



TXT e-solutions Group

Annual report

as at 31 December 2017

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 2019:

Alvise Braga Illa	Chairman	(1)
Marco Edoardo Guida	Chief Executive Officer	(2)
Paolo Matarazzo	Director	(2)
Fabienne Anne Dejean Schwalbe	Independent Director	(3)
Teresa Cristiana Naddeo	Independent Director	(3)
Stefania Saviolo	Independent Director	(3)
Andrea Lanciani	Non-executive Director	(3)(4)

(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 on 3 August 2017 to replace Andrea Casanova, who resigned. 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 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

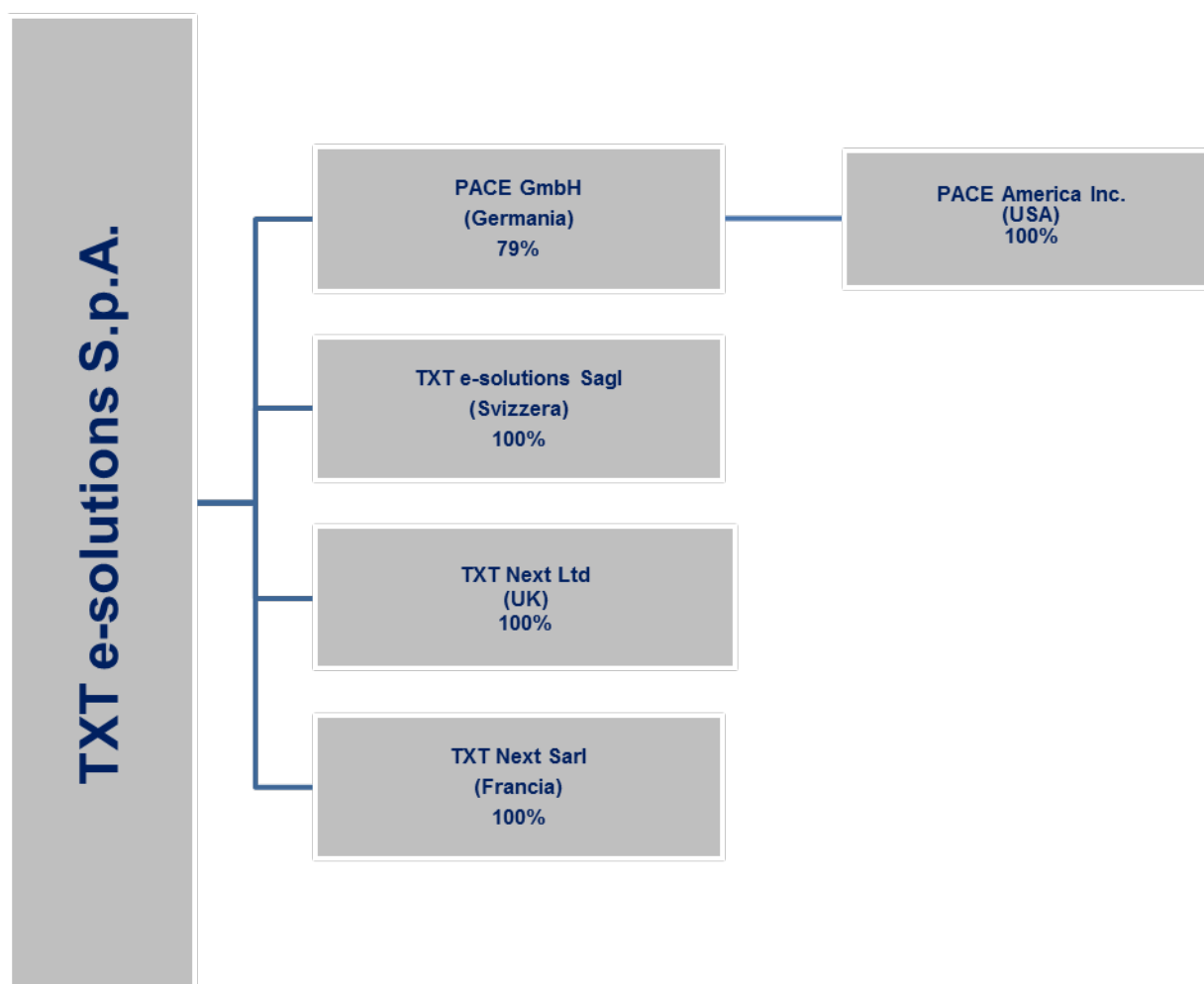
EY S.p.A.

INVESTOR RELATIONS

E-mail: infofinance@txtgroup.com

Telephone: +39 2 25771.1

Organisational structure and scope of consolidation



Key data and Directors' report on operations for the year 2017

TXT e-solutions Group – Key data (1)

DATI ECONOMICI (Importi in migliaia di Euro)	2017	%	2016	%	VAR %
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RICAVI (3)	35.852	100,0	33.060	100,0	8,4
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EBITDA pre Stock Options (2)	3.536	9,9	3.760	11,4	(6,0)
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EBITDA	3.467	9,7	3.760	11,4	(7,8)
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UTILE OPERATIVO (EBIT) (3)	2.672	7,5	3.133	9,5	(14,7)
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UTILE NETTO CONTINUING OPERATIONS (3)	1.754	4,9	2.520	7,6	(30,4)
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Utile netto Discontinued Operations (3)	66.801		3.035		
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UTILE NETTO (3)	68.555		5.555		
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DATI PATRIMONIALI E FINANZIARI (Importi in migliaia di Euro)	31.12.2017	31.12.2016	Var
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Capitale immobilizzato	8.860	10.148	(1.288)
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Capitale circolante netto	6.303	7.325	(1.022)
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TFR e altre passività non correnti	(2.609)	(2.565)	(44)
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Capitale investito - Continuing Operations	12.554	14.908	(2.354)
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Capitale investito - Discontinued Operations	-	14.004	(14.004)
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Capitale investito	12.554	28.912	(16.358)
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Posizione finanziaria netta	87.340	5.371	81.969
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Patrimonio netto del gruppo (3)	99.894	34.283	65.611
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DATI PER SINGOLA AZIONE	31.12.2017	31.12.2016	Var
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Numero medio di azioni in circolazione	11.665.375	11.686.276	(20.901)
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Utile netto per azione	5,88	0,48	5,40
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Patrimonio netto per azione	8,56	2,93	5,63
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ALTRE INFORMAZIONI	31.12.2017	31.12.2016	Var
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Numero di dipendenti - Continuing Operations	481	474	7
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Quotazione del titolo TXT	9,64	7,50	2,14
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(1) I risultati analitici esposti di riferiscono alle Continuing Operations in conformità al principio contabile IFRS 5. I risultati sintetici si riferiscono alle attività destinate alla vendita ("Discontinued Operations").

(2) EBITDA pre Stock Options identifica il risultato operativo lordo della società (EBITDA) senza considerare i costi maturati per stock options.

(3) Voce identificabile negli schemi obbligatori di Bilancio.

DATI ECONOMICI (Importi in migliaia di Euro)	2017	%	2016	%	VAR %
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Utile netto Discontinued Operations	66.801		3.035		
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(2) EBITDA pre Stock Options identifica il risultato operativo lordo della società (EBITDA) senza considerare i costi maturati per stock options.

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 pre Stock Options**, which in the official consolidated Income Statement means “Total revenues” net of total operating costs and excluding the Stock Options costs. In 2017, costs accrued with regard to the 2017-2019 three-year plan were recorded. 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 2017

Dear Shareholders,

On 2 October 2017 the assignment of the TXT Retail Division to Aptos Inc. (USA) was completed. The price of the transaction was € 88.2 million, of which € 85.0 million had been collected at the closing and € 3.2 agreed as a price adjustment for net working capital.

As part of the agreement, in the event of listing (IPO) of Aptos, TXT e-solutions (hereinafter "TXT") will have the right to exercise an option to purchase shares of the company up to a maximum of 10% of the shares involved in the listing, at the IPO price.

After the assignment, TXT e-solutions focused on the development of the TXT Next Division, mainly in software for the aviation and transport systems sector, with a reduced scope, but with greater, significant opportunities for stable growth, both organically and through potentially profitable acquisitions.

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, including Leonardo, Airbus, Boeing, Pilatus, Lufthansa, Safran, Rolls-Royce and Embraer, to name just a few.

Over the course of 2017 TXT has further consolidated its presence with all customers and acquired major new customers (including Finnair, Saab and Ferchau), confirming the strategic role of its solutions in design, configuration, production, training and simulation processes, and operational support for aviation manufacturers and airlines.

From the points of view of innovation, 2017 for TXT was marked by the launch of two new products, Pacelab FPO Cloud and Pacelab WEAVR, by the good growth of software, which by its nature has high margins, and by the strong international expansion, helped by the full integration of Pace GmbH.

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 pilot study is ongoing with one of the main North American airlines. 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.

A new phase of development and creation of value is beginning for our company, our collaborators and our shareholders, in new technological sectors showing great promise and application potential.

