binding sale agreements between knowledgeable, willing parties for similar assets or observable market prices, less the costs of disposal. Value in use is calculated using a discounted cash flow model. Cash flow projections are based on the plan for the next five years and include neither restructurings for which TXT does not have a present obligation, nor significant future investments that will increase the return on the assets of the cash-generating unit subject to measurement. The recoverable amount significantly depends on the discount rate used in the discounted cash flow model, as well as on the expected future cash inflows and the growth rate used to extrapolate. The key assumptions used to determine the recoverable amount for the various cash-generating units, including a sensitivity analysis, are detailed in note 1.4.

## ***Taxes***

Deferred tax assets are recognised for all unused tax losses, to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. Management is required to make significant estimates to determine the amount of tax assets that can be recognised based on the level of future taxable profits, when they will arise, and tax planning strategies.

## ***Pension funds***

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation requires assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates, and future benefit increases. Because of the long-term nature of these plans, the estimates are subject to a significant



degree of uncertainty. All assumptions are reviewed annually.

In determining the appropriate discount rate, the directors use the interest rate of corporate bonds with average terms corresponding to the estimated term of the defined-benefit obligation. The bonds are subject to further qualitative analysis and those that present a credit spread deemed excessive are removed from the population of bonds on which the discount rate is based, as they do not represent high-quality bonds.

The mortality rate is based on mortality tables available for each country. Future salary and benefit increases are based on the expected inflation rates for each country. Further details, including a sensitivity analysis, are provided in note 1.13.

## 5 New accounting standards, interpretations and amendments adopted by the Company

The accounting standards adopted in preparing the consolidated financial statements as at 31 December 2019 are consistent with those used in preparing the Group financial statements as at 31 December 2018, except for the adoption of the new standards, amendments and interpretations effective since 01 January 2019.

In particular, it should be noted that for the latter, the Company has opted for early adoption of IFRS 16 “Leases” in accordance with the provisions of section C1 of the standard.

Detailed descriptions of these new standards, interpretations and amendments are provided below.

**IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments** The interpretation defines the accounting treatment for income tax when the tax treatment entails uncertainties, which impact IAS 12 and does not apply to taxes or duties that do not fall within the scope of IAS 12, nor does it include specific requirements relating to interest or sanctions relating to uncertainty in tax treatments. The interpretation specifically regards the following points: - If an entity considers uncertain tax treatments separately - The assumptions of the entity on the examination of the tax treatments by the tax authorities - How an entity calculates taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates - How an entity treats changes in facts and circumstances.

An entity must decide whether to consider each uncertain tax treatment separately or together with others (one or more) uncertain tax treatments. It should adopt an approach that provides the best predictions of the resolution of the uncertainty. The Group applies a significant judgement to identify uncertainties in income tax treatments. Given that the Group operates in a complex multinational context, it has assessed whether the interpretation may have had an impact on its consolidated interim financial statements. At the time of the adoption of the interpretation, the Group examined the existence of uncertain tax positions, with specific reference to transactions between group companies, associates and related parties and not independently of the relative transfer pricing policy. The Company and its subsidiaries submit tax returns in various jurisdictions, deducting certain costs relating to transfer prices; this approach could be challenged by the relevant tax authorities. Based on studies conducted on transfer pricing, and to the best of its knowledge, the Group has decided that there is no reason to retain it likely that its tax treatments (including those of its subsidiaries) do not comply with the tax regulations of the competent authorities. Therefore, the interpretation had no impact on the Group’s consolidated financial statements.

### Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income (FVOCI), on condition that the contractual cash flows are “solely payments of principal and interest on the reference amount” (the SPPI criterion) and that the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event of the circumstance that caused the early termination of the contract and regardless of which is the party paying or receiving a reasonable compensation for the early termination of the contract. These amendments had no impact on the Group’s consolidated financial statements.

### **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 endorse the accounting rules in cases in which, during the reference period, an amendment, curtailment or settlement of the plan occurs. The amendments specify that when an amendment, curtailment or settlement of the plan take place during the year, the entity is obliged to determine the cost of the service for the rest of the period following the amendment, curtailment or settlement, adopting the reference actuarial assumptions to remeasure the net liabilities (assets) for defined benefits so that they reflect the benefits offered by the plan and the assets of the plan after said event. The entity is also obliged to determine the net interest for the remaining period after the amendment, curtailment or settlement of the plan: the net defined benefit liability (asset) reflecting the benefits provided by the plan and the plan assets after that event; and the discounting rate used to remeasure the net liability (asset) for defined benefits. These amendments had no impact on the consolidated financial statements insofar as the Group, in the reference period, did not record any amendment, curtailment or settlement of the plans.

### **Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments specify that an entity applies IFRS 9 to long-term interests in associates and joint ventures, for which the equity method is not applied, but that are substantially part of the net investment in the associate or joint venture (long-term interests). This clarification is important because it implies that the model of expected losses on receivables of IFRS 9, applies to these long-term investments. The amendments also clarify that, when applying IFRS 9, an entity must not consider any losses of the associated company or joint venture or any impairment of the interest, recognised as adjustments of the net interest in the associate or joint venture that result from the application of IAS 28 Investments in Associates and Joint Ventures. These amendments did not have a significant impact on the consolidated financial statements, insofar as the Group does not have significant interests in associates or joint ventures that are not measured with the equity method.

### **Annual improvements 2015-2017 Cycle**

#### **- 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, which is carried out in different stages, including the remeasurement of the fair value of the interest previously held in the assets and liabilities of the joint operation. In doing this, the acquirer reassess the interest previously held in the joint operation. The entity applies these amendments to business combinations whose date of acquisition coincides with or is later than the first financial year starting from 1 January 2019, with early application permitted. This amendment had no impact on the Group's consolidated financial statements insofar as no business combination took place in which joint control was obtained.

#### **- IFRS 11 Joint Arrangements**

An entity that participates in a joint operation, without having joint control, could obtain joint control of the joint operation if the activity of the same constitutes a business as defined in IFRS 3. The amendments clarify that the interests previously held in said joint operation are not remeasured. The entity applies these amendments to operations in which it has joint control from the start of the financial year starting from 1 January 2019 or later, with early application permitted. This amendment had no impact on the Group's consolidated financial statements insofar as no business combination took place in which joint control was obtained.

#### **- IAS 12 Income Taxes**

The amendments clarify that the tax consequences of dividends are related to past transactions or to events that generated distributable profits rather than to distributions to shareholders. Therefore, an entity recognises the income tax consequences of dividends in the profit/loss statement for the year, under other comprehensive income components or in shareholders' equity consistent with the way in which the entity previously recognised said past transactions or events. The entity applies said amendments to financial years beginning on or after 1 January 2019, and early application is

permitted. When an entity applies these amendments for the first time, it applies them to the tax consequences of dividends recognised from the start of the first financial year. As the Group's current practice is in line with these amendments, the Group did not recognise any impact resulting from said amendments on its consolidated financial statements.

**- IAS 23 Borrowing Costs**

The amendments clarify that any borrowing made, which right from the start was intended to improve an asset, must be treated by the entity as non-specific if all of the measures needed to prepare said asset for use or sale have been completed. The entity applies said amendments to financial charges incurred from the beginning of the year in which the entity applies these amendments for the first time. The entity applies said amendments to financial years beginning on or after 1 January 2019, and early application is permitted. The Group has no such cases.

## **6 Financial risk management**

TXT e-solutions SpA has adopted an internal control system made up of a set of rules, procedures and organisational structures aimed at ensuring a correct management of the Company, including through adequate identification, management and monitoring of the main risks that could jeopardise the accomplishment of corporate goals.

This section describes the risks and uncertainties related to the economic-regulatory framework and market conditions that may affect the Company's performance; specific risks that may give rise to obligations for TXT are assessed when determining the amount of the relevant provisions and detailed in the Notes to the financial statements together with the relevant contingent liabilities.

For the purposes of risk management, the Company adopts specific procedures designed to maximise value for its shareholders, undertaking all measures necessary to prevent the risks inherent to the Company's business.

TXT is exposed to financial risks deriving from exchange rate and interest rate fluctuations, and from its customers' capacity to meet their obligations to the Company (credit risk).

With cash and cash equivalents of € 6,053,126 as at 31 December 2019 (€ 3,092,107 as at 31 December 2018) and a positive Net Financial Position of € 44,232,758 (see the financial position under section 3 "Net financial position"), TXT's liquidity risk is limited.

### **Financial Risks**

#### ***Currency risk***

The Company's exposure to currency risk derives from the different geographical distribution of the Company's production operations and commercial activities. This exposure is mainly the result of sales in currencies other than the functional currency.

