TXT e-solutions Group

Annual report

as at 31 December 2016

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' term of office expires upon approval of the financial statements for the year ending 31 December 2016:

Alvise Braga Illa	Chairman	(1)
Marco Edoardo Guida	Chief Executive Officer	(2)
Fabienne Anne Dejean Schwalbe	Independent Director	(3) (4)
Andrea Cencini	Director	(2)
Paolo Enrico Colombo	Director	(2)
Teresa Cristiana Naddeo	Independent Director	(3)
Stefania Saviolo	Independent Director	(3)

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

(2) Powers assigned: ordinary administration.

(3) Member of the Remuneration Committee and the Risks and Internal Controls Committee.

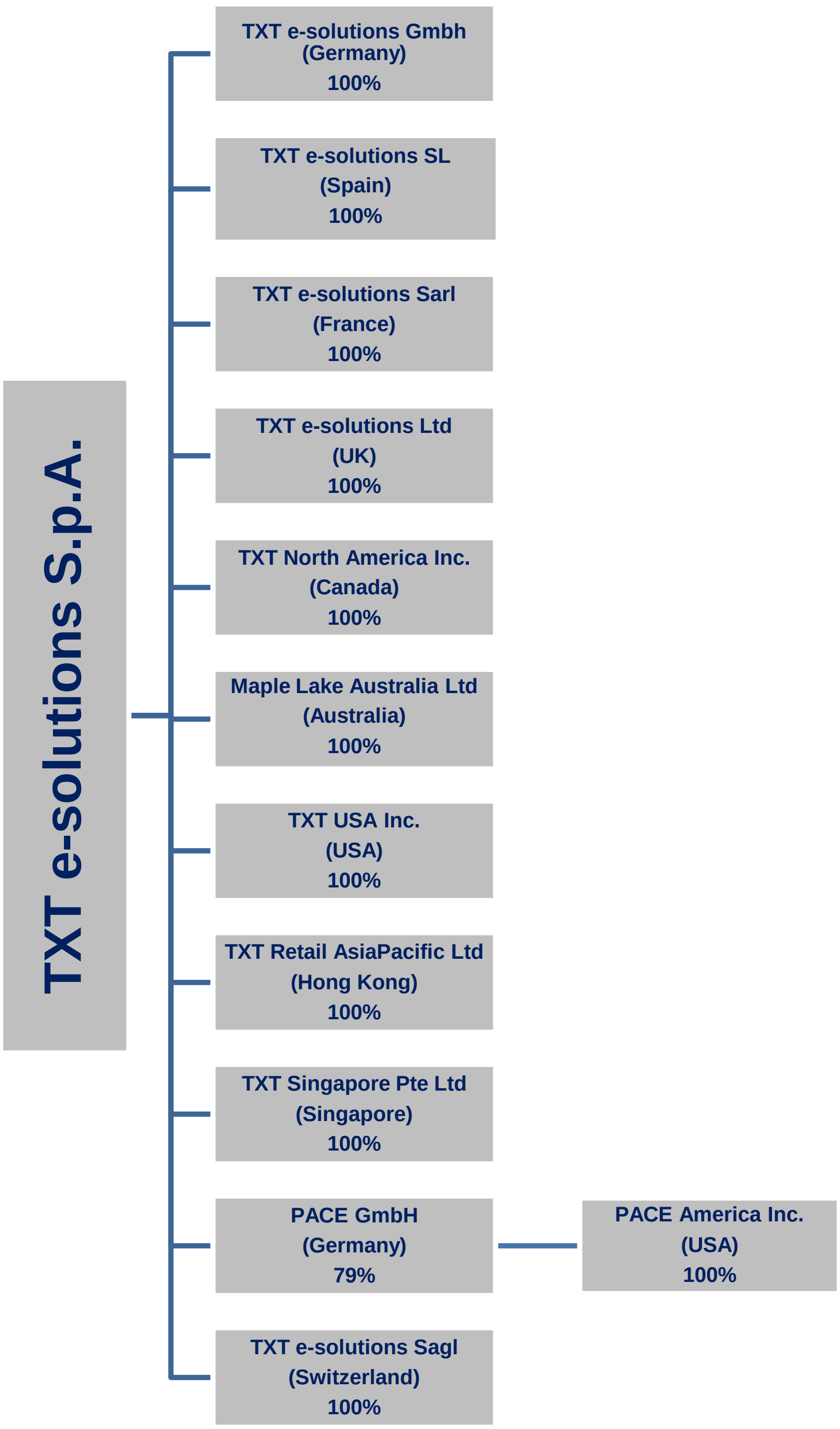
(4) Co-opted by the Board of Directors on 05/05/2015. In office until the next Shareholders' Meeting.