The main operating and financial results for 2017 were as follows:

- Revenues (from Continuing Operations) amounted to € 35.9 million, up 8.4% compared to € 33.1 million in 2016. Revenues from software for licences, subscriptions and maintenance in 2017 were € 4.0 million, +21.5% compared to 2016, and revenues from services were € 31.8 million, +7.0%.

- International revenues outside Italy (from Continuing Operations) amounted to € 13.3 million, +35.9% compared to € 9.8 million in 2016, equal to 37% of the total (30% in 2016).
- Net of direct costs, the Gross Margin (from Continuing Operations) came to € 15.6 million, +10.8% compared to 2016. As a percentage of revenues, it increased from 42.7% in 2016 to 43.6%, thanks to the contribution of revenues from Pace software and services and to organic growth.
- EBITDA pre Stock Options (from Continuing Operations) was € 3.5 million, compared with € 3.8 million in 2016 (-6.0%), following significant investments in research and development, +18.9%, and investments in international commercial structures, +35.7%. General and administrative costs were substantially in line with 2016 (+0.4%).
- Operating profit (EBIT) (from Continuing Operations) amounted to € 2.7 million, down compared to 2016 (-14.7%) as a result of ordinary amortisation/depreciation of Pace and the portion of amortisation on intellectual property rights on the software and customer portfolio of Pace, arising from allocation of the acquisition cost, consolidated for the entire year 2017, and the costs for stock options.
- Net profit from Continuing Operations was € 1.8 million (€ 2.5 million in 2016), net of tax charges of € 0.7 million (29% of pre-tax profit, up compared to 21% in 2016 due to full use in the prior year of prior tax losses in a number of countries).
- Net profit from Discontinued Operations was € 66.8 million, of which € 0.8 million for the net profit of the TXT Retail Division in the first 9 months of 2017 and € 70.6 million for the capital gains from the assignment to Aptos, net of € 4.6 million expenses and taxes related to the transaction. In 2016 Net profit from Discontinued Operations was € 3.0 million.
- Net profit amounted to € 68.6 million, of which € 66.8 million as overall profit from the assignment of TXT Retail and € 1.8 million as Net profit from Continuing Operations. In 2016 Net profit was € 5.6 million.
- The consolidated Net Financial Position as at 31 December 2017 was positive at € 87.3 million (€ 5.4 million as at 31 December 2016), with an increase of € 81.9 million as a result mainly of the amount collected for the assignment of the TXT Retail Division.
- Consolidated shareholders' equity amounted to € 99.9 million, up € 65.6 million compared to € 34.3 million as at 31 December 2016, mainly due to the net profit from the assignment of the TXT Retail Division.

The assets attributable to the TXT Retail Division sold on 2 October 2017 were classified in the financial statements for 2017 as “Discontinued Operations”, pursuant to accounting standard IFRS 5. The economic and financial effects are as follows:

- The income statements for 2017 and 2016 show a breakdown of the trend in revenues and expenses with regard to Continuing Operations, essentially corresponding to the TXT Next Division. The net profit (loss) of the TXT Retail Division (“Discontinued Operations”) in 2016 and in the first 9 months of 2017 is indicated, along with the capital gains from the assignment and the related expenses and taxes, in the “Discontinued Operations” chapter of the Directors’ Report and Notes to the financial statements.

- The Economic and Financial Position as at 31 December 2017 shows the values of TXT's continuing operations and is compared with the financial statements as at 31 December 2016 that include TXT Retail. The chapter "Capital employed" of the Directors' Report compares the Economic and Financial values with the situation as at 31 December 2016 of Continuing Operations only to facilitate the comparison and show the progress of TXT's current assets.

TXT's results for 2017, compared with the previous year's figures, are presented below:

<i>(€ thousand)</i>	2017	%	2016	%	% Change
REVENUES	35,852	100.0	33,060	100.0	8.4
Direct costs	20,224	56.4	18,954	57.3	6.7
GROSS MARGIN	15,628	43.6	14,106	42.7	10.8
Research and development costs	2,481	6.9	2,086	6.3	18.9
Commercial costs	5,066	14.1	3,733	11.3	35.7
General and administrative costs	4,545	12.7	4,527	13.7	0.4
EBITDA pre Stock Options	3,536	9.9	3,760	11.4	(6.0)
Stock options	69	0.2	-	-	n.m.
GROSS OPERATING PROFIT (EBITDA)	3,467	9.7	3,760	11.4	(7.8)
Depreciation, amortisation and impairment	795	2.2	627	1.9	26.8
OPERATING PROFIT (EBIT)	2,672	7.5	3,133	9.5	(14.7)
Financial income (charges)	(208)	(0.6)	48	0.1	n.m.
EARNINGS BEFORE TAXES (EBT)	2,464	6.9	3,181	9.6	(22.5)
Taxes	(710)	(2.0)	(661)	(2.0)	7.4
NET PROFIT FROM CONTINUING OPERATIONS	1,754	4.9	2,520	7.6	(30.4)
Net profit from Discontinued Operations	66,801		3,035		
NET PROFIT (LOSS) FOR THE YEAR	68,555		5,555		

REVENUES AND GROSS MARGINS

Revenues and direct costs of Continuing Operations are summarised below:

<i>(€ thousand)</i>	2017	%	2016	%	% change 17/16
REVENUES	35,852	100.0	33,060	100.0	8.4
Software	4,040	11.3	3,325	10.1	21.5
Services	31,812	88.7	29,735	89.9	7.0
DIRECT COSTS	20,224	56.4	18,954	57.3	6.7
GROSS MARGIN	15,628	43.6	14,106	42.7	10.8

Revenues from Continuing Operations amounted to €35.9 million in 2017, up €2.8 million (+8.4%) compared to €33.1 million in 2016, with Pace (acquired and consolidated starting from 1 April 2016) contributing €8.7 million and growth of 4.2%.

Revenues from software for licences, subscriptions and maintenance in 2017 were €4.0 million, +21.5% compared to 2016, and revenues from services were €31.8 million, +7.0% compared to 2016.

International revenues account for 37% of revenues, compared to 30% the prior year, +35.9%.

The Gross Margin increased from €14.1 million to €15.6 million, up 10.8%. The €1.5 million increase in the Gross Margin is attributable to €0.8 million for the greater contribution of revenues from Pace software and services and €0.7 million for organic growth. The gross margin improved from 42.7% to 43.6% of revenues.

TXT has decades-long experience in the aerospace sector, particularly in on-board software, flight simulators, training systems, flight support services and advanced manufacturing solutions.

TXT 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.

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), Pilatus (CH), Reiser (D), CAE (D), 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 has historically operated in the financial and banking sector as well, where it specialises in Independent Verification & Validation of supporting IT systems. In 2017 the revenues generated by this sector represent 23% of total revenues from Continuing Operations. 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 aviation sector, a historic precursor in these realms. TXT has strategic partnerships with Microsoft, HP and IBM.

RESEARCH AND DEVELOPMENT ACTIVITIES

Research and development costs in 2017 amounted to € 2.5 million, up 18.9% compared to € 2.1 million in 2016, due to complete integration of the Pace acquisition. The impact on revenues increased from 6.3% in 2016 to 6.9%.

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

In 2017 launched two new products, the fruit of internal research and development activities: Pacelab FPO Cloud and Pacelab WEAVR.

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 pilot study is ongoing with one of the main North American airlines.

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.

In 2017, two new projects were approved as part of the subsidised HORIZON 2020 research program, part of the European Union Framework Program for Research and Innovation.

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 aimed 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.

Both projects will be conducted as part of international consortia with leading companies and development centres.

Over the course of 2017 the new TXT Sense Division was set up; this consists of a start-up with proprietary techniques for 3D representation and New Enhanced Reality, with prospective applications in numerous major sectors of industry, communication and services.

Technologies for simulation with New Enhanced Reality have a growing role in the development of complex equipment and systems, including autonomous systems (even robot) using new generation AI technologies (deep learning). Validation of these autonomous systems requires the use of integrated algorithmic simulation systems, assisted by human best practices. In the upcoming future, the techniques at the disposal of TXT will also play a central role in the design and validation of new generation robots (game-based training and validation of non-algorithmic autonomous systems, such as self-driving automobiles).

REVENUES FROM CONTINUING OPERATIONS

Commercial costs amounted to € 5.1 million, up € 1.4 million (+35.7%) compared to 2016, due to consolidation for the entire period of Pace's results (+ € 0.9 million), growth in investment in the TXT Next division (+ € 0.4 million) and promotion of TXT Sense (+ € 0.1 million). Commercial costs grew from 11.3% to 14.1% as a percentage of revenues.

General and administrative costs amounted to € 4.5 million, substantially in line with 2016 (+0.4%). The impact on revenues decreased from 13.7% in 2016 to 12.7%.

Operating profit (EBITDA) before the Stock Options costs in 2017 was € 3.5 million, -6.0% compared to 2016 (€ 3.8 million). As a percentage of revenues in 2017, it stood at 9.9%, compared to 11.4% the prior year, due to higher indirect costs.

EBITDA in 2017 was € 3.5 million, following costs of € 0.1 million accrued during the period for the 2017-2019 Stock Options plan.