In order to manage the economic impact deriving from the exchange rate fluctuations with respect to the Euro (mainly of the US Dollar), TXT has entered into forward sale contracts to mitigate the impact of exchange rate volatility on the income statement. Currency forward sales and purchases are not specific for each transaction but are carried out based on the overall balance by currency and typically have a quarterly duration.

As at 31 December 2019, there were no currency hedge contracts present.

#### ***Credit risk***

Credit risk represents the Company's exposure to potential losses arising from the non-fulfilment of the obligations by counterparties.

To limit this risk, TXT mainly deals with well-known and reliable customers; sales managers assess the solvency of new customers and management continuously monitors the balance of relevant receivables so as to minimise the risk of potential losses.

The table below summarises the degree of concentration of the Company's trade receivables (net of receivables from TXT Group companies):

	Amount in €	Concentration %
Total receivables due from customers	9,347,970	-
Receivables due from customers (Top 5)	6,848,042	73.26%
Receivables due from customers (Top 10)	7,638,002	81.71%

In general, trade receivables are mainly concentrated in Italy. Receivables from an important Italian customer operating in the Aerospace & High Tech business account for 50% of the TXT's total trade receivables. The first ten customers account for 82% of the total trade receivables collectible.

### **Interest rate risk**

The Company's debt is predominately characterised by floating interest rates, and therefore the Company is exposed to the risk deriving from their fluctuation.

At the end of the reporting period, the Company has not entered in any derivative contracts for the purpose of hedging interest rate risk.

The net financial exposure subject to floating rates is connected to the Group's centralised treasury management.

The table below shows the impact on the income statement deriving from a 1% increase or decrease in the interest rates to which TXT is exposed, with all other conditions being equal:

(Amounts in € thousands)	31/12/2019	Interest rate change	Financial income/charges
Net Financial Position (NFP)	44,232,758		
Fixed rate payables	50,851,934		
Financial exposure (floating rate)	(6,619,176)	+1%	(66,192)
		-1%	66,192

### **Liquidity and investment risk**

On the basis of cash and cash equivalents of € 6,053,126, and a positive Net Financial Position of € 44,232,758 (see note 3), the Company does not deem itself to be exposed to significant liquidity risks at present.

The Company's financial instruments are exposed to market risk deriving from uncertainties around the market values of assets and liabilities produced by changes in interest rates, exchange rates and asset prices. TXT manages price risk through diversification and by setting individual or total limits on securities. Portfolio reports are regularly submitted to the company's management. The company's Board of Directors reviews and approves all investment decisions.

At the reporting date, the fair value of financial instruments was € 86 million. It should be noted that these instruments may be divested at any time, even before maturity, without incurring any charges.

### **Other risks**

The company currently has commercial relationships in the United Kingdom with a single end customer, controlled by one of the largest companies in Italy, for revenues that amount to € 933 thousand. The company analysed the potential effects of Brexit and classified them as not being particularly significant.

The ECL as at 31 December 2019 was estimated on the basis of a number of economic conditions forecast at that date. Since the beginning of January 2020, the Coronavirus epidemic has spread throughout mainland China and beyond, disrupting economic and commercial activity. The impact on GDP and other key indicators will be taken into account when determining the severity and likelihood of downward economic scenarios that will be used to estimate the ECL under IFRS 9 in 2020.

## 7 Going concern

Pursuant to IAS 1 paragraph 25, the directors assessed that no material uncertainties regarding the Company's ability to continue as a going concern exist as at 31 December 2019, in view of the significant allocation of assets and cash and the positive prospective economic results.

## Notes to the BALANCE SHEET and INCOME STATEMENT as at 31 December 2019

### 8 Balance sheet

#### 8.1 Intangible assets with a finite useful life

Intangible assets with a finite useful life amounted to € 76,331 as at 31 December 2019, net of amortisation, and refer to licences for software use purchased by the Company for the operation of internal tools.

The changes occurring over the year are presented below:

Intangible assets	Software licences	TOTAL
<b>Balances as at 31 December 2018</b>	<b>99,743</b>	<b>99,743</b>
Acquisitions	2,039	2,039
Amortisation	(25,451)	(25,451)
<b>Balances as at 31 December 2019</b>	<b>76,331</b>	<b>76,331</b>

Balances as at 31 December 2019	Software licences	TOTAL
Historical cost	213,236	213,236
Accumulated amortisation and impairment	(136,904)	(136,904)
<b>Net value</b>	<b>76,331</b>	<b>76,331</b>

#### 8.2 Tangible assets

Net of depreciation, tangible assets amounted to € 2,781,524 as at 31 December 2019, up € 820,108 compared with 31 December 2018. The changes that occurred during the year are detailed below:

Tangible assets	Electronic machinery	Furniture and fixtures	Buildings (lease)	Electronic machinery (lease)	Vehicles (lease)	TOTAL
<b>Balances as at 31 December 2018</b>	<b>602,672</b>	<b>31,289</b>	<b>1,727,045</b>	<b>34,679</b>	<b>713,699</b>	<b>3,109,384</b>
Acquisitions	440,301	11,608	8,228	0	359,971	820,108
Disposals	(15,277)	-	-	-	(55,370)	(70,647)
Depreciation	(265,469)	(7,228)	(309,624)	(10,150)	(270,818)	(863,289)
Other Changes	(80,655)	-	-	-	(133,377)	(214,032)
<b>Balances as at 31 December 2019</b>	<b>681,572</b>	<b>35,669</b>	<b>1,425,649</b>	<b>24,529</b>	<b>614,105</b>	<b>2,781,524</b>

Balances as at 31 December 2019	Plants	Electronic machinery	Furniture and fixtures	Buildings (lease)	Electronic machinery (lease)	Vehicles (lease)	TOTAL
Historical cost	664	1,631,280	315,705	2,116,735	44,829	1,117,689	5,226,902

Accumulated depreciation	(664)	(949,708)	(280,036)	(691,087)	(20,300)	(503,583)	(2,445,378)
<b>Net value</b>	<b>0</b>	<b>681,572</b>	<b>35,669</b>	<b>1,425,649</b>	<b>24,529</b>	<b>614,105</b>	<b>2,781,524</b>

Investments in the "Electronic machinery" category mainly refer to the purchase of computer systems and hardware to bolster productive capacity.

The present amount of accumulated depreciation is deemed adequate in relation to the estimated remaining useful life.

The increases in the "vehicles (lease)" category relate to TXT e-solutions S.p.A.'s vehicle fleet.

## 8.3 Investments

The item "Investments" amounts to € 29,555,456 as at 31 December 2019, compared with € 13,821,227 as at 31 December 2018.

During the year, the Assioma Group (Assioma Net and AssioPay) was acquired to support group activities and expand the range of services offered to customers by the group's TXT Fintech Division and the remaining share of Cheleo.

	Balances as at 31 December 2018	Acquisitions	Balances as at 31 December 2019
Investments in subsidiaries	13,773,227	15,782,229	29,555,456
Investments in associates	48,000	(48,000)	-
<b>Investments</b>	<b>13,821,227</b>	<b>15,734,229</b>	<b>29,555,456</b>

The changes occurring over the year are presented below:

Company name	Balances as at 31 December 2018	Acquisitions	Balances as at 31 December 2019
Pace GmbH	7,472,191	-	7,472,191
TXT Next Sarl	100,000	-	100,000
TXT Next Ltd	113,135	-	113,135
TXT e-solutions Sagl	37,082	-	37,082
Cheleo Srl	6,050,819	4,900,000	10,950,819
Sense	48,000	(48,000)	-
Assioma	-	10,882,229	10,882,229
<b>Total</b>	<b>13,821,227</b>	<b>15,734,229</b>	<b>29,555,456</b>

Below is a table showing the main financial data for directly controlled companies, as required by Consob communication No. 6064293 of 28/7/06 (\*).



Company name	City or foreign country	Share capital	Shareholders' Equity	Profit / Loss	% control	Carrying amount	Share of shareholders' equity
Pace GmbH	Berlin	295,000	4,725,186	1,556,645	79	7,472,191	3,484,046
Cheleo Srl	Brescia	99,000	3,585,627	648.890	100	10,950,819	3,585,627
TXT e-solutions Sagl	Chiasso	43.784	584,597	164.861	100	37,082	584,597
TXT Next Sarl	France	100.000	197,417	55.582	100	100,000	197,417
Assioma Net	Milan	30.000	3,366,081	324.152	100	10,882,229	3,366,081
TXT Next Ltd	Great Britain	113,135	107,907	19.272	100	113,135	107,907
<b>Total</b>		<b>680.919</b>	<b>12,566,814</b>	<b>2,769,402</b>		<b>29,555,456</b>	

(\*) The figures refer to the financial statements drawn up for the Group's consolidated financial statements.

Below is a table showing the main financial data for indirectly controlled companies:

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The investments in Pace GmbH (79%) and Cheleo S.r.l. (100%) have been tested for impairment.