BOARD OF STATUTORY AUDITORS

Members' term of office expires upon approval of the financial statements for the year ending 31 December 2016:

Raffaele Valletta	Chairman
Luisa Cameretti	Standing auditor
Fabio Maria Palmieri	Standing auditor
Angelo Faccioli	Alternate auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate auditor
EXTERNAL AUDITORS	EY S.p.A.
INVESTOR RELATIONS	E-mail: infofinance@txtgroup.com
	Telephone: +39 02 25771.1

Organisational structure and scope of consolidation



Key data and Directors' report on operations for the year 2016

TXT e-solutions Group – Key data

INCOME DATA (€ thousand)		2016	%	2015	%	% CHANGE
REVENUES		**69,152**	**100.0**	**61,540**	**100.0**	**12.4**
	of which:					
	TXT Retail	36,092	52.2	36,673	59.6	(1.6)
	TXT Next	33,060	47.8	24,867	40.4	32.9
EBITDA pre Stock Grant (2)		**8,215**	**11.9**	**6,659**	**10.8**	**23.4**
EBITDA		**8,215**	**11.9**	**5,919**	**9.6**	**38.8**
OPERATING PROFIT (LOSS) [EBIT]		**6,906**	**10.0**	**4,795**	**7.8**	**44.0**
NET PROFIT (LOSS) FOR THE YEAR		**5,555**	**8.0**	**3,882**	**6.3**	**43.1**

FINANCIAL DATA (€ thousand)	31 Dec. 2016	31 Dec. 2015	Change
Fixed assets	25,428	18,132	7,296
Net working capital	7,429	11,063	(3,634)
Post-employment benefits and other non-current liabilities	(3,945)	(3,830)	(115)
Capital employed	**28,912**	**25,365**	**3,547**
Net financial position	5,371	8,259	(2,888)
Group shareholders' equity	34,283	33,624	659

DATA PER SHARE	31 Dec. 2016	31 Dec. 2015	Change
Average number of shares outstanding (1)	11,686,276	11,666,791	19,485
Operating profit per share (1)	0.48	0.33	0.14
Shareholder's equity per share (1)	2.93	2.88	0.05

ADDITIONAL INFORMATION	31 Dec. 2016	31 Dec. 2015	Change
Number of employees	790	672	118
TXT share price	7.50	8.13	(0.63)

(1) The number of shares and the relevant 2015 prices were restated following the free share capital increase dated 20 May 2015, with the issue of one new share for every 10 shares issued, so as to allow comparison with 2016. Outstanding shares are equal to the shares issued less treasury shares.

(2) EBITDA pre Stock Grant indicates the company's Gross operating profit (EBITDA) without considering the costs accrued for stock grants.

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 to the consolidated financial statements with regard to the terminology and the level of detail.

Specifically, the reclassified consolidated Income Statement introduces the following terms:
• **EBITDA pre Stock Grant**, which in the official consolidated Income Statement means "Total revenues" net of total operating costs and excluding the Stock Grant costs. No further Stock Grants accrued in 2016 and therefore no costs for the company, as the plan ended on 31 December 2015. The indicator provides information for better comparability of the EBITDA of the two years.
• **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 and amortisation, and impairment of fixed assets.

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 property, plant and equipment, 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 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, also through an analysis of comparative data.

Directors' report on operations for the year 2016

Dear Shareholders,

The year 2016 was characterised by the major acquisition of German company Pace GmbH, consolidated starting from 1 April 2016, which accelerates the promising international development of the TXT Next Aeronautical division.

The combined activities of TXT Next and Pace have a potential market of over 300 major customers worldwide. They boast a select and expert team of 350 specialists, offering innovative and proprietary expertise and products that are difficult to find on the market and covering the entire life cycle of equipment and activities within the aeronautics industry, along its entire supply chains and across all segments: fixed wing, helicopters, civil transport, special missions, defence. Pace's offer of products and services fully complements the expertise of the TXT Next division.

In the first part of 2016, many large retailers and brands recorded changes, due to both economic and structural reasons, with a consequent postponement of the investment plans. The second part of the year saw a return of the propensity to invest across all geographical areas and from which we benefitted thanks to the attractiveness of our offer, which helps TXT customers improve assortment and margins. TXT Retail acquired major contracts in China and India, and strengthened in the USA, UK and continental Europe.

TXT's overall position is currently strong in two primary markets, aeronautics and retail, both showing global growth over the medium term and with little correlation, thereby reducing the economic risks for the company.

- <u>Revenues</u> amounted to € 69.2 million in 2016, up 12.4% compared to € 61.5 million in 2015, with Pace GmbH contributing € 6.6 million. Software revenues from licences, subscriptions and maintenance were € 18.8 million (of which € 3.3 million relative to Pace GmbH), up 17.8% compared to 2015 (€ 16.0 million). Revenues from services amounted to € 50.3 million, up +10.5%.

- <u>Revenues of the TXT Retail division</u> (52.2% of Group revenues) amounted to € 36.1 million, down 1.6% compared to the prior year, which benefitted from revenues from licences from a single contract with a particularly high value. Revenues of the <u>TXT Next</u> division were € 33.1 million (47.8% of Group revenues), compared to € 24.9 million in 2015, up € 8.2 million (+32.9%), with € 6.6 million attributable to the contribution by Pace GmbH and € 1.6 million to growth (+6.5%).