Operating profit (EBIT) amounted to € 2.7 million, down compared to 2016 (-14.7%) as a result of ordinary amortisation/depreciation of Pace and the portion of amortisation on intellectual property rights on the software and customer portfolio of Pace, arising from allocation of the acquisition cost. Gross profit amounted to 7.5% as a percentage of revenues, compared to 9.5% in 2016.

Earnings before taxes came to € 2.5 million (€ 3.2 million in 2016), following financial charges and exchange rate differences of € 0.2 million.

Net profit from Continuing Operations was € 1.8 million (€ 2.5 million in 2016), net of tax charges of € 0.7 million (29% of pre-tax profit, up compared to 21% in 2016 due to full use of prior tax losses).

Net profit amounted to € 68.6 million, after the capital gains from the assignment of TXT Retail and the net profit from Discontinued Operations of € 66.8 million. Net profit in 2016, including the profits of the TXT Retail Division, amounted to € 5.6 million.

CAPITAL EMPLOYED

Capital Employed as at 31 December 2017 is € 12.6 million, down by € 2.3 million compared with Capital Employed in relation to Continuing Operations as at 31 December 2016 (€ 14.9 million), as a result of the reduction in both Fixed Assets (- € 1.3 million) and Net Working Capital (- € 1.0 million).

The details are shown in the following table, indicating the Capital Employed in Discontinued Operations as at 31 December 2016. As previously indicated, for the sole purpose of facilitating comparison and in derogation from the provisions of IFRS 5 and consequently incorporated into the balance sheet of TXT's financial statements, the financial data for 2016 have been reclassified and presented again separating operating assets and liabilities attributable solely to Discontinued Operations (4):

<i>(€ thousand)</i>	31 Dec. 2017	31 Dec. 2016	Change
Intangible assets	7,332	7,634	(302)
Net property, plant and equipment	793	765	28
Other fixed assets	735	1,749	(1,014)
Fixed assets	8,860	10,148	(1,288)
Inventories	2,528	2,767	(239)
Trade receivables	14,681	14,015	666
Sundry receivables and other short-term assets	2,533	1,954	579
Trade payables	(1,341)	(1,077)	(264)
Tax payables	(1,052)	(1,048)	(4)
Sundry payables and other short-term liabilities	(11,046)	(9,286)	(1,760)
Net working capital	6,303	7,325	(1,022)
Post-employment benefits and other non-current liabilities	(2,609)	(2,565)	(44)
Capital employed - Continuing Operations	12,554	14,908	(2,354)
Assets and Liabilities - Discontinued Operations	-	14,004	(14,004)
Capital employed	12,554	28,912	(16,358)
Group shareholders' equity	99,894	34,283	65,611
Net financial position (Cash)	(87,340)	(5,371)	(81,969)
Sources of financing	12,554	28,912	(16,358)

Intangible assets decreased from € 7.6 million to € 7.3 million, due to amortisation for the year on the intellectual property rights on software and on the customer portfolio of the Pace acquisition.

Property, plant and equipment amounted to € 0.8 million, unchanged compared to the end of 2016, mainly due to investments in servers and computers during the period (€ 0.4 million), in line with the amortisation amounts that accrued during the period (€ 0.4 million).

Other fixed assets amounting to € 0.7 million consist essentially of deferred tax assets and are down by € 1.0 million from € 1.7 million as at 31 December 2016, as a result of the use of the parent company's prior losses thanks to profits from ordinary activities and the capital gains from the assignment of TXT Retail.

Net working capital increased by € 1.0 million, from € 7.3 million as at 31 December 2016 to € 6.3 million as at 31 December 2017. The main cause of the reduction in working capital is the € 1.8 million increase in sundry payables and other short-term liabilities, essentially as a result of costs allocated to the TXT Retail assignment transaction and not yet paid. The other main changes in net working capital regard the increase in receivables due from customers (€ 0.7 million) and sundry receivables and other short-term assets (€ 0.6 million), partly offset by the reduction in inventories for work in progress for amounts not yet invoiced to customers (€ 0.2 million) and by the increase in trade payables (€ 0.3 million).

Liabilities arising from post-employment benefits of Italian employees and other non-current liabilities of €2.6 million were unchanged compared to those at the end of 2016.

Assets and Liabilities from Discontinued Operations as at 31 December 2016 were € 14.0 million, as described in detail in the chapter “Discontinued Operations”.

Consolidated shareholders' equity as at 31 December 2017 amounted to € 99.9 million, up € 65.6 million compared to € 34.3 million as at 31 December 2016, mainly due to net profit from Discontinued Operations (€ 66.8 million). The other main changes in shareholders' equity (-€ 1.2 million overall) concern the dividend payment (-€ 3.5 million), net profit from Continuing Operations (+€ 1.8 million) and the exercising of Stock Options, net of treasury share buy-backs (+€ 0.3 million) and difference from the exchange rate at conversion (+€ 0.2 million).

The consolidated Net Financial Position as at 31 December 2017 is positive for € 87.3 million, compared to € 5.4 million as at 31 December 2016, with an increase of € 81.9 million mainly due to the price collected at closing for the assignment of TXT Retail (€ 85.0 million) and the furthermore payment for the working capital adjustment (€ 3.2 million), net of the net financial position of the TXT Retail business assigned (€ 2.7 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 as at 31 December 2017 is as follows:

<i>(€ thousand)</i>	31 Dec. 2017	31 Dec. 2016	Change
Cash and bank assets	86,527	7,570	78,957
Other short-term financial assets	3,156		3,156
Short-term financial assets	89,683	7,570	82,113
Short-term financial payables	(675)	(808)	133
Short-term financial resources	89,008	6,762	164,359
Non-current financial liabilities	(1,668)	(1,391)	(277)
Net Available Financial Resources	87,340	5,371	81,969

The Net Financial Position as at 31 December 2017 is detailed as follows:

- Cash and bank assets of € 86.5 million: the Group's cash and cash equivalents are mainly in Euros, invested in short-term cash deposits with major Italian banks. This item also includes grants for research projects received by TXT as coordinator and lead manager to be distributed to the other participating companies and the amounts collected on behalf of Aptos (€ 0.6 million). The same amounts were recognised in short-term financial payables, with a neutral effect on the Net Financial Position.
- Other short-term financial assets of € 3.2 million refer to the contractual payment for net working capital price adjustment agreed with Aptos and collected at the beginning of 2018.

- The €0.7 million in short-term financial payables includes the financial payable for grants to be paid to research project partners and amounts collected on behalf of Aptos (€0.6 million).
- The medium/long-term financial payables of € 1.7 million consist of estimated outlays for exercising of the put/call option in 2020-2021, relative to the purchase of Pace (Continuing Operations).

Q4 2017 ANALYSIS

An analysis of the operating results for the fourth quarter of 2017, compared with the profits from Continuing Operations in the same period of 2016, is given in the following table:

(€ thousand)	Q4 2017	%	Q4 2016	%	% Change
REVENUES	9,820	100.0	9,591	100.0	2.4
Direct costs	5,318	54.2	5,223	54.5	1.8
GROSS MARGIN	4,502	45.8	4,368	45.5	3.1
Research and development costs	617	6.3	687	7.2	(10.2)
Commercial costs	1,610	16.4	1,238	12.9	30.0
General and administrative costs	1,431	14.6	1,259	13.1	13.7
EBITDA pre Stock Grant	844	8.6	1,184	12.3	(28.7)
Stock options	-	-	-	-	n.s.
GROSS OPERATING PROFIT (EBITDA)	844	8.6	1,184	12.3	(28.7)
Depreciation, amortisation and impairment	283	2.9	226	2.4	25.2
OPERATING PROFIT (EBIT)	561	5.7	958	10.0	(41.4)
Financial income (charges)	(113)	(1.2)	81	0.8	n.s.
EARNINGS BEFORE TAXES (EBT)	448	4.6	1,039	10.8	(56.9)
Taxes	(85)	(0.9)	(137)	(1.4)	(38.0)
NET PROFIT FROM CONTINUING OPERATIONS	363	3.7	902	9.4	(59.8)
Net profit from Discontinued Operations	65,963		1,029		
NET PROFIT (LOSS) FOR THE YEAR	66,326		1,931		

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

- Net revenues amounted to €9.8 million, +2.4% compared to the fourth quarter of 2016 as a result of the positive trends for activities in the Aerospace & Aviation sector.
- The Gross Margin for the fourth quarter of 2017 amounted to € 4.5 million, +3.1% over the fourth quarter of 2016 (€ 4.4 million), with the impact on revenues improving from 45.5% to 45.8%.
- Gross operating profit (EBITDA) in the fourth quarter of 2017 was € 0.8 million, down € 1.2 million from the fourth quarter of 2016 (-28.7%). Over the quarter, commercial expenses for

the development of international activities increased (+30.0%), as did general and administrative expenses (+13.7%), which after the assignment of TXT Retail are no longer spread across a wider scope of activity. Profit as a percentage of revenues was 8.6%, compared to 12.3% the prior year.