The recoverable value of the remaining investments was not analysed on the basis of discounted cash flow, instead the carrying amounts were compared with the related shareholders' equity. These investments are as follows:

- TXT e-solutions Sarl (Switzerland), 100%-owned and established in 2016, carries out activities dedicated to a single customer (Pilatus), with high profitability and a low risk profile;
- TXT Next Ltd (UK) and TXT Next Sarl (France), 100%-owned and established in 2017, they do not carry out direct activities with customers, but are dedicated to logistical support for the hiring of employees who render services to local customers, whose contractual and commercial relationships are headed and managed directly by TXT e-solutions S.p.A. and Pace GmbH;
- It was decided not to carry out the impairment test on the Investment in Assioma Net Srl (100%) as at 31.12.2019 as it was acquired in May 2019 and the underlying cash flow projections do not show indicators for an impairment test.

The investments in Pace GmbH and Cheleo, in the presence of a difference between the carrying amount and the corresponding fraction of the underlying shareholders' equity, were subjected to checks of the recoverability of the registration amounts. The recoverable amount was assumed to be equal to the equity value, estimated by discounting the expected cash flows over an explicit 5-year forecast period. On 30 January 2019, the Company's Board of Directors approved the plans based on which the recoverable amounts were measured. The terminal value used to check the recoverable amount of the investments is consistent with that used in the impairment tests for goodwill (for further details reference should be made to note 8.1 of the Group's consolidated financial statements). For the sake of completeness, it should be noted that the directors, for the purposes of drawing up the Separate Financial Statements, considered the call option on the residual minority rights of PACE (21%) and Cheleo (100%) as a financial instrument, recognised at its fair value at the initial recognition date and with subsequent changes posted to the income statement.

For considerations on the valuation as at 31 December 2019, please refer to the section "Fair value hierarchy".

For the different treatment of the PUT/CALL options for the purposes of consolidation, please refer to the explanatory notes for the same.



### Discount rate

The discount rate used in discounting cash flows represents the estimated rate of return on the market.

For the investment in Pace GmbH, the rates on German and US 10-year government bonds as at 31 December 2019 were used as the "Free Risk" rate, based on the relative contribution of each market to the weighted average plan results of **0.66%**.

For the investment in Cheleo S.r.l., with registered office in Brescia, the rate on 10-year Italian government bonds (BTPs) as at 31 December 2019 were used as the "Free Risk" rate, equal to **1.43%**.

The valuation parameters were applied in accordance with prior years:

- The risk premium relative to the market was estimated at 5.50%.
- Beta was estimated at 1.00, in line with the previous year.
- Long-term growth rate (g) 1.50%.

The cost of own capital is therefore:

For Pace GmbH:  $0.66\% + 5.50\% \times 1.00 = 6.16\%$ .

For Cheleo S.r.l.:  $1.43\% + 5.50\% \times 1.00 = 6.93\%$ .

In consideration of the Net Financial Position, which remains largely positive and as a precaution, it was decided not to consider medium/long-term loans as a source of financing for invested capital, but to consider the entire invested capital covered by equity and therefore calculate the cost of capital entirely consisting of the cost of own capital.

The discount rate is therefore **6.16%** for Pace GmbH and **6.93%** for Cheleo S.r.l.

### Sensitivity analysis

In order to test the fair value measurement model for changes in variables, changes in four key variables were simulated:

1. Increase in the interest rate used to discount cash flows by 200 bps, other conditions being equal (Pace from 6.16% and 8.16% - Cheleo from 6.93% and 8.93%).
2. A reduction in the growth rate in calculating the terminal value of 50 bps, other conditions being equal (from 1.50 to 1.00).
3. Reduction in the growth rate of revenues forecast in the business plan for each year of the period 2019-2023 of -75%.
4. Reduction in the EBITDA Margin applied to the terminal value of 200 bps, other conditions being equal.

For each of the above variables the value of the shareholding was calculated, compared with the carrying amount to show how the headroom of the baseline case is reduced in the sensitivity analysis.

The fair value of the companies was calculated firstly for the entire capital, then scaled to the stake currently held by TXT, which for Pace is 79%, while for Cheleo it is 100%.

Amounts in € thousand	Recoverable value and carrying amount (baseline) difference
Pace GmbH (79%)	30,154
Cheleo Srl	11,707

Recoverable value and carrying amount (Post sensitivity) difference			
Δ WACC	Δ g-rate	Δ Revenue CAGR	Δ EBITDA Margin TC
23,464	28,619	27,114	27,027
8,671	11,049	9,834	9,553

In all scenarios the difference between the recoverable value and the net book value remains very positive.

## Investment in associates

In 2017 TXT Sense was launched with the aim of developing proprietary technologies for a 3D representation and New Augmented Reality with applications designed for the industry, communication and service sectors.

On 11 October 2018, TXT participated in the establishment of the start-up Sense immaterial Reality Srl by subscribing shares representing 24% of the share capital for a total value of € 48 thousand.

On 27 November 2019, TXT sold its equity investment in the start-up Sense immaterial Reality Srl, representing 24% of its share capital, for a total value of € 48,000 to its shareholder Alvisè Braga IIIa.

Alvisè Braga IIIa, Chairperson of the Board of Directors and shareholder of TXT with an interest of 14.02% of the share capital, held a majority interest in the share capital of Sense immaterial Reality S.r.l., amounting to 76%. Therefore, Alvisè Braga IIIa qualifies as a related party in the transaction.

## 8.4 Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to € 22,762 as at 31 December 2019, a slight increase compared with € 21,202 as at 31 December 2018. The amount refers mainly to the deposit lodged for the renegotiation of the lease contract for the Milan office.

## 8.5 Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities as at 31 December 2019, compared to the figures as at the end of 2018, is shown below:

	Deferred tax assets	Deferred tax liabilities	Net balance
Balance as at 31 December 2018	634,740	1	634,739
Used in the period	(591,693)	-	(591,693)
Provisions in the period	217,970	287	217,683
<b>Balance as at 31 December 2019</b>	<b>261,017</b>	<b>288</b>	<b>260,729</b>

Deferred tax assets refer to the temporary differences (deductible in future years) for which recovery in the next few years is deemed to be reasonably certain.

The temporary differences of deferred tax assets and liabilities are shown by type in the tables below and compared with the previous year's figures:

Deferred tax assets	31 December 2019		31 December 2018	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Prepaid taxes for recoverable losses	-	-	1,674,033	401,768
Provisions for future risks and charges	118,905	28,537	118,905	28,537
Provision for bad debts	281,171	67,481	293,918	70,540
Write-down on treasury shares	244,664	58,719	244,664	58,719
Fair Value MTM Interest Rate Swap	208,875	50,130	167,947	40,307
Costs deductible in future years	231,674	55,602	143,000	34,320
Other changes	2,283	548	2,283	548
<b>Total</b>	<b>1,087,572</b>	<b>261,017</b>	<b>2,644,750</b>	<b>634,740</b>

Deferred tax liabilities	31 December 2019		31 December 2018	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Exchange differences	1,205	289	7	1
<b>Total</b>	<b>1,205</b>	<b>289</b>	<b>7</b>	<b>1</b>

The total net changes of € 260,729 is the result of various movements in temporary differences. For the quantification of the changes with an impact on the income statement, reference should be made to chapter 9.7 "Income taxes".

## 8.6 Contractual assets

Period-end Contractual Assets amounted to € 4,085,593 as at 31 December 2019, up € 996,764 compared to the end of 2018, due to the increase in activities carried out but not yet billed to customers on services for ongoing projects.

The table below provides the breakdown of inventories:

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
Inventories of services for ongoing projects	4,083,519	3,086,052	997,467
Inventories of consumables	2,073	2,777	(703)
<b>Total</b>	<b>4,085,593</b>	<b>3,088,829</b>	<b>996,764</b>

## 8.7 Trade receivables

Trade receivables as at 31 December 2019, net of the provision for bad debts, amounted to € 9,347,970, excluding the Banking & Finance branch which is held for sale.

For details see section 14 "Extraordinary Transactions".

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
Receivables due from customers	8,426,074	10,321,518	(1,895,444)
Receivables to be collected	-	-	-
Receivables due from customers for invoices to be issued	328,629	564,079	(235,450)
Provision for bad debts	(258,747)	(359,366)	100,619
Receivables due from Subsidiaries	843,848	154,684	689,164
Receivables due from Subsidiaries for invoices to be issued	8,166	14,602	(6,436)
Receivables due from Associates	-	89,426	(89,426)
Other receivables	-	-	-
<b>Total</b>	<b>9,347,970</b>	<b>10,784,943</b>	<b>(1,436,973)</b>

The provision for bad debts amounted to € 258,747.

The provision decreased due to the closure of a number of customer balances that are no longer recoverable.

This provision is deemed suitable to manage any possible losses.