- <u>International revenues</u> amounted to € 41.8 million, up by +23.4% compared to € 33.9 million in 2015, equal to 60% of the total (55% in 2015).

- Net of direct costs, the <u>Gross Margin</u> came to € 37.1 million, up +14.7% over 2015 and including the contribution of Pace GmbH (€ 5.0 million). The margin on revenues was 53.7%, up compared to 52.6% in 2015.

- <u>EBITDA pre Stock Grant</u> was € 8.2 million, up 23.4% compared to 2015 (€ 6.7 million). The operating profit of Pace GmbH made a positive contribution (€ 1.4 million) to this result, while consulting and legal M&A fees made a negative contribution of € 0.5 million. Net of these components and under the same scope of consolidation, the EBITDA pre Stock Grant of € 7.3

million is up by 9.3% compared to the previous year. Research and development costs grew by +28.0% to € 6.6 million, equal to 9.5% of revenues.

- EBITDA in 2016 was € 8.2 million compared to € 5.9 million in 2015, year in which € 0.7 million in Stock Grant costs were sustained.

- Operating profit (EBIT) was € 6.9 million, up 44.0% compared to 2015 (€ 4.8 million), after amortisation/depreciation of € 1.3 million. As a percentage of revenues, operating profit improved from 7.8% to 10.0%.

- Net profit was € 5.6 million (€ 3.9 million in 2015), net of tax charges of € 1.5 million (21% of pre-tax profit), up compared to € 0.8 million in 2015, due to full use in the prior year of prior tax losses in a number of Countries. Net profit amounted to 8.0% as a percentage of revenues, compared to 6.3% in 2015.

- The consolidated Net Financial Position as at 31 December 2016 was positive at € 5.4 million (€ 8.3 million as at 31 December 2015). Cash flow from operations in 2016 fully funded the acquisition of Pace (€ 6.8 million). The net financial position declined by € 2.9 million in 2016, mainly due to the distribution of dividends (€ 2.9 million).

- Consolidated shareholders' equity amounted to € 34.3 million, increasing by € 0.7 million from € 33.6 million at 31 December 2015, mainly due to the net profit for the year (€ 5.6 million), net of payment of dividends (€ 2.9 million), share buy-backs (€ 0.8 million) and exchange rate differences on conversion and other changes (€ 1.2 million).

TXT's results for 2016, compared with the previous year's figures, are presented below:

(€ thousand)	2016	%	2015	%	% change
REVENUES	**69,152**	**100.0**	**61,540**	**100.0**	**12.4**
Direct costs	32,039	46.3	29,189	47.4	9.8
GROSS MARGIN	**37,113**	**53.7**	**32,351**	**52.6**	**14.7**
Research and development costs	6,550	9.5	5,118	8.3	28.0
Commercial costs	13,574	19.6	12,681	20.6	7.0
General and administrative costs	8,774	12.7	7,893	12.8	11.2
EBITDA pre Stock Grant	**8,215**	**11.9**	**6,659**	**10.8**	**23.4**
Stock Grant	-	-	740	2.3	n.s.
GROSS OPERATING PROFIT (LOSS) [EBITDA]	**8,215**	**11.9**	**5,919**	**9.6**	**38.8**
Depreciation, amortisation and impairment	1,309	1.9	1,124	1.8	16.5
OPERATING PROFIT (LOSS) [EBIT]	**6,906**	**10.0**	**4,795**	**7.8**	**44.0**
Financial income (charges)	105	0.2	(151)	(0.2)	n.s.
EARNINGS BEFORE TAXES (EBT)	**7,011**	**10.1**	**4,644**	**7.5**	**51.0**
Taxes	(1,456)	(2.1)	(762)	(1.2)	91.1
NET PROFIT (LOSS) FOR THE YEAR	**5,555**	**8.0**	**3,882**	**6.3**	**43.1**

REVENUES AND GROSS MARGINS

The table below highlights the TXT Group's results by business unit (CGU) down to gross margin:

(€ thousand)	2016	%	2015	%	% change 16/15
			TXT RETAIL		
REVENUES	**36,092**	**100.0**	**36,673**	**100.0**	**(1.6)**
Software	15,499	42.9	15,854	43.2	(2.2)
Services	20,593	57.1	20,819	56.8	(1.1)
DIRECT COSTS	13,085	36.3	13,002	35.5	0.6
GROSS MARGIN	**23,007**	**63.7**	**23,671**	**64.5**	**(2.8)**
			TXT NEXT		
REVENUES	**33,060**	**100.0**	**24,867**	**100.0**	**32.9**
Software	3,325	10.1	122	0.5	n.s.
Services	29,735	89.9	24,745	99.5	20.2
DIRECT COSTS	18,954	57.3	16,187	65.1	17.1
GROSS MARGIN	**14,106**	**42.7**	**8,680**	**34.9**	**62.5**
			TOTAL TXT		
REVENUES	**69,152**	**100.0**	**61,540**	**100.0**	**12.4**
Software	18,824	27.2	15,976	26.0	17.8
Services	50,328	72.8	45,564	74.0	10.5
DIRECT COSTS	32,039	46.3	29,189	47.4	9.8
GROSS MARGIN	**37,113**	**53.7**	**32,351**	**52.6**	**14.7**

<u>TXT Retail Division</u>

The TXT Retail division mainly operates in the Luxury, Apparel and Large International Retail sectors, providing end-to-end solutions - from the collection to the shelf and e-commerce - for business planning, sales budgeting and effective implementation of business plans.