- Operating profit (EBIT) was € 0.6 million, down compared to € 1.0 million in the third quarter of 2016 (-41.4%), and includes amortisation/depreciation of € 0.3 million. The impact on revenues was 5.7%, compared to 10.0% in the fourth quarter of 2016.
- Net profit from Continuing Operations amounted to € 0.4 million (€ 0.9 million in 2016), after tax charges of € 0.1 million.
- Profit from Discontinued Operations was € 66.0 million and includes the capital gains from the assignment of TXT Retail (€ 70.6 million) net of charges relating to the transaction and taxes (€ 4.6 million). In the fourth quarter of 2016 the net profit of € 1.0 million referred to the net profit of the TXT Retail division.
- Net profit came to € 66.3 million (€ 1.9 million in the fourth quarter of 2016).

EMPLOYEES

At 31 December 2017, the group had 481 employees, compared with 474 within the scope of Continuing Operations at 31 December 2016. The increase of 7 people is due to the growth in activities.

Employees of Discontinued Operations amounted to 324 at the reference date, compared to 316 as at 31 December 2017.

DISCONTINUED OPERATIONS

This paragraph gives details of the Income Statement and Balance Sheet for Discontinued Operations, essentially corresponding to the assigned TXT Retail Division.

The financial results for 2017 of Discontinued Operations include Revenues and costs of the TXT Retail Division in the first 9 months of the year (€ 0.8 million), the capital gains deriving from the assignment to Aptos (€ 70.6 million) and expenses relating to the assignment and taxes (€ 4.6 million).

The economic results of Discontinued Operations for 2016 include Revenues and costs of the TXT Retail Division for the entire 12 months of 2016 and are presented below:

<i>(€ thousand)</i>	2017 (9m)	%	2016 (12m)	%	% Change
REVENUES	27,266	100.0	36,092	100.0	(24.5)
Direct costs	10,291	37.7	13,085	36.3	(21.4)
GROSS MARGIN	16,975	62.3	23,007	63.7	(26.2)
Research and development costs	3,481	12.8	4,464	12.4	(22.0)
Commercial costs	7,689	28.2	9,841	27.3	(21.9)
General and administrative costs	3,455	12.7	4,247	11.8	(18.6)
EBITDA pre Stock Options	2,350	8.6	4,455	12.3	(47.3)
Stock options	174	0.6	-	-	n.s.
GROSS OPERATING PROFIT (EBITDA)	2,176	8.0	4,455	12.3	(51.2)
Depreciation, amortisation and impairment	515	1.9	682	1.9	(24.5)
OPERATING PROFIT (EBIT)	1,661	6.1	3,773	10.5	(56.0)
Financial income (charges)	(447)	(1.6)	57	0.2	n.s.
EARNINGS BEFORE TAXES (EBT)	1,214	4.5	3,830	10.6	(68.3)
Taxes	(376)	(1.4)	(795)	(2.2)	(52.7)
CURRENT NET PROFIT	838	3.1	3,035	8.4	(72.4)
Capital gains	70,635				
Costs relating to the assignment and taxes	(4,671)				
NET PROFIT FROM DISCONTINUED OPERATIONS	66,802		3,035		n.s.

The results of Discontinued Operations were calculated based on specifically measured items (Revenues, Direct costs, Research and development costs, Commercial costs, Stock options, Financial charges) and other cost items allocated as a percentage of costs of the TXT Group (General and administrative costs, Depreciation/amortisation, Taxes).

Revenues from Discontinued Operations during the first 9 months of 2017 amounted to €27.3 million (€36.1 million in the 12 months of 2016).

Gross operating profit (EBITDA) before the Stock Option costs in the first 9 months of 2017 was € 2.4 million (€ 4.5 million in the 12 months of 2016).

Current net profit in the first 9 months of 2017 was € 0.8 million (€ 3.0 million in the 12 months of 2016).

The capital gains of € 70.6 million derives from the price collected at the closing for the assignment of TXT Retail (€ 85.0 million) and from the further working capital adjustment payment (€ 3.2 million), net of the capital employed of the TXT Retail business at the date of assignment (€ 14.8 million) and the net liquidity assigned (€ 2.8 million).

The expenses relating to the assignment (€ 4.7 million) refer to legal, notarial and financial and technical consultancy fees (€ 1.4 million), non-compete agreements, settlements and personnel incentives (€ 1.6 million) and direct and indirect taxes (€ 1.7 million).

The Capital Employed of Discontinued Operations amounted to € 14.8 million as at 30 September 2017, the closing reference date. Below is the comparison with the corresponding amounts as at 31 December 2016 (€ 14.0 million):

<i>(€ thousand)</i>	30 Sept. 2017	31 Dec. 2016	Change
Intangible assets	13,204	13,662	(458)
Net property, plant and equipment	773	833	(60)
Other fixed assets	895	785	110
Fixed assets	14,872	15,280	(408)
Inventories	103	379	(276)
Trade receivables	10,836	9,725	1,111
Sundry receivables and other short-term assets	706	675	31
Trade payables	(149)	(549)	400
Tax payables	(1,229)	(1,484)	255
Sundry payables and other short-term liabilities	(8,969)	(8,642)	(327)
Net working capital	1,298	104	1,194
Post-employment benefits and other non-current liabilities	(1,388)	(1,380)	(8)
Capital employed - Discontinued Operations	14,782	14,004	778

The net liquidity assigned with the TXT Retail Division on 30 September 2017, the closing reference date, was € 2.8 million, which along with the capital employed constituted a total net asset of € 17.6 million.

RECONCILIATION PROFIT/SHAREHOLDERS' EQUITY PARENT COMPANY - CONSOLIDATED

Euro/000	Shareholders' equity		Net profit (loss) for the year	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
As per financial statements of TXT e-solutions S.p.A.	98,673	25,929	75,595	3,086
Excess shareholders' equities of the financial statements comprising the profit (loss) for the year, compared to the carrying amounts of the interests in consolidated companies	(4,241)	775	1,582	3,080
Consolidation adjustments, net of tax effects, due to:				
- difference between purchase price and corresponding shareholders' equity amount	5,369	6,405		
- difference allocated to IP, CR and DTA with PPA	2,264	3,843	(352)	(743)
- deferred tax liabilities on difference allocated to IP and CR with PPA	(503)	(998)	110	172
- PACE put/call minority	(1,668)	(1,643)	(24)	(18)
- elimination of intragroup dividends	-	-	(3,106)	(1,000)
- reversal of impairment of interest in TXT North America Inc.	-	-	-	978
- other adjustments		(28)	(5,248)	-
As per financial statements of TXT Group	99,894	34,283	68,556	5,555

TXT SHARE PERFORMANCE AND TREASURY SHARES

In 2017, the share price of TXT e-solutions reached a high of € 12.99 on 10 May 2017 and a low of € 8.03 on 4 January 2017. As at 31 December 2017, the share price was € 9.64, equal to an appreciation of +29% compared to the beginning of the year.

Average daily trade volumes in 2017 amounted to 46,300 shares, showing significant growth compared to the average of 8,600 shares in 2016.

As at 31 December 2017, treasury shares amounted to 1,268,321 (1,354,133 as at 31 December 2016), accounting for 9.75% of shares outstanding, and were purchased at an average price of € 2.14 per share. During 2017, 32,700 shares were purchased at an average price of € 9.53 and 118,512 shares were awarded to employees who exercised their Stock Options at the predetermined price of € 5.50. As at 31 December 2017, 40,238 options allocated to employees were yet to be exercised; they were exercised in the first months of 2018.

The Shareholders' Meeting held on 21 April 2017 renewed the authorisation to purchase treasury shares for a period of 18 months up to 20% of the share capital.

On 3 August 2017, the Board of Directors unanimously co-opted, with resolution approved by the Board of Statutory Auditors, Andrea Lanciani as non-executive director of the Company, to replace Andrea Casanova, who resigned on the same date.

Andrea Lanciani graduated with a Law Degree in Turin in 1989, cum laude and publication recommended, and has been enrolled in the Bar Association since 1992. A Supreme Court attorney, he has expertise in the fields of commercial law with specific reference to banking, financial and corporate law and the sector of public companies. He is the author of publications on commercial

law, corporate law and on the philosophy of law. He is fluent in English and French and is a partner at Studio Tosetto, Weigmann e Associati. The new director does not possess any TXT shares.

Andrea Casanova was elected during the Shareholders' Meeting of 21 April 2017 from the minority list submitted by shareholder E-business Consulting S.A. Pursuant to the By-laws, the Board co-opted the first non-elected candidate from the same minority list, with resolution approved by the Board of Statutory Auditors.

Andrea Casanova was a member of the Risks and Internal Controls Committee and of the Remuneration Committee. Mr. Casanova, who upon resignation did not hold any TXT shares, justified his resignation as being for strictly personal reasons. The outgoing Director was not assigned any severance or other benefits following termination of his office.

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. In 2017 there were no transactions with directors or managers with strategic responsibilities other than the remunerations paid and described in the Remuneration Report.

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, 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. 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 C.so Podestà 8/1 dx and Pomigliano d'Arco (NA) at Via ex-aeroporto consorzio Il sole.

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

The Company has received news that on 21 February 2018 a contract was concluded for the sale by E-Business Consulting S.A. to Laserline S.p.A., a company in which Enrico Magni directly holds a 60% stake, of its entire holding in TXT e-solutions S.p.A., representing 25.62% of its share capital.