Receivables due from customers for invoices to be issued include amounts for orders completed and not yet invoiced.

Receivables due from intercompany customers, all fully collectible, regard fees for services provided to subsidiaries. They amount to € 850,814, an increase of € 681,528 over the previous year. For further information, see the paragraph Transactions with Related Parties. Payment terms are short-term, in line with standard market practices.

The table below includes the detail for receivables past due and not impaired as at 31 December 2019 compared with the situation as at 31 December 2018.

(Amount in €)	Trade receivables	Performing	0 - 90 days	91 - 180 days	181 - 360 days	More than 360 days	Non-performing
Trade receivables	9,606,717	6,533,385	2,366,079	267,538	335,906	103,811	3,073,333
Provision for bad debts	(258,747)	(3,727)	(4,054)	(1,695)	(145,460)	(103,811)	(255,020)
<b>Balance as at 31.12.2019</b>	<b>9,347,970</b>	<b>6,529,659</b>	<b>2,362,025</b>	<b>265,843</b>	<b>190,446</b>	<b>-</b>	<b>2,818,312</b>

(Amount in €)	Trade receivables	Performing	0 - 90 days	91 - 180 days	181 - 360 days	More than 360 days	Non-performing
Trade receivables	11,144,310	8,301,934	2,371,054	112,234	274,368	84,720	2,842,376
Provision for bad debts	(359,366)	-	-	(278)	(274,368)	(84,720)	(359,366)
<b>Balance as at 31/12/2018</b>	<b>10,784,943</b>	<b>8,301,934</b>	<b>2,371,054</b>	<b>111,956</b>	<b>-</b>	<b>-</b>	<b>2,483,010</b>

## 8.8 Sundry receivables and other current assets

The “Sundry receivables and other current assets” item includes receivables for research grants, tax and other receivables, as well as accrued income and prepaid expenses. The balance amounts to € 2,856,141 as at 31 December 2019, compared with the balance of € 2,483,740 as at 31 December 2018.

The breakdown is shown below:

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
Receivables for research grants	1,023,349	768,785	254,564
Tax receivables	891,806	976,958	(85,152)
Advances to suppliers and employees	156,411	161,999	(5,588)
Accrued income and prepaid expenses	668,159	499,884	168,275
Other receivables	116,417	76,114	40,302
<b>Total</b>	<b>2,856,141</b>	<b>2,483,740</b>	<b>372,402</b>

The item “receivables for research grants” includes receivables for research financed by various institutes relating to contributions for research and development activities, subject to specific grant competitions; such grants will be disbursed upon completion of the development stages for the projects concerned. The balance is down from the previous year, as a result of the reduction in research activities carried out with grants.

Tax receivables of € 891,806 (€ 976,958 as at 31 December 2018) represent the receivables due from taxation authorities as shown below in detail:

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
IRES receivable for IRAP deductibility on personnel costs	405,147	405,147	-
Interest income withholding	519	8,015	(7,496)
Tax advances	482,343	503,218	(20,874)
Other withholding taxes paid	3,797	60,578	(56,780)
<b>Total</b>	<b>891,806</b>	<b>976,958</b>	<b>(85,152)</b>

The IRES (Corporate Income Tax) receivable is the credit resulting from tax deductible IRAP (Regional Tax on Productive Activities) calculated on personnel costs and paid for the years 2007-2011.

The “Tax advances” item refers to the difference between the excess IRES and IRAP tax advances paid compared to the amounts owing for the year, the difference compared to the previous year is attributable to the IRES tax not due for the 2018 year, given the negative taxable amount.

The “Advances to suppliers and employees” item mainly represents the company's receivable due

from employees for the advance payment of foreign taxes due abroad, pending receipt of the tax credit due with the tax returns pursuant to double taxation agreements.

The "Accrued income and prepaid expenses" item, equal to € 668,159, represents adjustments to prepaid costs not pertaining to the year, whose invoices were received and accounted for as at 31 December 2019. The increase compared to 2018 is mainly due to maintenance services and licence fees for the use by the company of software instruments paid in advance.

"Other receivables" amount to € 116,417, in line with the previous year, and mainly include receivables for INAIL self-liquidation.

## **8.9 Other financial receivables**

The item "Other financial receivables" amounted to € 200,000 as at 31 December 2019 compared to € 5,050,000 as at 31 December 2018.

The amount of € 200,000 refers to:

- € 200,000 represents the receivables for cash-pooling due from TXT e-solutions S.p.A. to its subsidiary TXT RISK. The cash pooling contract is designed to centralise and better manage the Group's treasury, and provides for a 12-month EURIBOR rate plus a spread of 1%.

## **8.10 Financial instruments at fair value**

As at 31 December 2019, this item included Financial instruments at fair value of € 86,281,566 million. They consist of investments in multi-segment life insurance contracts with partially guaranteed capital for a fair value of € 77,725,206, bond loan for € 510,000 and Treasury management for € 8,046,360.

The fair value hierarchy for insurance instruments, hybrid or otherwise, was classified as level 3, whilst for the second and third category it was considered as qualifying at level 1.

The figure reported by the issuer was adopted as confirmation of the fair value, where possible (level 1 instruments) comparing this with the market values.

## **8.11 Cash and cash equivalents**

Cash and cash equivalents amounted to € 6,053,126, an increase of € 2,961,019 compared to 31 December 2018. Reference should be made to the cash flow statement for details on the generation and movement of cash; the movements in the year with the main impact relate to the following:

- investment in financial instruments (notes 8.9 and 8.10).
- payment of dividends; (note 8.12).
- operations in treasury shares; (note 8.12).
- obtaining loans; (note 8.13 and 8.16).

Cash and cash equivalents all relate to ordinary current accounts with Italian banks

Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability.

## **8.12 Shareholders' Equity**

The company's share capital as at 31 December 2018 consisted of 13,006,250 ordinary shares with a par value of € 0.5, totalling € 6,503,125.

The reserves and retained earnings include the legal reserve (€ 1,300,625), which represents one-fifth of the share capital, the share premium reserve (€ 12,571,449), the merger surplus reserve (€ 1,911,444), the reserves for actuarial differences on post-employment benefits (negative to the tune

of € 879,706), the reserve for cash flow hedge accounting (negative to the tune of € 158,745 net of the related tax) and the reserves for retained earnings (€ 59,573,709).

Description	Free	Required by Law	Established by Shareholders' Meeting	TOTAL
Share premium reserve	12,571,449	-	-	12,571,449
Legal reserve	-	1,300,625	-	1,300,625
Merger surplus	-	-	1,911,444	1,911,444
Reserve for actuarial differences on post-employment benefits	-	-	(879,706)	(879,706)
IRS Fair Value	(158,745)	-	-	(158,745)
Stock option reserve	-	-	23,793	23,793
Reserve for retained earnings	-	-	59,573,709	59,573,709
<b>Total</b>	<b>12,412,704</b>	<b>1,300,625</b>	<b>60,629,240</b>	<b>74,342,569</b>

### Incentive plans

The Shareholders' Meeting held on 18 April 2019 approved a stock option plan for the Group's executive directors and senior managers, involving up to 600,000 shares subject to the achievement of specific performance objectives, such as performance of revenues, profit or specific individual performance objectives.

On 27 May 2019, the Board of Directors, upon favourable opinion by the Remuneration Committee, assigned 135.00 options for the purchase of an equal number of shares of the company to 8 individuals, comprising executive directors, managers with strategic responsibilities and other directors and managers of the Group, for the period 2019-2021, at the exercise price of € 8.67.

### Treasury shares

In 2019, the share price of TXT e-solutions reached a high of € 10.86 on 25 November 2019 and a low of € 8.04 on 03 June 2019. On 30 December 2019, the share price was € 9.66, a value of € 1.48 higher than that recorded as at 31/12/2018 of € 8.18. Average daily trade volumes in 2019 amounted to 22,878 shares, a net decrease against the daily average of 56,800 shares in the previous year. As at 31 December 2019, 1,220,971 treasury shares were held (1,359,717 in December 2018), accounting for 9.3876% of shares outstanding, at an average carrying amount of € 3.32 per share. In 2019, 115,100 treasury shares were purchased at an average price of € 9.02. In May 2019, in exchange for the acquisition of the shares of the company Link Software Engineering srl (Assioma Group), as partial consideration for the price agreed with its shareholders, 253,846 were sold at the agreed price of € 8.98.