Revenues of the TXT Retail division in 2016 amounted to € 36.1 million, down compared to € 36.7 million in 2015 (-1.6%). This result was penalised by the negative trend in exchange rates against the Euro for € 0.9 million. Net of this effect and therefore at constant exchange rates, growth would have been +1.0%.

Revenues from software (licences, subscriptions and maintenance) amounted to € 15.5 million, down 2.2% compared to 2015 (€ 15.9 million), which benefitted from a single contract with a particularly high value. Revenues from services amounted to € 20.6 million, down 1.1% compared to 2015 (€ 20.8 million). Revenues from software amounted to 42.9% as a percentage of the division's total revenues.

The international revenues of the division amounted to € 32.0 million, compared to € 31.5 million in 2015 (+1.5%). International revenues account for 89% of the TXT Retail Division's revenues, compared to 86% the prior year.

The division's gross margin, net of direct costs, declined from € 23.7 million to € 23.0 million, essentially due to the decrease in software revenues, which had a significant impact on margins. The margin on revenues fell from 64.5% to 63.7% in 2016.

During the first quarter of 2016, TXT signed new contracts or accrued licence revenues with major customers such as Groupe Dynamite (USA), Missoni (I), Adidas (D), Pandora (DK), Takko (D), Peek & Cloppenburg (D) and Delta Galil (ISR).

In the second quarter, new contracts were signed with a number of customers, including REI - Recreational Equipment Inc. (USA), leading company in outdoor equipment and apparel; Zalando (D), purely e-commerce retailer that sells footwear and fashion only online; Future Group (India), conglomerate with headquarters in Mumbai and leadership position in retail and fashion in India with 35,000 employees; Auchan China with over 230 hypermarkets and 45 shopping centres in China; Arcadia Group (UK), retail multinational with headquarters in London, 2500 shops and numerous brands in its portfolio (such as Burton, Dorothy Perkins, Evans, Miss Selfridge, Topman, Topshop, and Wallis) and ECG Fashion Brand (B), first TXT Retail customer in Belgium and important new win for our Collection Lifecycle Management solution.

In the third quarter, TXT Retail signed licence contracts with numerous customers, including GiFi (F), brand of personal and home accessories, with over 400 shops and a number of e-commerce and m-commerce channels via app; WE Fashion (NL) fashion retailer of apparel, footwear, bags and accessories, with over 240 shops and 3,000 employees, mainly in the Netherlands, Germany and France; Brunello Cucinelli (I), fashion house specialising in cashmere knitwear, with a network of owned boutiques in all continents; Christian Dior (F), brand dealing in luxury apparel, leather, jewellery and cosmetics, with shops and online sales; Cotton-on (AUS), dynamic fashion retailer based in Australia, with approximately 1200 shops, of which nearly 500 in the USA, South Africa and Asia.

In the fourth quarter, TXT Retail signed new contracts or accrued licences with numerous customers, including Not Your Daughter's Jeans - NYDJ Apparel (USA), premium jeans brand based in Los Angeles, with products distributed in over 30 countries; Groupe Royer (F), leading French footwear company, with a strategy of strong expansion in Europe, China, India and Vietnam; Charles Vögele (CH), fashion retailer with over 800 shops in Switzerland, Germany and several countries of Eastern Europe; Rusta AB (SE), retail company specialised in home furnishing and products, with over 100 shops in Sweden and Norway; Auchan China with over 230 hypermarkets and 45 shopping centres in China; Mizuno Europe (UK), global sports apparel and equipment brand founded in Japan; Dochki Sinochki (Ru), retailer specialised in young families and millennials, with 145 shops and 500 brands in Russia; Stockmann (Ru), retailer with department stores in Russia and recently acquired by Debenhams.

Implementation of the End-to-End Retail solutions continued in 2016, via AgileFit, exclusive, innovative and proprietary TXT solution, now constituting the heart of commercial offers and of all projects. AgileFit speeds up installation and return on investments for TXT customers.

A total of 350 customers of the Luxury, Fashion, and Retail sectors contributed to revenues in 2016, with more than 100,000 points of sale and sales channels throughout the world. TXT Retail's potential market in the geographical areas of Europe and North America includes approximately 1,500 large Retailers.

During the annual convention of the National Retail Federation (NRF) held in New York in January 2016, TXT announced TXT Retail 7, the first solution on the market that permits the planning, design, implementation and management of "customer-focused" assortments in multi-channel contexts, where customers can purchase and pick up anywhere.

The March 2016 edition of Thinking Retail in London brought together 150 leaders in international retail and planning professionals, with participation by Adidas, Bata Group, Pandora, Sephora, Takko and Urban Outfitters.