The payment agreed between the parties was € 35 million, corresponding to a valuation of around € 10.50 per TXT share.

The transfer of the shares will occur on the closing date, scheduled for 30 March 2018 at the latest.

Enrico Magni has informed the Company in advance of his desire to play an active role, wherever possible, in the Board of Directors and in the Company, as well as his preference for the Company to maintain its current listed status with a multi-divisional structure.

In 2018, the Company expects positive growth in its core business. During first quarter 2018, 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 2018



TXT e-solutions Group

Consolidated financial statements
as at 31 December 2017

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 2019:

Alvise Braga Illa	Chairman	(1)
Marco Edoardo Guida	Chief Executive Officer	(2)
Paolo Matarazzo	Director	(2)
Fabienne Anne Dejean Schwalbe	Independent Director	(3)
Teresa Cristiana Naddeo	Independent Director	(3)
Stefania Saviolo	Independent Director	(3)
Andrea Lanciani	Non-executive Director	(3)(4)

(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 on 3 August 2017 to replace Andrea Casanova, who resigned. 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 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

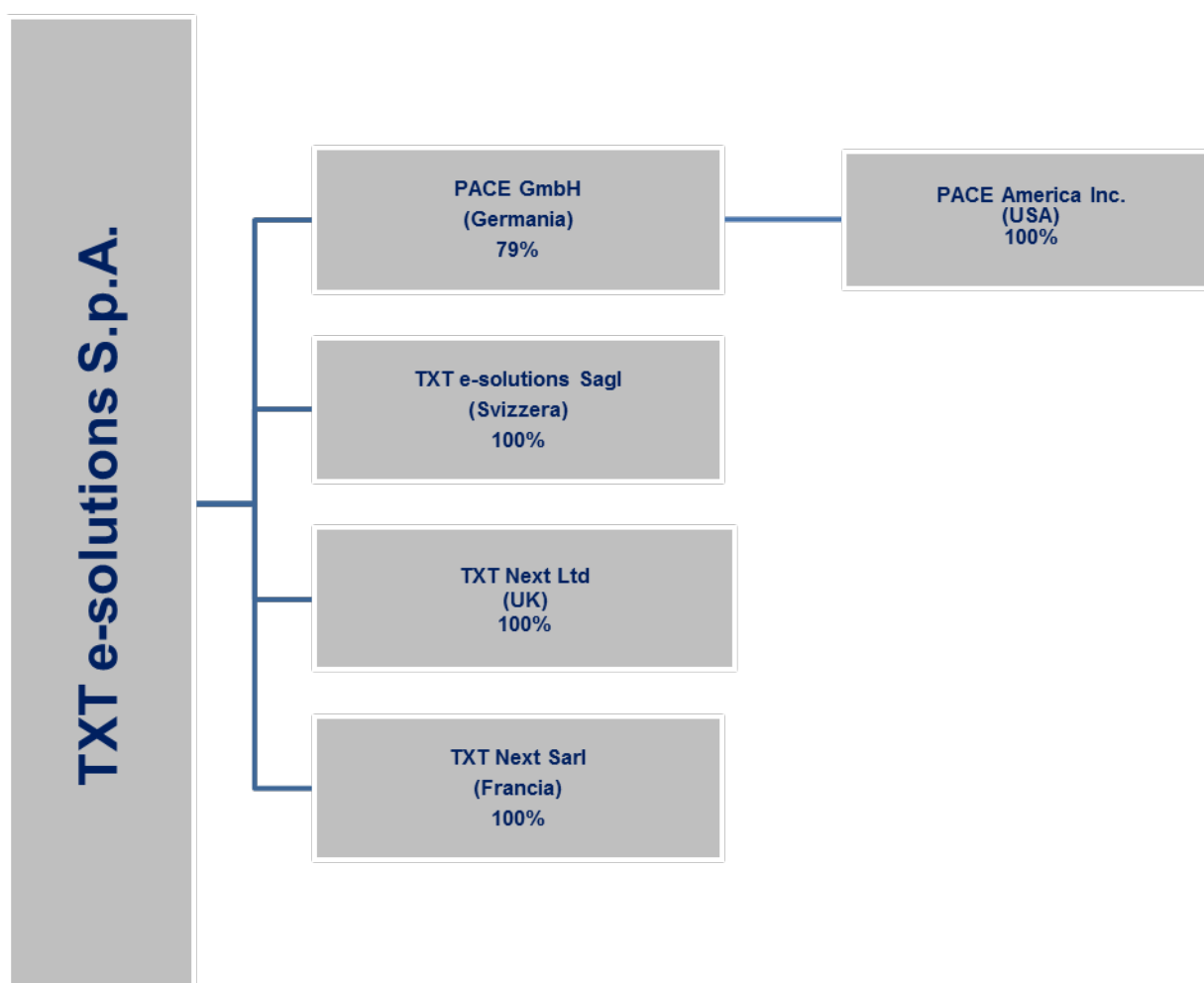
EY S.p.A.

INVESTOR RELATIONS

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Telephone: +39 2 25771.1

Organisational structure and scope of consolidation



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Consolidated financial statements as at 31 December
2017

Consolidated Balance Sheet

ASSETS	Notes	31 Dec. 2017	Of which due to related parties	31 Dec. 2016	Of which due to related parties
NON-CURRENT ASSETS					
Goodwill	7.1	5,369,231		17,830,693	
Intangible assets with a finite useful life	7.2	1,962,454		3,465,058	
Intangible assets		7,331,685		21,295,751	
Property, plant and equipment	7.3	793,444		1,598,260	
Property, plant and equipment		793,444		1,598,260	
Sundry receivables and other non-current assets	7.4	75,173		160,498	
Deferred tax assets	7.5	659,656		2,373,623	
Other non-current assets		734,829		2,534,121	
TOTAL NON-CURRENT ASSETS		8,859,957		25,428,132	
CURRENT ASSETS					
Period-end inventories	7.6	2,527,917		3,146,362	
Trade receivables	7.7	14,680,812		23,739,800	
Sundry receivables and other current assets	7.8	5,690,021		2,629,183	
Cash and cash equivalents	7.9	86,527,488		7,570,479	
TOTAL CURRENT ASSETS		109,426,238		37,085,825	
TOTAL ASSETS		118,286,195		62,513,957	
LIABILITIES AND SHAREHOLDERS' EQUITY					
SHAREHOLDERS' EQUITY					
Share capital		6,503,125		6,503,125	
Reserves		15,144,014		14,091,119	
Retained earnings (accumulated losses)		9,691,188		8,133,150	
Profit (loss) for the year		68,555,495		5,555,363	
TOTAL SHAREHOLDERS' EQUITY	7.10	99,893,822		34,282,757	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	7.11	1,688,023		1,391,140	
Employee benefits expense	7.12	2,589,776		3,945,640	
Deferred tax provision	7.5	503,014		1,843,436	
TOTAL NON-CURRENT LIABILITIES		4,780,813		7,180,216	
CURRENT LIABILITIES					
Current financial liabilities	7.13	674,861		808,225	
Trade payables	7.14	1,341,308		1,625,740	
Tax payables	7.15	548,642		688,428	
Sundry payables and other current liabilities	7.16	11,046,750	288,750	17,928,590	1,198,605
TOTAL CURRENT LIABILITIES		13,611,560	288,750	21,050,984	1,198,605
TOTAL LIABILITIES		18,392,373	288,750	28,231,199	1,198,605
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		118,286,195	288,750	62,513,957	1,198,605

Consolidated Income Statement

	Notes	31 Dec. 2017	Of which due to related parties	31 Dec. 2016	Of which due to related parties
Revenues and other income	8.1	35,850,918		33,059,797	
TOTAL REVENUES AND OTHER INCOME		35,850,918		33,059,797	
Purchase of materials and external services	8.2	(6,236,241)		(7,077,022)	
Personnel costs	8.3	(24,636,022)	(1,237,562)	(21,450,348)	(1,237,562)
Other operating costs	8.4	(1,512,215)		(772,414)	
EBITDA		3,466,440		3,760,013	
Depreciation and amortisation/Impairment	8.5	(794,688)		(627,858)	
OPERATING PROFIT (LOSS)		2,671,752		3,132,155	
Financial income (charges)	8.6	(207,456)		49,322	
EARNINGS BEFORE TAXES		2,464,296	-	3,181,477	-
Income taxes	8.7	(710,381)		(660,596)	
NET PROFIT (LOSS) FOR THE YEAR		1,753,915		2,520,881	
Net profit from Discontinued Operations	13	66,801,580		3,034,483	
NET PROFIT (LOSS) FOR THE YEAR (group)		68,555,495	-	5,555,363	-

Consolidated Statement of Comprehensive Income

	2017	2016
NET PROFIT (LOSS) FOR THE YEAR	68,555,495	5,555,363
Foreign currency translation differences - foreign operations	231,686	(1,045,424)
Total items of other comprehensive income that will be subsequently reclassified to profit/(loss) for the year net of taxes	231,686	(1,045,424)
Defined benefit plans actuarial gains (losses)	(18,097)	(92,272)
Total items of other comprehensive income that will not be subsequently reclassified to profit/(loss) for the year net of taxes	(18,097)	(92,272)
Total profit/(loss) of Comprehensive income net of taxes	213,590	(1,137,696)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	68,769,084	4,417,667