## 8.13 Non-current financial liabilities

"Non-current financial liabilities" amounted to € 25,228,715 (€ 33,475,475 as at 31 December 2018).

	as at 31/12/2019	as at 31/12/2018	Change
Assioma Earn-Out	2,369,408	1,492,727	876,681
Bank loans	21,218,457	29,873,162	(8,654,705)
Non-current monetary flow swaps	208,875	167,947	40,928
Payable due to suppliers for leases	1,431,975	1,941,639	(509,665)
<b>Total</b>	<b>25,228,715</b>	<b>33,475,475</b>	<b>(8,246,761)</b>

This item includes: a) medium/long-term loans for the amount due after 12 months, b) the debt for an amount of € 2,369,408 for the Earn-Out to be paid to Assioma shareholders, c) the non-current part of the financial debt for € 1,431,975 in accordance with IFRS 16, d) the payable for hedging against exchange rate risk (fair value Interest Rate Swap) for € 208,875.

The loans referred to in point a) consist of:



- A loan for € 20,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.53% spread, granted to the parent company on 01/08/2018 by UNICREDIT SPA. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.17% per annum. As at 31 December, the residual portion amounted to € 15,021,536, the non-current portion was € 11,028,450.
- A loan for € 10,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.60% spread, granted to the parent company on 27/07/2018 by BANCA NAZIONALE DEL LAVORO SPA. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.08% for a quarter. As at 31 December, the residual portion amounted to € 7,500,000, the non-current portion was € 5,500,000.
- A loan for € 10,000,000.00 at a fixed rate of 0.50, granted to the parent company on 01/08/2018 by UNIONE DI BANCHE ITALIANE SpA. As at 31 December, the residual portion amounted to € 7,351,626, the non-current portion was € 4,690,008.

In line with market practice, the loan agreements require compliance with:

- financial covenants based on which the company undertakes to comply with certain levels of financial indexes, contractually defined, the most significant of which relate the gross or net financial indebtedness with the gross operating margin (EBITDA) or the Shareholders' equity, measured on the basis of the consolidated scope of the Group according to the definitions agreed upon with the financing counterparties;
- negative pledge commitments pursuant to which the company may not create security interests or other restrictions on the corporate assets;
- pari-passu clauses based on which the loans have the same degree of priority for their repayment as the other financial liabilities and clauses for change of control, which are activated in the event of a divestment by the majority shareholder;
- limitations to the extraordinary transactions that the company can carry out, if exceeding certain thresholds;
- some obligations toward the issuers which may make the distribution of reserves or capital, inter alia, subject to prior notification to and consent by the lending party; certain extraordinary transactions; certain transactions for the transfer or assignment of its assets.

The measurement of financial covenants and other contractual obligations is constantly monitored by the Group; as at 31 December 2019 the following requirements were met.

UNICREDIT SPA Loan	31 December 2019	31 December 2018	Change
Maturity 1-2 years	8,013,772	4,038,125	3,975,647
Maturity 2-5 years	3,014,678	11,028,449	(8,013,771)
<b>Total</b>	<b>11,028,450</b>	<b>15,066,574</b>	<b>(4,038,124)</b>

BANCA NAZIONALE DEL LAVORO SPA Loan	31 December 2019	31 December 2018	Change
Maturity 1-2 years	4,000,000	2,000,000	2,000,000
Maturity 2-5 years	1,500,000	5,500,000	(4,000,000)
<b>Total</b>	<b>5,500,000</b>	<b>7,500,000</b>	<b>(2,000,000)</b>

UNIONE BANCHE ITALIANE SPA Loan	31 December 2019	31 December 2018	Change
Maturity 1-2 years	4,690,007	2,693,411	1,996,596
Maturity 2-5 years	-	4,613,178	(4,613,178)
<b>Total</b>	<b>4,690,007</b>	<b>7,306,589</b>	<b>(2,616,582)</b>

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.



	01 January 2019	Cash flows	Reclassify Current - Non-Current	Business Combinations IFRS3	Change in fair value	New funding	31 December 2019
Payable for Cheleo Earn-Out	1,492,727		(1,492,727)				1,492,727
Payable for Assioma Earn-Out						2,369,408	
Obligations for financial leases and rental contracts with purchase option - NON current portion	1,941,639		(639,399)			129,735	1,431,975
MTM IRS					40,928		40,928
Interest-bearing loans and financing - NON-current portion	30,041,109		(8,654,705)				21,386,404
<b>Total liabilities deriving from financial assets</b>	<b>33,475,475</b>	<b>-</b>	<b>(10,786,831)</b>	<b>-</b>	<b>40,928</b>	<b>2,499,143</b>	<b>25,228,715</b>

## 8.14 Employee benefits expense

The “Employee benefits expense” item as at 31 December 2019 amounted to € 2,064,678, net of the branch sold, for both defined contribution plans and defined benefit plans.

The breakdown of and changes in the total post-employment benefits for this item over the year are presented below:

Provision for post-employment benefits and other employee provisions	31 December 2018	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	As at 31/12/2019
Post-employment benefits	1,401,028	1,101,553	(1,408,185)	(6,986)	10,852	1,098,263
Provision for severance for end of term of office	1,182,217	25,000	-	-	-	1,207,217
<b>Total non-current provisions relating to employees</b>	<b>2,583,245</b>	<b>1,126,553</b>	<b>(1,408,185)</b>	<b>(6,986)</b>	<b>10,852</b>	<b>2,305,480</b>
- <i>Of which continued operations</i>						<b>2,064,678</b>
- <i>Of which discontinued operations</i>						<b>240,802</b>

Post-employment benefits for personnel of € 1,098,263 as at 31 December 2019 (€ 1,401,028 as at 31 December 2018) were measured as a defined benefit provision.

The portion allocated to the provision amounted to € 1,101,553.

Below is the reconciliation of the provision for post-employment benefits based on statutory regulations and IAS – IFRS carrying amount.

	2019	2018
<b>Provision for post-employment benefits</b>	<b>1,021,539</b>	<b>1,314,878</b>
Current cost	(13,293)	(25,617)
Financial charges	10,852	7,575
Actuarial differences	(6,986)	(27,152)
Retained earnings	86,149	131,343
<b>Total</b>	<b>1,098,263</b>	<b>1,401,027</b>

To calculate the present value of post-employment benefits, the following assumptions regarding the future trends in the variables included in the algorithm have been used:

- The probability of death was estimated based on the census of the Italian population by age and gender taken in 2000 by ISTAT [Italy's National Institute for Statistics], reducing it by 25%.
- The probability of removal due to total and permanent disability of the employee, such as to

become disabled and leave the company, was estimated based on disability tables currently used in the reinsurance practice, differentiated by age and gender.

- The retirement age of a generic worker was estimated assuming that the first retirement requirement for the purpose of obtaining the Mandatory General Insurance was satisfied and that the employees started paying into INPS [Italy's Social Security Institute] no later than 28 years of age. This measurement accounts for the changes to the retirement age introduced by the Monti reform in late 2011.
- As for the probability of termination of employment due to resignations and dismissals, as at the measurement date an annual 6% staff turnover rate was calculated.
- As for the probability of requests for advance payment of benefits in TXT, an annual 1.00% advance payment rate was estimated, with advance payments amounting to 70% of the post-employment benefits outstanding held with the company.

Change in wages and salaries had no impact on the actuarial valuation. The estimated inflation rate used for measurement purposes was 1.50% per year.

The discount rate used for measurement purposes was 0.1663% per year, i.e. the rate on Bonds issued by AA-rated European Companies as at 31 December 2019 with maturities of between 5 and 7 years. The average duration of the liability was calculated at 5.99 years.

The table below shows the potential impact on post-employment benefits of the increase/decrease of certain "key" variables used for the actuarial calculation, and the consequent absolute values of the liability in alternate scenarios compared to the base scenario (which resulted in a carrying amount of € 1,098,263):

Sensitivity analysis as at 31 December 2019	% Change in liabilities (DBO)			
	Decrease	Increase	Decrease	Increase
Type of change for the specific assumption				
Decrease or increase of 50% in company staff turnover	1.62%	-1.10%	1,116,055	1,086,182
Decrease or increase of 50% in frequency of advance payments	0.12%	-0.10%	1,099,581	1,097,165
Decrease or increase of inflation by one percentage point	-1.51%	1.54%	1,081,679	1,115,176
Decrease or increase of discount rate by one percentage point	0.42%	-0.41%	1,102,876	1,093,760

The end-of-term severance debt refers to the fee for the Chairperson of the Board of Directors to be paid when the term of office ends, equal to 25% of the fees resolved upon and accrued each year, as resolved by the pro-tempore Shareholders' Meetings and also confirmed by the latest Shareholders' Meeting on 21 April 2017.

## 8.15 Provisions for future risks and charges

"Provisions for future risks and charges" as at 31 December 2019 amounted to € 118,905 and mainly includes provisions for contingent liabilities of a contractual nature. It decreased (€ 718,905 - December 2018) due to the release of the allocation to provisions for potential liabilities relating to the sale of the Retail Division in 2017, for which, following new information gathered by Directors, the likelihood that the same could result in a financial outlay by the Group was no longer deemed to exist.

## 8.16 Current financial liabilities

Current financial liabilities amounted to € 23,073,219 (€ 14,725,058 as at 31 December 2018), an increase of € 8,348,160.