Research and development continued in 2016 on the new product TXT Retail 8, announced in occasion of the NRF’s 2017 convention.

TXT Retail is based on Microsoft's latest generation technological platform: the advanced in-memory processing capabilities permit rapid management of large volumes of data, supporting the complex calculations and simulations required for optimal management of retail processes.

TXT Retail is the first solution by Merchandise Lifecycle Management with end-to-end capacity, in which:

- the planning processes are integrated into a single business solution which thanks to the Excel interface accelerates adoption times and collaboration among functions;
- development of customer-focused collections includes the aspects of planning, design, product development and supply;
- execution of the assortment plans includes the functions of automatic generation of purchase orders, demand forecasting, allocation and management of supplies;
- Visual Planning of the solution integrates the visibility of tastes, trends and styles with the numerical aspect of the collection plan.

TXT Retail is the only solution that obtains "customer-driven" assortments, planned and implemented with an integrated and collaborative approach, bringing together all functions and activities involved in the retail process.

Until now, retailers had to purchase or develop, and then integrate, different solutions to support financial planning processes, planning of assortments, product development, purchases, demand forecasting, allocation and restocking. This approach resulted in isolated teams, each committed to its own area of responsibility, and led to challenges in the achievement of targeted assortments able to satisfy the requirements of new consumers in an effective and timely manner.

TXT Next Division

Revenues of the TXT Next division in 2016 were € 33.1 million, up € 8.2 million (+32.9%) compared to € 24.9 million in 2015, with € 6.6 million from the contribution by Pace GmbH (consolidated from 1 April 2016) and € 1.6 million attributable to growth (+6.5%). The division’s revenues accounted for 47.8% of the Group's revenues.

The division's international revenues amounted to € 9.8 million, compared to € 2.3 million in 2015, due to the contribution of Pace (€ 6.6 million) and to growth abroad (+36.2%). International revenues account for 30% of the TXT Next division's revenues, compared to 9% the prior year.

The Gross margin increased from € 8.7 million to € 14.1 million, up 62.5%. The improvement of € 5.4 million includes € 5.0 million from Pace GmbH and € 0.4 million in growth (+5.8%). Gross margin as a percentage of revenues improved from 34.9% to 42.7%, mainly due to the contribution of licences, subscriptions and maintenance of Pace software.

The acquisition of Pace GmbH, completed on 1 April 2016, strengthens TXT's expertise, providing decades-long experience in the aerospace sector, particularly in on-board software, flight simulators, training systems, flight support services and advanced manufacturing solutions.

Established in 1995, Pace serves a growing number of aerospace companies and airline operators throughout the world, providing them with software and innovative services to design, configure, 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.

Pace's customers currently comprise about 50 major companies, including leading manufacturers of aircraft and engines, airlines, civil and defence operators, and MRO - Maintenance, Repair & Overhaul companies, such as Airbus (D and F), Boeing (USA), Safran Group (F), GE Aviation (USA), COMAC (China), Sukhoi (Russia), Embraer (Brazil), Rolls-Royce (UK), AirFrance & KLM Engineering (F), Lufthansa (D) and Delta AirLines (USA).

TXT Next 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 and embedded software as well as software for training purposes based on simulations and virtual & augmented reality.

TXT Next has historically operated in the financial and banking sector as well, 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 aeronautics sector, a historic precursor in these realms. Furthermore, we have strategic partnerships with Microsoft, HP and IBM.

The company TXT e-solutions Sagl was established in Switzerland on 27 June 2016, focusing on the development of international customers in the aeronautics division. During 2016, a number of contracts were signed with new aeronautics customers such as Boeing (USA), Pilatus (CH), Reiser Simulation & Training (D), Goodrich Control Systems (UK), a division of UTC Aerospace Systems, with airline company Icelandair and with AirCap (IRL), international leading group in the leasing of aircraft.

TXT GROUP'S REVENUES

Research and development costs in 2016 amounted to € 6.6 million, up 28.0% compared to € 5.1 million in 2015, and include the research and development costs of Pace GmbH (€ 1.5 million). Development activities for new AgileFit, In-memory, Cloud and Omnichannel solutions of the TXT Retail division increased, while activities on a number of research projects funded by the European Community declined. The impact on revenues increased from 8.3% in 2015 to 9.5%.

Commercial costs amounted to € 13.6 million, up € 0.9 million (+7.0%) compared to 2015, due to the consolidation of Pace GmbH (€ 1.2 million) and to the containment of personnel costs. Commercial investments continued in North America and Europe, along with promotional initiatives for the TXT Retail products in occasion of the NRF events in New York and Thinking Retail! in London. Commercial costs declined from 20.6% to 19.6% as a percentage of revenues.

General and administrative costs amounted to € 8.8 million, up € 0.9 million compared to the first half of 2015, due to consolidation of the Pace GmbH costs (€ 0.9 million) and costs for consulting and legal M&A fees (€ 0.5 million). As a percentage of revenues, they amounted to 12.7%, compared to 12.8% in 2015.