Consolidated Statement of Cash Flows

	2017	2016
Profit/loss from continued operations	1,753,915	2,520,881
Profit/loss from discontinued operations	68,801,580	3,034,483
Net profit (loss) for the year	68,555,495	5,555,363
Non-monetary costs	242,887	10,564
Current taxes	507,495	(631,767)
Change in deferred taxes	804,933	66,027
Depreciation and amortisation, impairment and provisions	1,310,229	1,309,174
Capital gains from assignment of TXT Retail division	(70,634,748)	-
Cash flows from (used in) operating activities (before change in working capital)	786,291	6,309,361
(Increases)/decreases in trade receivables	(1,877,589)	1,868,207
(Increases)/decreases in inventories	515,049	(1,071,427)
Increases/(decreases) in trade payables	(135,227)	149,560
Increases/(decreases) in post-employment benefits	115,342	23,076
Increases/(decreases) in other assets and liabilities	1,040,311	1,479,935
Change in operating assets and liabilities	(342,114)	2,449,351
Income taxes paid	(222,706)	
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	221,471	8,758,712
	<i>Of which due to related parties</i>	<i>(1,722,063)</i>
Increases in property, plant and equipment	(558,306)	(715,044)
Increases in intangible assets	(103,307)	(23,406)
Net cash flow from acquisition/assignment	82,250,142	(5,403,476)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	81,588,529	(6,141,926)
Increases/(decreases) in financial payables	173,639	(240)
Distribution of dividends	(3,495,636)	(2,931,492)
(Purchase)/Sale of treasury shares	(6,461)	(827,756)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	(3,328,458)	(3,759,488)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	78,481,542	(1,142,702)
Effect of exchange rate changes on cash flows	475,467	(366,794)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7,570,479	9,079,975
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	86,527,488	7,570,479

Consolidated Statement of Changes in Equity as at 31 December 2017

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Altre riserve	Totale patrimonio netto
Saldi al 31 Dicembre 2016	6,503,125	850,000	11,796,405	1,911,444	140,667	921,297	(996,939)	(531,731)	8,133,126	5,555,363	0	34,282,757
Utile al 31 Dicembre 2016		155,000							5,400,363	(5,555,363)		0
Acquisizioni												0
Acc.to piano Stock Options						242,888						242,888
Distribuzione dividendi									(3,495,636)			(3,495,636)
Aumento di capitale gratuito												0
Vendita azioni proprie			651,816									651,816
Acquisto azioni proprie			(311,614)									(311,614)
Attualizzazione TFR							(18,097)					(18,097)
Delta cambi								231,686	(346,665)			(114,978)
Altri movimenti							101,191					101,191
Utile al 31 dicembre 2017										68,555,495		68,555,495
Utile complessivo al 31 Dicembre 2017							(18,097)	231,686		68,555,495		68,769,084
Saldi al 31 Dicembre 2017	6,503,125	1,005,000	12,136,607	1,911,444	140,667	1,164,184	(913,844)	(300,045)	9,691,188	68,555,495	0	99,893,822

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Altre riserve	Totale patrimonio netto
Saldi al 31 Dicembre 2015	6,503,125	620,000	12,624,161	1,911,444	140,667	921,297	(904,667)	513,668	7,412,155	3,882,487	0	33,624,337
Utile al 31 Dicembre 2016		230,000							3,652,487	(3,882,487)		0
Acquisizioni												0
Acc.to piano Stock Options												0
Distribuzione dividendi									(2,931,492)			(2,931,492)
Aumento di capitale gratuito												0
Vendita azioni proprie												0
Acquisto azioni proprie			(827,756)									(827,756)
Attualizzazione TFR							(92,272)					(92,272)
Delta cambi								(1,045,424)				(1,045,424)
Altri movimenti												0
Utile al 31 dicembre 2017										5,555,363		5,555,363
Utile complessivo al 31 Dicembre 2016							(92,272)	(1,045,424)		5,555,363		4,417,667
Saldi al 31 Dicembre 2016	6,503,125	850,000	11,796,405	1,911,444	140,667	921,297	(996,939)	(531,756)	8,133,150	5,555,363	0	34,282,757

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 2017 (see also the organisational diagram in the section “Organisational structure and scope of consolidation”):

Company name of the subsidiary	Currency	% holding	Share capital
PACE GmbH	EUR	79%	295,000
PACE America Inc.	USD	79%	10
TXT e-solutions SagL	CHF	100%	40,000
TXT NEXT Sarl	EUR	100%	100,000
TXT NEXT Ltd	GBP	100%	100,000

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, continued and discontinued operations (mean exchange rate for the year)

Currency	2017	2016
British Pound Sterling (GBP)	0.8725	0.8195
Canadian Dollar (CAD)	1.4538	1.4659
Australian Dollar (AUD)	1.4530	1.4883
US Dollar (USD)	1.1293	1.1069
Hong Kong Dollar (HKD)	8.6699	8.5922
Singapore Dollar (SGD)	1.5461	1.5275
Swiss Franc (CHF)	1.1115	1.0902

- Balance sheet (exchange rate as at 31 December 2017 and 31 December 2016)

Currency	31 Dec. 2017	31 Dec. 2016
British Pound Sterling (GBP)	0.8872	0.8562
US Dollar (USD)	1.1993	1.0541
Swiss Franc (CHF)	1.1702	1.0739

2. Extraordinary transactions

The year 2017 featured in particular the assignment of the TXT Retail Division and the Company consequently focusing on the activities of the TXT Next Division, mainly in software for the aeronautical sectors and transport systems.

Sale of the TXT Retail Division to Aptos, Inc. was finalised on 2 October 2017, following fulfilment of all of the conditions precedent envisaged in the preliminary agreement, including completion of the transfer of the Retail business branch to Thinking Retail S.r.l., newly-formed company, obtaining the necessary authorisations from the German and Austrian anti-trust authorities, conclusion of the union consultation procedure and completion of the additional corporate requirements.

At the closing TXT received a payment of €85,000,000, agreeing to a price adjustment on the basis of the overall net working capital of the net available financial resources transferred with the TXT Retail division on the closing date. On 12 February 2018 TXT received €3,156,172 by way of this price adjustment.

On 18 September 2017 the company TXT Next Ltd was established in the United Kingdom and on 2 October 2017 the company TXT Next Sarl was established in France, both functional for subdivision of the local TXT Retail and TXT Next local activities.

More details are given in chapter 13.

3. 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 the historical cost basis, except for derivative financial instruments. 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.

Consolidated financial statements have been prepared based on accounting entries at 31 December 2017 and on a going concern basis. 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 08 March 2018.

3.1 Accounting standards and basis of consolidation

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 2017.

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 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

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 shall also be 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).

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.

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.

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 and the resulting gain or loss, if any, is recognised in profit or loss. 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, i.e. a financial instrument that is within the scope of IAS 39 Financial Instruments: Recognition and Measurement, will be recognised in profit or loss or in other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is accounted for in accordance with the appropriate IFRS. If the contingent consideration is classified as equity, it shall not be remeasured and its subsequent settlement is accounted for within equity.

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.

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 nets 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.

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.

Property, plant and equipment

Property, plant and equipment is measured at acquisition or production cost including directly attributable costs necessary to bring the asset to its working condition.

Property, plant and equipment is depreciated on a straight-line basis over its 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.

Assets held under finance leases (for which the companies of the Group assume substantially all the risks and rewards) are accounted for as property, plant and equipment (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. On the date of this report, the Group has no current financial leasing contracts in accordance with IAS 17.

Impairment of non-financial assets

At the end of each reporting period, 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

amount 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:

Goodwill

Goodwill is tested for impairment at least annually (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.

Intangible assets

An intangible asset with an indefinite useful life is tested for impairment at least annually (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

Initial recognition and measurement

The financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets, or derivatives designated as hedging instruments that are determined to be effective hedges, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Financial assets are initially recognised at fair value plus the transaction costs directly attributable to the acquisition, except in the case of financial assets at fair value through profit or loss.

A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned is a regular way purchase or sale and is recognised using trade date accounting. Trade date is the date that the Group commits itself to purchase or sell an asset.

The Group's financial assets include cash and short-term deposits, trade receivables and other receivables, loans and other receivables, quoted and unquoted financial instruments.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification as follows:

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.

Assets held for trading are all those assets acquired for the purpose of selling them in the near term.

This category includes the derivative financial instruments subscribed by the Group that were not designated as hedging instruments in accordance with the hedging relationship as defined by IAS 39. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments.

The financial instruments at fair value through profit or loss are recognised in the balance sheet at fair value, while the changes in fair value are recognised in profit or loss as financial income or charges.

No financial asset was designated upon initial recognition as at fair value through profit or loss.