(Amount in €)	31 December 2019	31 December 2018	Change
Bank loans and overdraft facilities	16,554,706	11,635,290	4,919,416
Cash Pooling from subsidiaries	5,190,646	2,550,000	2,640,646
Advances for partners of funded projects	-	-	0
Pace Put/Call	-	-	-
Cheleo Earn-Out	727,604	-	727,604
Payables due to suppliers for leases - IFRS16	600,262	539,769	60,493
<b>Total</b>	<b>23,073,219</b>	<b>14,725,058</b>	<b>8,348,160</b>

The Bank loans and overdraft facilities item of € 16,554,706 includes:

- the short-term portion of medium/long-term loans, and in particular includes the following:
  - € 3,993,086 on the loan granted by UNICREDIT SPA
  - € 2,661,618 on the loan granted by UNIONE BANCHE ITALIANE SPA
  - € 2,000,000 on the loan granted by BANCA NAZIONALE DEL LAVORO SPA
  - Short-term payables due to banks/hot money of € 7,900,000.

The IFRS16 Loans item includes the € 600,262 payable to the Lessors due to the application of IFRS 16, relating to the amount due within 12 months.

The loans granted by subsidiaries to the Parent Company through cash-pooling contracts amount to € 5,190,646 (€ 2,550,000 as at 31 December 2018). Interest expense of € 41,471 accrued on these loans and was calculated by applying an interest rate equal to the 12-month Euribor + 1% spread.

The table below details the loans by counterparty, and compares the values with those of 31 December 2018:

(Amount in €)	31 December 2019	31 December 2018	Change
Cash Pooling Pace GmbH	58,615	850,000	(791,385)
TXT e-solutions Sagl (CH)	450,000	200,000	250,000
TXT Next Sarl	50,000		50,000
TXT NEXT LTD	92,031		92,031
Cheleo Srl	2,000,000	1,500,000	500,000
Assioma Net Srl	2,540,000		2,540,000
<b>Total</b>	<b>5,190,646</b>	<b>2,550,000</b>	<b>2,640,646</b>

The changes are mainly due to the subsidiary Cheleo S.r.l.'s cash generation, net of the relevant net changes in working capital, which generated a cash surplus accredited on the Cash-pooling accounts.

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.

	01 January 2019	Decision on distribution of dividends	Cash flows	Reclassify Current - Non-Cur-rent	New funding	31 December 2019
Interest-bearing loans and borrowings - current portion	8,632,289		(8,632,289)	8,654,705	4,900,000	13,554,705
Payable for Cheleo Earn-Out				727,604		727,604
Current account overdrafts and "Hot money"	3,003,000		(3000)			3,000,000
Obligations for financial leases and rental contracts - current portion	539,769		(668,158)	639,399	89,251	600,261
Dividend payables	0	5,780,767	(5,780,767)			
Cash Pooling	2,550,000				2,640,646	5,190,646
Other current liabilities	0					
<b>Total liabilities deriving from financial assets</b>	<b>14,725,058</b>	<b>5,780,767</b>	<b>(15,084,214)</b>	<b>10,021,708</b>	<b>7,629,897</b>	<b>23,073,219</b>

## 8.17 Trade payables

Trade payables amounted to € 2,527,913 as at 31 December 2019 (€ 3,495,288 as at 31 December 2018). Payables due to suppliers are of a trade, non-interest bearing nature and are due within twelve months. This item includes advance payments from customers.

## 8.18 Tax payables

The Company had tax payables of € 387,086 as at 31 December 2019, net of the advances paid during the year.

## 8.19 Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 5,024,432 as at 31 December 2019, without considering the portion of the Banking & Finance branch, compared with € 5,828,201 as at 31 December 2018 as shown in the table below:

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
Payables due to social security institutions	1,243,870	1,017,523	226,346
Payables due to employees and external staff	2,444,433	2,920,124	(475,691)
Tax payables other than income taxes	901,095	916,696	(15,601)
Accrued expenses and deferred income	435,033	973,858	(538,825)
<b>Total</b>	<b>5,024,432</b>	<b>5,828,201</b>	<b>(803,769)</b>

The item payables due to employees and external staff includes:

- variable remuneration (bonuses) of € 0.8 million (€ 0.9 million as at 31 December 2018) that will be paid during 2020 based on the achievement of corporate and personal performance targets;
- provisions for deferred remuneration (predominantly the thirteenth month bonus, leave and holiday pay) for the difference.

VAT payables of € 197,521 (€ 429,629 as at 31 December 2018) and payables for withholding taxes for employees, external staff and professionals of € 703,574 (€ 487,067 as at 31 December 2018) are classified under the "tax payables other than income taxes" item.

The "Accrued expenses and deferred income" item mainly refers to the reversal of revenues pertaining to the following year invoiced in advance to customers for € 0.5 million, and other costs pertaining to the current year for the remaining portion.

## 9 Income Statement

### 9.1 Total revenues and other income

Revenues and other income for 2019 amounted to € 24,218,635, up 20.5% compared with the previous year.

	31/12/2019	31/12/2018	Change	% change
Revenues and other income	24,218,635	19,873,141	4,345,493	21.9%
<b>Total</b>	<b>24,218,635</b>	<b>19,873,141</b>	<b>4,345,493</b>	<b>21.9%</b>

The item includes the portion of grants received from the European Union accrued during the financial year amounting to € 558,154 (€ 270,066 as at 31 December 2018).

For additional information on the analysis of revenues and other income, as well as the breakdown by line of revenue, see the Directors' report on operations.

### 9.2 Purchases of materials and external services

Purchases of materials and external services amounted to € 5,037,561, up from 2018, when they totalled € 5,216,354.

The item is detailed below:

	31 December 2019	31 December 2018	Change
Consumables and resale items	354,219	111,695	242,523
Technical consulting	826,546	847,090	(20,543)
Travel expenses	1,099,994	1,139,035	(39,041)
Utilities	172,070	178,177	(6,107)
Media & marketing services	303,962	291,944	12,018
Intercompany charges	334,462	239,599	94,863
Canteen and ticket services	425,003	399,050	25,952
General, administrative and legal services	787,729	1,332,269	(544,539)
Directors' fees	733,573	677,492	56,081
<b>Total</b>	<b>5,037,561</b>	<b>5,216,354</b>	<b>(178,792)</b>

As a percentage of revenues, costs for purchasing materials and services were down from the prior year, at 20.80% (26% in 2018).

### 9.3 Personnel costs

Personnel costs for 2019 amounted to € 18,038,771, up by € 3,602,703 (+25%) compared to 2018.

This increase is mainly attributable to the increase in the average number of staff over the course of the year and the recruitment of highly specialist personnel.

Personnel costs	31/12/2019	31/12/2018	Change
Wages and salaries	13,552,854	10,800,901	2,751,953
Social security costs	3,549,180	2,789,537	759,643
Post-employment benefits	817,072	704,475	112,597
Other personnel costs	119,665	141,154	(21,490)
<b>Total personnel costs</b>	<b>18,038,770</b>	<b>14,436,067</b>	<b>3,602,703</b>

The employees of TXT e-solutions, excluding directors and external consultants, numbered 485 as at 31 December 2019 (414 as at 31 December 2018) of which 121 are dedicated to Banking &

Finance.

The table below shows the breakdown of employees by level at the end of the year and the comparison with the previous year.

	White-collar staff	Middle managers	Executives	Total
31/12/2019	447	32	6	485
31/12/2018	371	31	12	414

## 9.4 Other operating costs

The item "other operating costs" amounted to € 154,228, up € 144,979 from 2018. This item includes costs relating to the occasional rental of vehicles for travel, costs for donations and deductible taxes.

## 9.5 Depreciation, amortisation and impairment

Depreciation and amortisation as at 31 December 2019 amounted to € 888,741 (€ 853,556 as at 31 December 2018).

These amounts have been calculated based on the useful life of the capitalised asset or cost and its use in production. In relation to the rates applied, reference should be made to the relevant paragraphs of these Notes.

Amortisation and depreciation	31/12/2019	31/12/2018
<b>Intangible assets</b>		
Software licences	25,451	18,482
<b>Total intangible assets</b>	<b>25,451</b>	<b>18,482</b>
<b>Tangible assets - IFRS16 leases</b>		
Buildings	309,624	381,462
Vehicles	270,818	209,121
Electronic machinery	10,150	10,150
<b>Total tangible assets - IFRS16 leases</b>	<b>590,592</b>	<b>600,733</b>
<b>Other tangible assets</b>		
Electronic machinery	265,469	200,471
Furniture and fixtures	7,228	6,254
Other fixed assets	0	27,615
<b>Total other tangible assets</b>	<b>272,697</b>	<b>234,340</b>
<b>TOTAL AMORTISATION AND DEPRECIATION</b>	<b>888,741</b>	<b>853,556</b>

## 9.6 Financial income and charges

The balance between financial income and charges as at 31 December 2019 was positive for € 2,958,776, mainly due to the positive changes in fair value on investments described in note 8.10.