Operating profit (EBITDA) before the Stock Grant costs in 2016 was € 8.2 million, up by +23.4% compared to 2015 (€ 6.7 million). The operating profit of Pace GmbH made a positive contribution (€ 1.4 million) to this result, while consulting and legal M&A fees made a negative contribution of € 0.5 million. Under the same scope of consolidation, EBITDA before the Stock Grant costs was € 7.3 million, up +9.3% compared to the prior year, with revenues up +1.7%.

EBITDA in 2016 was € 8.2 million compared to € 5.9 million in 2015, year in which € 0.7 million in Stock Grant costs were sustained.

Operating profit (EBIT) was € 6.9 million, up 44.0% compared to 2015 (€ 4.8 million). Amortisation of € 1.3 million includes amortisation of the intellectual property rights on the software and customer portfolio of Pace GmbH (€ 0.3 million), arising from temporary allocation of the acquisition cost. Gross profit as a percentage of revenues increased from 7.8% to 10.0%.

Pre-tax profit amounted to € 7.0 million, up 51.0% compared to 2015 (€ 4.6 million), following financial income of € 0.1 million (while financial charges of € 0.2 million were recorded in 2015). As a percentage of revenues, it grew from 7.5% to 10.1%.

Net profit was € 5.6 million (€ 3.9 million in 2015), net of tax charges of € 1.5 million (21% of pre-tax profit), up compared to € 0.8 million in 2015, due to full use in the prior year of prior tax losses in a number of Countries. Net profit amounted to 8.0% as a percentage of revenues, compared to 6.3% in 2015.

CAPITAL EMPLOYED

As at 31 December 2016, Capital Employed totalled € 28.9 million, up compared to € 25.4 million at 31 December 2015, mainly due to the acquisition of Pace GmbH.

The table below shows the details:

(€ thousand)	31 Dec. 2016	31 Dec. 2015	Total change	of which Pace GmbH	of which TXT
Intangible assets	21,296	14,692	6,604	7,871	(1,267)
Net property, plant and equipment	1,598	1,361	237	168	69
Other fixed assets	2,534	2,079	455	610	(155)
Fixed assets	**25,428**	**18,132**	**7,296**	**8,649**	**(1,353)**
Inventories	3,146	2,075	1,071	-	1,071
Trade receivables	23,740	25,032	(1,292)	698	(1,990)
Sundry receivables and other short-term assets	2,629	2,759	(130)	229	(359)
Trade payables	(1,626)	(1,422)	(204)	(54)	(150)
Tax payables	(2,532)	(1,291)	(1,241)	(974)	(267)
Sundry payables and other short-term liabilities	(17,928)	(16,090)	(1,838)	(1,726)	(112)
Net working capital	**7,429**	**11,063**	**(3,634)**	**(1,827)**	**(1,807)**
Post-employment benefits and other non-current liabilities	**(3,945)**	**(3,830)**	**(115)**	**-**	**(115)**
Capital employed	**28,912**	**25,365**	**3,547**	**6,822**	**(3,275)**
Group shareholders' equity	34,283	33,624	659	-	659
Net financial position (Cash)	(5,371)	(8,259)	2,888	6,822	(3,934)
Sources of financing	**28,912**	**25,365**	**3,547**	**6,822**	**(3,275)**

Intangible assets increased from € 14.7 million to € 21.3 million, with a change of € 6.6 million due to the acquisition of Pace GmbH for € 7.9 million (mainly attributable to intellectual property rights, the customer portfolio and goodwill) and to amortisation for the period on the intellectual property rights on software and on the customer portfolio for -€ 1.3 million.

Net property, plant and equipment amounted to € 1.6 million, up € 0.2 million compared to year-end 2015, mainly due to the consolidation of Pace GmbH. Investments in servers and computers during the period (€ 0.7 million) were essentially in line with the depreciation amounts for the year.

Other fixed assets amounted to € 2.5 million, essentially comprising deferred tax assets which increased by € 0.4 million compared to the end of 2015, upon recognition of prepaid taxes on prior losses.

Net working capital decreased by € 3.6 million from € 11.1 million as at 31 December 2015 to € 7.4 million as at 31 December 2016, due to the negative net working capital of Pace GmbH (€ 1.8 million) and the reduction in working capital of TXT business (€ 1.8 million), mainly due to the substantial decline in TXT's trade receivables (€ 2.0 million). Inventories for work in progress increased by € 1.1 million, essentially offset by other changes in working capital (-€0.9 million).

Liabilities arising from post-employment benefits of Italian employees and other non-current liabilities of € 3.9 million were essentially in line with those at the end of 2015 (€ 3.8 million).

Consolidated shareholders' equity amounted to € 34.3 million, increasing by € 0.7 million from € 33.6 million at 31 December 2015, mainly due to the net profit for the year (€ 5.6 million), net of payment of dividends (€ 2.9 million), share buy-backs (€ 0.8 million) and exchange rate differences on conversion (€ 1.2 million).