The Group assessed its financial assets held for trading, other than derivatives, to verify whether the intention to sell them in the near term is still appropriate. In rare cases, i.e. when the Group is unable to sell these financial assets because markets are not active and management's intention to sell them in the foreseeable future changes significantly, the Group may choose to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale financial assets, or held-to-maturity financial assets depends on the nature of the asset. This assessment has no impact on any financial asset designated as at fair value through profit or loss designated under the fair value option.

The embedded derivatives contained in host contracts are accounted for as separate derivatives and measured at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not held for trading or measured at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. The initial assessment is not revised unless a change in the contractual terms significantly modifies the cash flows that otherwise would be expected. None of these cases apply to the Group as at 31 December 2017.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. The amortised cost is calculated by accounting for any discounts, acquisition premiums, fees or costs that are an integral part of the effective interest rate.

The amortisation at the effective interest rate is recognised as financial income in profit or loss. The losses arising from impairment are recognised as financial charges in profit or loss.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments are classified as "held-to-maturity financial assets" whenever the Group has the positive intention and ability to hold them to maturity.

After initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. The amortised cost is calculated by accounting for any discounts, acquisition premiums, fees or costs that are an integral part of the effective interest rate. The amortisation at the effective interest rate is recognised as financial income in profit or loss. The losses arising from impairment are recognised as financial charges in profit or loss. The

Group did not hold any investments of this type during the financial years ended 31 December 2015 and 2014.

Impairment of financial assets

At the end of each reporting period, the Group determines whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment can be represented by indicators such as financial difficulty, a breach of contract, default or delinquency in interest or principal payments, that borrowers, or a group of borrowers, are incurring; it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in circumstances or in the economic conditions related to the obligations.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group assessed whether objective evidence of impairment existed individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be estimated based on the reduced carrying amount and is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recognised in profit or loss as part of financial income. Loans and the relevant provisions are reversed when there is no realistic prospect of recovery and all guarantees have been enforced or transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases following an event occurring after the impairment was recognised, the previously recognised impairment loss shall be increased or decreased by adjusting an allowance account. If a reversal is subsequently recovered, the amount of the reversal is recognised in profit or loss as a decrease in financial charges.

Investments in other companies

The item includes investments in other companies measured at fair value through equity; when the fair value cannot be reliably measured, the investments are measured at cost less impairment. When the conditions that caused the impairment no longer exist, the investments measured at cost are revalued to the extent of the impairment loss previously recognised through profit or loss.

Other non-current assets, Trade receivables, Current financial receivables and Other current receivables

With the exception of assets deriving from derivative financial instruments, the other assets and all financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured, if they have fixed maturity, at amortised cost using the effective interest method. When financial assets do not have fixed maturity, they are measured at cost. Loans with maturity over one year, granted interest-free or at a below-market rate, are discounted at market rates of interest.

The Group regularly assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the impairment loss is recognised as an expense when incurred.

Inventories

Inventories 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. 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.

Financial Liabilities, Other non-current liabilities, Trade payables, Current financial payables and Other payables

Upon initial recognition, they are designated as at fair value (typically represented by the cost of the transaction that originated them), including transaction costs.

Subsequently, except for derivative financial instruments, financial liabilities are measured at amortised cost using the effective interest method.

The receivables and payables in the foreign currency of countries outside the Euro area are translated at closing rates; any positive or negative differences between the amounts of the receivables and payables translated at closing rates and those measured at the original exchange rates, are recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

The financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, such as loans and borrowings, or derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial liabilities upon initial recognition.

Financial liabilities are initially recorded at fair value plus transaction costs directly attributable to them in the case of loans and borrowings.

The Group's financial liabilities include trade payables and other payables, bank overdrafts, loans and borrowings, guarantees issued and derivative financial instruments.

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 financial 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 liabilities acquired for the purpose of selling them in the near term. This category includes the derivative financial instruments subscribed by the Group that were not designated as hedging instruments in accordance with the hedging relationship as defined by IAS 39. Separated embedded derivatives are classified as financial instruments held for trading unless they are designated as effective hedging instruments.

Gains and losses on financial liabilities held for trading are recognised in profit or loss.

Financial liabilities are designated upon initial recognition as at fair value through profit or loss only if the conditions in IAS 39 are met. The Group has not designated upon initial recognition any financial liability as at fair value through profit or loss.

Loans and borrowings

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 any 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 profit or loss.

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. recognises 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 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

Related parties are:

- 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 family members of the 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, 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.

Translation of foreign currency items

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).

REVENUE AND EXPENSES

REVENUES

Revenue is recognised when it is probable that the economic benefits will flow to the TXT Group and the relevant amount can be measured reliably, irrespective of collection date. Revenue is measured at the fair value of the consideration received or receivable, taking into account the contract terms of payment and excluding taxes and duties. The Group specifically assessed its sales contracts and concluded that it is acting directly as the principal in all sales contracts.

These specific measurement criteria shall also apply with reference to revenue recognition:

Revenues from software licences, including subscriptions

Revenues from software licences can derive from two different types of contractual formula: allocation of users' rights in the form of end user software licences and subscriptions. With the former TXT offers the customer the possibility, contractually for an indefinite and irrevocable period, to be exploited non-exclusively, TXT licensed software, solely for the customer's own business purposes.

TXT licensed software means both software relating to the TXT Retail division and software integrated into the offer of the TXT Next division from 2016 and relating mainly to the Aerospace sector. As a result of the assignment of the TXT Retail division, revenues from licences in the Retail sector contributed to the profits of the discontinued operation.

Revenues from end user software licences are recognised when the right is transferred to the customer, as they do not intrinsically and necessarily require extensive and significant customisation, and the following requirements are met: a) there is persuasive evidence of the agreement with the customer; b) delivery has occurred; c) payment has been or can be determined; d) collection of the amount receivable is likely. The amount receivable linked to this line of revenue is generally paid by the customer in one go.

Subscription contracts, typical of the TXT Next division, allow the customer access to TXT licensed software, and maintenance and updates for the latter, for a limited period of time. Revenues of this type are recognised along the period of time covered by the contract. The financial transaction is generally aligned with this period.

Revenue is recognised net of returns, discounts, rebates and premiums, as well as of any directly related taxes.

Revenues from maintenance contracts

Revenues from maintenance services include fees received for activities involving updates, supply of documentation and manuals and assistance linked to licensed software incorporated into a unitary service contract. These revenues are recognised by TXT for the period along the period of time covered by the maintenance contract.

Revenues from professional services

Revenues deriving from the sale of services (for example development of technological solutions, consultancy, integration services, training) are recorded on the basis of the fees agreed in relation to the state of progress of the work. 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, takes into account the hours spent by personnel involved in the project on the reference date and any other direct costs. Subsequent amendments and adjustments and contractual variants are considered as appropriate and affect the calculation of revenues from the order if formally defined by the parties. When the outcome of a contract cannot be reliably measured, revenue is recognised only to the extent that costs incurred are deemed to satisfy the recoverability requirements.

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 profit or loss (IAS 18.30 a).

COSTS

Costs 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 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 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 amount 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 taxation 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 2017.

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 Euro	31/12/2017	Level 1	Level 2	Level 3
Financial assets for which the fair value is identified				
- other non-current financial assets	0	0	0	0
- other current financial assets	3,156,172	0	3,156,172	0
Total financial assets	3,156,172	0	3,156,172	0
Financial liabilities for which the fair value is identified				
- other non-current financial liabilities	1,667,523	0	1,667,523	0
- other current financial liabilities	596,404	0	596,404	0
Total financial liabilities	2,263,927	0	2,263,927	0

Non-current financial liabilities include the debt for the acquisition of PACE, as an estimate of the additional outlays for exercising the PUT/CALL option in the period 2020-2021 for the acquisition of the remaining 21% of the company's shares.

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 and other contingent liabilities

At 31 December 2017, 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 2018), Turin (expiring in October 20

22) and Berline (expiring in December 2019) and for the vehicle fleet for staff use with contracts stipulated for an average duration of 48 months.

Use of estimates 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.

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

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 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.

New accounting standards, interpretations and amendments adopted by the Group

The accounting standards adopted in preparing the consolidated financial statements as at 31 December 2017 are consistent with those used in preparing the Group financial statements as at 31 December 2016, except for the adoption of the new standards, amendments and interpretations effective since 1 January 2017. The Group has not opted for the early application of any other standard, interpretation or amendment published but not yet effective.

Contents and effects of each new standard/amendment are detailed below:

Additional disclosure – Amendments to IAS 7 Statement of Cash Flows

The amendments require entities to provide additional information on changes in liabilities linked to funding activities, including both changes linked to cash flows and non-monetary changes (for example foreign currency gains and losses). The Group has provided in notes 7.15 and 7.11 information for both the current year and for the comparative period.

Recording of deferred tax assets for unrealised losses - Amendments to IAS 12 Income Taxes

The amendments clarify that an entity must consider whether tax regulations limit the sources of taxable income in relation to which the entity could make deductions linked to the reversal of temporary deductible differences. Furthermore, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances in which the taxable income could include the recovery of certain assets for a value greater than their carrying amount.

The Group has taken account of these amendments retrospectively. Furthermore, their application has not had significant effects on the Group's financial position and profits and loss.