Financial income is detailed as follows:

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
Bank interest income	1,994	30,825	(28,831)
Exchange rate gains	16,498	6,429	10,069
Interest income on intercompany loans	663	415	248
Change in fair value of financial instruments	2,861,684	-	2,861,684
Earn-Out variation	772,101	-	772,101
Other	-	2,512	(2,512)
<b>Total</b>	<b>3,652,941</b>	<b>40,182</b>	<b>3,612,759</b>

In particular, there is an amount of 2,861,684 linked to the positive change in Fair Value of investments and 772,101 linked to the Cheleo Earn-Out.

Financial charges are detailed as follows:

(Amount in €)	as at 31/12/2019	as at 31/12/2018	Change
Change in fair value of financial instruments	-	971,914	(971,914)
Bank expenses	30,916	132,931	(102,016)
Bank interest expense	253,773	86,955	166,819
Change in financial instruments	303,202	84,877	(218,325)
Exchange rate losses	12,600	15,126	(2,526)
IFRS16 interest expense	18,266	14,298	3,968
Interest expense on intercompany loans	41,471	12,000	29,472
Interest expense for post-employment benefit discounting	10,852	7,575	3,277
Other	23,084	7,408	15,676
Losses on forward sales	-	0	-
Differences on hedging IRS (Interest Rate Swap)	-	0	-
<b>Total</b>	<b>694,165</b>	<b>1,333,084</b>	<b>(638,919)</b>

## 9.7 Income taxes

Income taxes have a negative effect on the result of € 591,946, compared to a positive effect of € 291,029 in 2018, and are detailed as follows.

Below is the total including the B&F division (€ 178,197):

	2019	2018	Change
Current taxes	387,086	29,665	357,421
Deferred tax assets	383,546	(351,966)	735,512
Deferred tax liabilities	287	(145)	432
Deferred taxes of previous years	(776)	31,417	(32,193)
<b>Total</b>	<b>770,143</b>	<b>(291,029)</b>	<b>1,061,172</b>
- Of which continued operations	591,946	(291,029)	882,975
- Of which discontinued operations	178,197		178,197

The “current taxes” item refers to IRES (company earnings’ tax) and IRAP (regional business tax).

### IRES reconciliation

Description	Amount	Taxes
Earnings before taxes (EBT)	3,978,449	
Theoretical tax expense (24%)		954,828
Differences that will not be carried forward in future years:	(571,797)	(137,231)
<b>Taxes expensed in the year</b>		<b>817,597</b>
Temporary differences taxable in future years:	(1,205)	(289)
Temporary differences deductible in future years:	166,674	40,002
Reversal of temporary differences from previous years:	(2,450,220)	(588,053)
<b>IRES tax base for the year</b>	<b>1,121,901</b>	
<b>Current theoretical IRES for the year</b>		<b>269,256</b>
<b>Use of previous years' losses</b>		<b>-</b>
<b>Current effective IRES for the year</b>		<b>269,256</b>

### IRAP reconciliation



Description	Amount	Taxes
Theoretical tax expense (3.90%)	2,923,617	114,021
Differences that will not be carried forward in future years:	97,658	3,809
<b>Tax expensed in the year</b>		<b>117,830</b>
Temporary differences deductible in future years:	-	
Temporary differences deductible in future years:	-	
Temporary differences from previous years:	-	
<b>IRAP tax base for the year</b>	<b>3,021,275</b>	
<b>Current IRAP for the year</b>		<b>117,830</b>

## 10 Transactions with related parties

Transactions with related parties essentially refer to the exchange of services, as well as funding and lending activities with the subsidiaries. All transactions fall within the course of ordinary activities and are conducted at arm's length, i.e. under the conditions that would apply between two independent parties, and are carried out in the interest of the companies. Amounts of transactions with related parties carried out for *trading or financial purposes* are indicated below.

### Trade transactions

As at 31 December 2019	Receivables	Payables	Costs	Revenues
Pace GmbH	331,087	0	63,831	839,906
TXT e-solutions Sagl (CH)	18,274	4,345	46,713	97,211
TXT NEXT Sarl	0	553	0	0
TXT NEXT Ltd	0	801	223,919	0
Cheleo Srl	41.92	8,862	0	5,779
TXT Risk Solutions Srl	114,724	0	0	105,035
Assioma Net Srl	386,686	99,892	-	38,753
HSPI		39,040	52,000	
AN-LIGHT SRL		1,830	1,500	
PARADIS SRL			4,817	
Directors and key management personnel	0	1,331,011	1,004,511	0
<b>Total as at 31.12.2019</b>	<b>850,814</b>	<b>1,486,334</b>	<b>1,397,331</b>	<b>1,086,684</b>

As at 31 December 2018	Receivables	Payables	Costs	Revenues
Pace GmbH	133,113	43,654	57,165	605,584
TXT e-solutions Sagl (CH)	31,604	604	2,503	137,666
TXT NEXT Sarl	177	0	0	0
TXT NEXT Ltd	0	14,643	179,931	0
Cheleo Srl	0	3,044	0	0
TXT Risk Solutions Srl	4,392	0	0	3,600
Sense immaterial Reality Srl	89,426	0	0	77,345
Directors and key management personnel	0	1,421,276	1,153,142	0
<b>Total as at 31/12/2018</b>	<b>258,712</b>	<b>1,483,222</b>	<b>1,392,741</b>	<b>824,194</b>

## Financial transactions

As at 31 December 2019	Receivables	Payables	Charges	Income
Pace GmbH		58,615	12,399	
TXT e-solutions Sagl (CH)		450,000	1,599	
TXT NEXT Sarl		50,000	933	
TXT NEXT Ltd		92,031	801	
Cheleo Srl		2,000,000	15,870	
TXT Risk	200,000	0	0	458
Assioma Net Srl		2,540,000	9,869	206
<b>Total as at 31/12/2019</b>	<b>200,000</b>	<b>5,190,646</b>	<b>41,471</b>	<b>664</b>

As at 31 December 2018	Receivables	Payables	Charges	Income
Pace GmbH	0	850,000	8,908	0
TXT e-solutions Sagl (CH)	0	200,000	48	238
TXT NEXT Sarl	50,000	0	0	177
Cheleo Srl	0	1,500,000	3,044	0
Sense immaterial Reality Srl	0	0	38,804	0
<b>Total as at 31/12/2018</b>	<b>50,000</b>	<b>2,550,000</b>	<b>50,804</b>	<b>415</b>

## Impact of positions or transactions with related parties on the balance sheet, income statement and cash flows

	Total	Related parties	Impact
Trade receivables	9,347,970	850,814	9%
Other financial receivables	200,000	200,000	100%
Provision for post-employment benefits and other employee provisions	2,064,678	1,207,217	58.5%
Current financial liabilities	23,112,356	5,190,646	22.5%
Trade payables	2,527,913	155,323	6.1%
Sundry payables and other current liabilities	5,024,432	123,794	2.5%
Total Revenues	24,218,635	1,086,684	4.5%
Purchases of materials and external services	5,037,561	334,463	6.6%
Personnel costs	18,038,771	1,004,551	5.6%
Financial income	3,652,941	664	0.0%
Financial charges	694,165	41,471	6%

	Total	Related parties	Impact
Net cash from operating activities	(2,165,446)	194,546	-9%
Net cash used in investing activities	13,698,519	0	0.0%
Net cash used in financing activities	(8,572,054)	(2,150,161)	25%

Transactions with directors and key management personnel refer to the fixed and variable components of their remuneration (composed of salaries as Company's managers and compensation for offices held). The Remuneration Report details the amounts paid to each beneficiary and the underlying policy.

## 11 Net financial position

Pursuant to Consob communication dated 28 July 2006 and in conformity with the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on prospectuses", it is noted that TXT's net financial position is as follows:

(€ thousand)	31/12/2019	31/12/2018	Change
Cash and cash equivalents	6,053,126	3,092,107	2,961,019
Financial instruments at fair value	86,281,566	108,948,873	(22,667,307)
Current financial assets	-	-	-
Current bank loans	(16,554,706)	(11,635,289)	(4,919,417)
Cash pooling	(4,990,646)	(2,500,000)	(2,490,646)
Cheleo Earn-Out	(727,604)	0	(727,604)
Other current financial liabilities	(600,266)	(539,769)	(60,493)
<b>Short-term financial resources</b>	<b>69,461,473</b>	<b>97,365,922</b>	<b>(27,904,449)</b>
Non-current financial liabilities - IFRS16	(1,431,975)	(1,941,639)	509,664
Non-current bank loans	(21,218,457)	(30,041,110)	8,822,653
MTM IRS	(208,875)	0	(208,875)
Options related to acquisitions (Earn-Out)	(2,369,408)	(1,492,727)	(876,681)
<b>Financial resources - non-current portion</b>	<b>(25,228,715)</b>	<b>(33,475,475)</b>	<b>8,246,761</b>
<b>Net Available Financial Resources</b>	<b>44,232,758</b>	<b>63,890,446</b>	<b>(19,657,688)</b>

For further details, reference should be made to the Directors' report on operations.