The consolidated Net Financial Position as at 31 December 2016 is positive for € 5.4 million, compared to € 8.3 million as at 31 December 2015, with a variation of € 2.9 million mainly due to the net effect of acquisition of Pace GmbH (€ 6.8 million) and payment of dividends (€ 2.9 million), partly offset by the positive cash flow generated during the period (€ 6.8 million).

The acquisition of Pace GmbH completed on 1 April 2016 involved a net impact on the financial position of € 6.8 million, broken down as follows:

- € 7.7 million already paid upon purchase of 79% of the company's shares;
- an additional € 1.4 million in estimated future outlays to exercise the put/call option in 2020-2021 to purchase the remaining 21% of the company's shares; payment of the "Earn-Out 2016" and other contractual terms;
- -€ 2.3 million for the net financial benefit arising from the acquisition of Pace, generated by the balance of cash acquired (€ 3.5 million) and financial debt acquired (€ 1.2 million).

On 18 May 2016, a dividend of € 0.25 per share was paid to 11.7 million outstanding shares (excluding treasury shares), with a total outlay of € 2.9 million.

Pursuant to Consob communication dated 28 July 2006 and in conformity 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 at 31 December 2016 is as follows:

(€ thousand)	**31 Dec. 2016**	**31 Dec. 2015**	**Change**
Cash and bank assets	7,570	9,080	(1,510)
Short-term financial payables	(808)	(821)	13
Short-term financial resources	**6,762**	**8,259**	**(1,497)**
Payables due to banks with maturity beyond 12 months	(1,391)	-	(1,391)
Net Available Financial Resources	**5,371**	**8,259**	**(2,888)**

The Net Financial Position as at 31 December 2016 is detailed as follows:

- Cash and bank assets of € 7.6 million: the Group's cash and bank assets are predominantly in Euro, USD and GBP for operations. This item also includes grants for research projects (€ 0.7 million) received by TXT as coordinator and lead manager; these amounts will be subsequently distributed to the other participating companies and the amounts were therefore recognised under short-term financial payables. The overall effect of these advances on net financial position is therefore zero.

- The € 0.8 million in short-term financial payables mainly consist of the financial payable for grants to be paid to research project partners (€ 0.7 million).

- The medium/long-term financial payables of € 1.4 million consist of estimated outlays for exercising of the put/call option in 2020-2021, the “Earn-Out 2016" and other contractual terms with the selling members of Pace.

Q4 2016 ANALYSIS

An analysis of fourth quarter of 2016 is provided in the table below:

(€ thousand)	Q4 2016	%	Q4 2015	%	% change
REVENUES	**19,050**	**100.0**	**16,137**	**100.0**	**18.1**
Direct costs	8,444	44.3	7,530	46.7	12.1
GROSS MARGIN	**10,606**	**55.7**	**8,607**	**53.3**	**23.2**
Research and development costs	1,896	10.0	1,280	7.9	48.1
Commercial costs	3,835	20.1	3,362	20.8	14.1
General and administrative costs	2,400	12.6	2,310	14.3	3.9
EBITDA pre Stock Grant	**2,475**	**13.0**	**1,655**	**10.3**	**49.5**
Stock Grant	-	-	740	8.6	n.s.
GROSS OPERATING PROFIT (LOSS) [EBITDA]	**2,475**	**13.0**	**915**	**5.7**	**n.s.**
Depreciation, amortisation and impairment	439	2.3	298	1.8	47.3
OPERATING PROFIT (LOSS) [EBIT]	**2,036**	**10.7**	**617**	**3.8**	**n.s.**
Financial income (charges)	178	0.9	(23)	(0.1)	n.s.
EARNINGS BEFORE TAXES (EBT)	**2,214**	**11.6**	**594**	**3.7**	**n.s.**
Taxes	(283)	(1.5)	(147)	(0.9)	n.s.
NET PROFIT (LOSS) FOR THE YEAR	**1,931**	**10.1**	**447**	**2.8**	**n.s.**

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

- Net revenues amounted to € 19.1 million, up 18.1% compared to fourth quarter 2015 (€ 16.1 million). Revenues of the TXT Retail division amounted to € 9.5 million (+0.3%). Revenues of the TXT Next division were € 9.6 million, up € 2.9 million compared to Q4 2015, mainly due to consolidation of Pace GmbH (€ 3.0 million).
- The gross margin for fourth quarter 2016 amounted to € 10.6 million, up 23.2% over fourth quarter 2015 (€ 8.6 million). Gross profit as a percentage of revenues increased from 53.3% to 55.7%.
- Operating profit (EBITDA) before the Stock Grant costs in Q4 2016 was € 2.5 million, up sharply by +49.5% compared to Q4 2015, due to the contribution of operating profit by Pace GmbH (€ 0.8 million). Investment in research and development grew 48.1% during the quarter, while commercial investment was up 14.1%. As a percentage of revenues, it grew from 10.3% to 13.0%.
- Operating profit (EBIT) was € 2.0 million, up sharply compared to € 0.6 million in fourth quarter 2015, during which Stock Grant costs of € 0.7 million were sustained. Their impact on revenues was 10.7%, compared to 3.8% in fourth quarter 2015.