## 12 Disclosure of public funds

Please refer to note 13 of the Consolidated Financial Statements.

## 13 Subsequent events

The spread of Covid-19 is having a significant impact on the global economy. Starting with a strong slowdown in the Chinese market, it spread in the West with the spread of the virus having a strong impact in Italy: isolating areas, closing companies and schools, cancelling events. It has affected all sectors of the economy.

For Italy in particular, which was already starting from a negative position (GDP Q4 2019 - 0.3%), the Coronavirus emergency is likely to lead to a further black quarter, with the country entering a "technical recession". Covid-19 also caused a sharp increase in the spread, from 140 basis points at the beginning of the crisis, to 180 basis points (and is likely to increase further), with an impact on the health of all business customers.

TXT faces the crisis with a significant backlog of purchased licenses (IFRS15), an excellent net financial position, and continuity in delivery, thanks to the efficient organisation of smart working teams and geographical distribution of operations (including in areas not at risk). To date, 98% of resources are operational.

Among the market sectors in which TXT operates, the most at risk is that of airlines (with consequent impacts on aircraft manufacturers). IATA estimates damage to the sector at over 100Bln. The probable risks for TXT relate to slowdowns in the closing of new contracts. Possible (but unlikely, given that the current customers are the world's largest airlines) cancellation of agreements as a result of the default of the companies themselves. The banking sector, although in crisis, has opened up through remote working activities for employees and external staff. The experience of smart working

during the crisis, could even lead to a benefit (remote services vs. On-site) with new business opportunities.

In general, given the cancellation of several events, fairs and meetings in general, a slowdown in the acquisition of new contracts is expected. There is a risk of delays on the main programmes, leading to delays in maturation. As the crisis situation continues along with the consequent economic impact on clients, we anticipate the risk of not re-confirming work activities and/or suspension/discontinuation of services. TXT has activated trade union agreements to mitigate any costs concerning interruption of operations.

For further details, reference should be made to the Directors' report on operations.

## **14 Extraordinary transactions**

As mentioned in the Introduction, the activities related to the transfer of the Banking & Finance business unit of TXT e-solutions to Assioma.Net Srl have been identified as discontinued operations. The transfer of its Banking & Finance business unit to the subsidiary Assioma.Net Srl (100% controlled by TXT e-solutions) was completed on 16 December 2019, with real and accounting effect from 01 January 2020.

The business unit to be transferred consists of an autonomously organised complex, already identified and independent in TXT e-solutions, with 121 employees and revenues of € 8.7 million as at 31 December 2019 and whose activity is characterised by the provision of services dedicated to financial operators to accompany them in the "digital transformation" process aimed at "Quality Excellence" and specifically: design of test processes, software quality control service, design and development of "business critical" applications in the financial sector, "Application Maintenance" services.

The transaction is aimed at simplifying the organisational and managerial structure. In fact, the transfer aims to develop the synergies of similar or complementary activities, concentrating them in the company Assioma.Net Srl, so as to offer customers an even wider and more complete, more sophisticated and cutting-edge service, optimising the synergies and capabilities of the group.

For further details on the transfer, reference should be made to the Directors' Report.

A breakdown of "Assets and Liabilities" held for sale is provided below:

<b>STATO PATRIMONIALE: ATTIVO</b>	<b>BALANCE SHEET ASSETS</b>	
Importi in Euro	Amount in Euro	31/12/2019
<b>ATTIVITÀ NON CORRENTI</b>	<b>NON-CURRENT ASSETS</b>	
- Avviamento	- Goodwill	
- Attività immateriali a vita utile definita	- Intangible assets with a finite useful life	
<b>Attività immateriali</b>	<b>Intangible Assets</b>	<b>0</b>
- Macchine ufficio Elettroniche	- Electronic equipment	70,008
- Autovetture	- Cars	73,586
<b>Attività materiali</b>	<b>Tangible Assets</b>	<b>143,594</b>
- Partecipazioni	- Investments	0
- Crediti vari e altre attività non correnti	- Sundry receivables and other non-current assets	0
- Attività per imposte anticipate	- Assets for anticipated taxation	0
<b>Altre attività non correnti</b>	<b>Other non-current assets</b>	<b>0</b>
<b>TOTALE ATTIVITÀ NON CORRENTI</b>	<b>TOTAL NON- RECURRENT ASSETS</b>	<b>143,594</b>
<b>ATTIVITÀ CORRENTI</b>	<b>CURRENT ASSETS:</b>	
Rimanenze	Inventories	
Crediti commerciali	Trade receivables	2,484,223
Crediti diversi e altre attività correnti	Other current assets	37,348
Altri crediti finanziari	Other Financial receivables	
Cassa e altre disponibilità liquide	Cash and other liquid equivalents	
<b>TOTALE ATTIVITÀ CORRENTI</b>	<b>TOTAL CURRENT ASSETS</b>	<b>2,521,571</b>
<b>TOTALE ATTIVITÀ</b>	<b>TOTAL ASSETS</b>	<b>2,665,165</b>
<b>STATO PATRIMONIALE: PASSIVO</b>	<b>BALANCE SHEET : LIABILITIES</b>	
Importi in Euro	Amount in Euro	31/12/2019
<b>PATRIMONIO NETTO</b>	<b>SHAREHOLDERS' EQUITY</b>	
Capitale sociale	Share capital	0
Riserve	Reserves	0
Utili (perdite) a nuovo	Retained earnings (accumulated losses)	0
Utili (perdite) d'esercizio	Profit (loss) for the year	0
<b>TOTALE PATRIMONIO NETTO</b>	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>0</b>
<b>PASSIVITÀ NON CORRENTI</b>	<b>NON-CURRENT LIABILITIES</b>	
Passività finanziarie non correnti	Non-current financial liabilities	74,433
TFR e altri fondi relativi al personale	Severance and other allocations for HR	240,802
Fondo imposte differite	Deferred tax fund	0
Debiti vari e altre passività non correnti	Other non current liabilities	0
<b>TOTALE PASSIVITÀ NON CORRENTI</b>	<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>315,236</b>
<b>PASSIVITÀ CORRENTI</b>	<b>CURRENT LIABILITIES</b>	
Passività finanziarie correnti	Current financial liabilities	39,137
Debiti commerciali	Trade payables	0
Debiti per imposte	Tax payables	0
Debiti vari e altre passività correnti	Other current liabilities	1,352,783
<b>TOTALE PASSIVITÀ CORRENTI</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>1,391,920</b>
<b>TOTALE PASSIVITÀ</b>	<b>TOTAL LIABILITIES</b>	<b>1,707,156</b>
<b>TOTALE PATRIMONIO NETTO E PASSIVITÀ</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,707,156</b>
<b>CONFERIMENTO NETTO</b>	<b>NET BALANCE</b>	<b>(958,009)</b>

## 15 Proposal for allocation of profit or coverage of losses

In order to best pursue its ambitious growth plans and in view of the market contingency linked to the spread of Covid-19, the Board resolved to propose to the Shareholders' Meeting not to distribute dividends. Since it could not foresee the developments of the current crisis, the existing Board of

Directors decided not to distribute any dividend as it considers it strategic to maintain liquidity within the Group in order to mitigate possible risks and take advantage of the growth opportunities mentioned above, which could generate value for customers, the company and shareholders. The possibility of distributing an extraordinary dividend during the year linked to developments in the financial markets and future economic contingencies was made clear to the Board.

Finally, it was decided to allocate the result for the year of € 3,208,566 to the retained earnings reserve for the full amount of € 3,208,566.

## **16 Certification of the financial statements**

### **pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented**

The undersigned Enrico Magni, as CEO, and Eugenio Forcinito, as Manager responsible for preparing corporate accounting documents for TXT e-solutions S.p.A. certify, also pursuant to Article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy, in relation to the company's characteristics, and
- the effective application of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2019.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2019 is based on a process defined by TXT in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission which represents a reference framework that is generally accepted at an international level.

We also certify that the financial statements as at 31 December 2019:

- correspond to the accounting books and records;
- are prepared in compliance with the International Financial Reporting Standards endorsed by the European Union as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005;
- are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer.

Manager responsible for preparing corporate accounting documents The Chief Executive Officer

Eugenio Forcinito

Enrico Magni

Milan, 12 March 2020

## **17 External auditors' report**