- Net profit amounted to € 1.9 million (€ 0.4 million in 2015), after tax charges of € 0.3 million (€ 0.1 million in Q4 2015). Net profit amounted to 10.1% as a percentage of revenues, compared to 2.8% in fourth quarter 2015.

EMPLOYEES

As at 31 December 2016, the Group had 790 employees, compared to 672 as at 31 December 2015, for an increase of 118 employees, of which 72 for Pace GmbH and 46 new hirings predominantly in the TXT Next division, given the growth in business volume.

Personnel costs amounted to € 45.7 million in 2016, compared to € 41.8 million in 2015, up 9.1% and lower than the growth in revenues (12.4%).

TXT SHARE PERFORMANCE AND TREASURY SHARES

In 2016, the share price of TXT e-solutions reached a high of € 8.07 on 2 March 2016 and a low of € 6.96 on 23 September 2016. At 31 December 2016, the share price was € 7.50.

Average daily trade volumes in 2016 amounted to 8,600 shares.

At 31 December 2016, treasury shares amounted to 1,354,133 (1,345,700 at 31 December 2015), accounting for 10.41% of shares outstanding, and were purchased at an average price of € 2.44 per share.

During 2016, a total of 110,952 treasury shares were purchased at an average price of € 7.46 and 102,519 treasury shares were awarded to employees upon achievement of the objectives of the 2015 Stock Grant plan (this plan ended at the beginning of 2016 with exercising of all of the rights that were subject to exercise as at 31 December 2015).

The Shareholders' Meeting held on 22 April 2016 renewed the authorisation to purchase treasury shares for a period of 18 months up to 20% of the share capital. According to the plan, 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.

The Meeting also approved a Stock Option Plan for the Group's executive directors and senior managers, up to a maximum of 1,200,000 ordinary shares of TXT e-solutions S.p.A. The plan is aimed at rewarding implementation of the Group's development plans and encouraging loyalty of those holding key positions and who are, therefore, more directly responsible for the company's results, with a view to aligning the interests of beneficiaries of the Stock Option Plan with pursuit of the primary objective of creating value for all shareholders over the medium to long term. The Plan envisages the assignment of options, subject to achievement of specific performance objectives of the Company, to be more specifically established by the Board of Directors, upon proposal by the Remuneration Committee. The Plan spans approximately 5 years, with three-year vesting periods.

On 22 December 2016, the Board of Directors assigned 635,000 options at a price of € 5.50 per share to 33 individuals, comprising executive directors, top managers and employees of the Company and of the international subsidiaries. Exercising of the rights, potentially equal to 4.88% of the capital at the end of the three-year period, is subject to the achievement of ambitious and predetermined revenue and EBITDA objectives cumulatively in the three-year period 2017-2019.

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.

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES AND RISK MANAGEMENT

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.

On a half-yearly basis, directors and managers with strategic responsibilities declare any transactions 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 5 of the "Notes to the consolidated financial statements". 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.
With regard to the description of risks, reference should be made to the relevant "Financial Risk Management" section of the Notes.

CORPORATE GOVERNANCE AND REMUNERATION REPORT

The Parent Company's By-Laws comply with the provisions of the Corporate Governance Code issued by the Corporate Governance Committee for Listed Companies. The Annual Report on Corporate Governance and Shareholding Structures is included in Appendix 2.
Appendix 3 includes the corporate policy for the remuneration of directors.

ADDITIONAL INFORMATION

TXT e-solutions S.p.A. controls, directly or indirectly, a number of companies based in countries outside of the European Community (Non-EU Companies) of significant importance pursuant to Art. 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 accordance with the provisions of Art. 2428 paragraph four of the Italian Civil Code, as at the reporting date, TXT e-solutions S.p.A.'s secondary headquarters are in Orbassano (TO) at Via Torino 43/45, Genoa at Via Gropallo 4/16, Vicenza at Via della Meccanica 1/R, Valenzano (BA) at Strada provinciale per Casamassima 3, and Pomigliano d'Arco (NA), Via ex-aeroporto consorzio Il sole.

See Note 12 of the 2016 Consolidated Financial Statements for the statement of reconciliation between the result for the year and the Group's shareholders' equity with the analogous values of the Parent Company.

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

The Company aims to grow in Europe, North America and Asia Pacific, and to develop its extensive and diversified customer portfolio in the retail sector. The TXT Next division also has solid medium-term growth prospects in the aeronautics market and new opportunities offered by the large, qualified customer portfolio acquired with Pace GmbH.

The Company expects positive growth in revenues and profit for both Divisions in 2017. During first quarter 2017, taking into account the seasonal effects and the weaknesses of end markets, the profit level may be more limited, also due to the acceleration in investments in research and development and the international commercial strengthening underway.

Manager responsible for preparing corporate accounting documents	Chairman of the Board of Directors
Paolo Matarazzo	Alvise Braga Illa

Milan, 8 March 2017