The Group has provided information on deferred taxes in note 7.5.

3.2 Accounting standards to be applied soon

IFRS 15 Revenues from Contracts with Customers

IFRS 15 was issued in May 2014, amended in April 2016, and approved in September 2016. The standard introduces a new model in five phases that will be 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

IFRS 15 sets out the recording of revenues for an amount that reflects the fee to which the entity considers itself entitled in the context of trade with the customer for the transfer of products or services. The new standard requires more evaluation elements and choices by the directors to define its policy for recognising revenues. The new model represents a change in basic standards in relation to the current model of “transfer of risks and benefits” which defines the current practice developed around IAS 18 Revenue, which furthermore did not specifically deal with the granting of software use licences, and will replace all the current requirements present in the IFRS with regard to the recognition of revenues, including those of IAS 11 Construction Contracts, to which the TXT Group’s policy refers mainly for the recognition of revenues from project services (the other standards and interpretations superseded but that do not apply to the TXT Group are: IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers for Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services).

The Group plans to apply the new standard from the obligatory effective date, using the modified retrospective application method. This method will consist of recording the cumulative effect of the initial application of the new standard on the initial shareholders’ equity at the start of the period, without showing the comparison again; the Group may furthermore choose to apply the new standard retrospectively only to contracts that are not completed on the date of initial application. Over the course of 2017 the Group concluded its preliminary evaluation of the effects of IFRS 15. The TXT Group, as discussed further in other sections of the financial statements, operates in the supply of software products and strategic solutions. In the light of the analysis activities carried out, the main points of interest are listed below (for the description of the criteria currently used, please refer to section 3.1 of the consolidated financial statements”.

(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 to carry 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. Because, 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, being proprietary licences, the Group considers that the licence and the maintenance services should be considered in application of IFRS 15 as the only contractual promise for which the overall fee should be recognised along the period covered by the maintenance contract. With the new model it is therefore expected that there will be an initial impact linked to the partial deferral of revenues from licences for which, on the date of transition, there are existing maintenance contracts. For full information, in order to provide some useful indications for evaluating the relevance of the phenomenon, some quantitative data are provided below. Contracts signed in 2017 for licences only (excluding therefore the part of the fee that according to the current policy is allocated to maintenance and recognised over the time covered by the corresponding contract), including in continued operations, that would fall within the aforementioned category generated revenues of €1,197 thousand. The Group is in the process of completing the analysis, including with reference to licence contracts sold in the immediately preceding years that could be affected by the new model in the presence of related maintenance agreements for

more than one year; in this regard please note that the total revenues generated by licences alone for 2016 amounted to €979 thousand.

(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, already recognised "over time" along the contractual period, the transition to IFRS 15 is not expected to have any impact.

(b) Provision of services for projects

Currently the Group recognises revenues from the provision of services for technological solutions projects on the basis of the state of progress of the projects. 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 provided as and when by the entity;
- the entity's service creates or improves the activity (for example ongoing work) 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 current accounting model with the means of measuring the progress of the project permitted by IFRS 15. Projects are not usually multi-year and the payment conditions do not present significant financial components. Consequently no significant impact is expected 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 debited from 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 entail deferral of the 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 plan to recognise commercial costs incurred under assets as they are considered mostly recurring in nature.

(iii) Presentation and information required

The provisions of IFRS 15 with regard to presentation and information required are more detailed than in the current standards. In particular the Group expects that the notes to the financial statements could be extended as a result of the information on significant real estate appraisals and

furthermore, as required by IFRS 15, the Group will separate revenues deriving from contracts with customers into categories that represent how the nature, amount, timeframe and uncertainty of the revenues and cash flows are affected by economic factors.

IFRS 16 Leases

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 current practice 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 recognise 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 relating to “low-value” assets (cases that the TXT Group could handle with reference to operating leases for office equipment such as photocopiers, currently recorded in the financial statements under “Other operating costs”)
- short-term lease contracts (for example contracts expiring within 12 months or less).

The accounting established by IFRS 16 for lessees is substantially unchanged from the current accounting in accordance with IAS 17.

IFRS 16 furthermore requires lessees and lessors to provide more extensive information than IAS 17.

IFRS 16 will take effect for periods beginning on or after 1 January 2019. Early application is permitted, but not before the entity has adopted IFRS 15. A lessee can choose to apply the standard using a fully retrospective approach or a modified retrospective approach. In the case of application of the latter approach the temporary provisions established by the standard would allow certain optional resources that the Group is evaluating in order to make a complete assessment of the cost-benefit ratio.

Given that the TXT Group had not as at 31 December 2017 established any lease classifiable as “financial”, in accordance with the accounting standards currently in force, the positions that could fall within the scope of IFRS 16 and that it is expected at the moment could in principle have an appreciable effect are related to:

- lease contracts for the main office (Milan)
- lease contracts for the national (Turin) and foreign (PACE – Berlin) secondary offices
- portfolio of hire vehicles for the Company's staff

These rents are recorded in the Group's income statement under “Other operating costs” for an annual total of €712 and €444 respectively for the leases and for the vehicles (see note 2.4). Please refer to the section Guarantees issued, obligations and other contingent liabilities for a description of the types of contract.

In 2018 the Group will continue to define the effects of IFRS 16 on its consolidated financial statements taking into account potential changes that may occur in the existing contractual positions on the date of presentation of the statements as well as in the case of early adoption and simplifications established by the standard.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments. Recording and valuation and all previous version of IFRS 9. IFRS 9 brings together all three aspects relating to the plan for accounting for financial instruments: classification and valuation, impairment and hedge accounting. The Group will adopt the new standard from the effective date (1 January 2018) and will not present the comparative information again.

The Group has carried out a detailed analysis on the impact of all aspects covered by IFRS 9. This analysis was based on the information currently available, including strategies for using financial instruments, and could be subject to changes if further or different information becomes available for the Group in 2018, when the Group will adopt IFRS 9. In principle, the Group does not foresee any significant impact on its consolidated balance sheet and shareholders' equity with reference to the main areas of procedural intervention governed by the standard described below.

a) Classification and valuation 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 the classification and valuation requirements established by IFRS 9. In particular the Group does not at the moment have any financial liability designated at FVTPL for the purposes of adopting the fair value option. For completeness it is reported that the change in financial liabilities relating to the acquisition of PACE minority shares 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 does not at the moment hold, nor did it manage in the year, active financial instruments, such as debt securities, with the aim of selling them or in absolute terms. The Group also does not have investments in the form of shareholdings that could fall within the scope of IFRS 9 or derivatives, even incorporated. 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 Group 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. It will therefore not be necessary to reclassify these financial instruments. Similar conclusions can be reached for the items relating to cash and cash equivalents.

b) Impairment

IFRS 9 requires the Group to record losses on expected 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 will apply the simplified approach and will therefore record 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 fund that are capable of incorporating information from forecasts and not limited to historical evidence, as a practical expedient. The Group will however continue to consider analytically the specific features of the sector and of certain customers in its evaluations. The Group, while not expecting significant changes in the value of the fund already allocated for the sole effect of the change of standard, is evaluating the necessary disclosure for dealing with the increased requirements established by IFRS 9.

c) Hedge accounting

The Group has in the past established transactions to hedge currency risk, mainly relating to transactions, by the signature of currency forward contracts. The Group in this case had not activated hedge accounting and consequently had recorded, on the basis of the general rules in IAS 39 for derivatives, all effects deriving from the change in their FV in the income statement. If the Group were to decide in future to establish hedge transactions using derivatives and to implement hedge accounting, it would have to adopt the rules in IFRS 9. 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 test of efficacy of the hedging 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 hedge instrument and the element hedged – the possibility of designating as a hedge object only a risk component even for non-financial elements (provided that the risk component is separately identifiable and can be reliably estimated) – introduction of the “costs of hedging “ item – greater possibility of designating groups of elements as a hedge object, 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 adoption of IFRS 9 will not entail for the Group any significant adjustment of other items in the financial statements registered on 1 January 2018.

4. 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). On the basis of cash and cash equivalents of € 86,527,488, and a positive Net Financial Position of € 87,341,276 (see note 11), the TXT e-solutions Group does not deem to be exposed to significant liquidity risks at present.

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 2017, 37% of the Group's revenues were earned outside Italy).

As at 31 December 2017, approximately 15% of the Group's sales revenues and operating costs were in a currency other than the Euro.

In order to manage the economic impact deriving from the exchange rate fluctuations with respect to the Euro (mainly the British Pound Sterling, Canadian Dollar and US Dollar), the Parent Company has over the first nine months of 2017 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.

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: British Sterling (7.5% of consolidated revenues as at 31 December 2017), Canadian Dollar (5.4% of consolidated revenues as at 31 December 2017), American Dollar (5.2% of consolidated revenues as at 31 December 2017), Swiss Franc (1.2% of consolidated revenues as at 31 December 2017), Australian Dollar (0.6% of consolidated revenues as at 31 December 2017).

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 Eurozone, both those possessed as at 31 December 2017 (TXT e-solutions Sagl and Pace America Inc., TXT Next Ltd) and those assigned over the course of the year as part of the sale of the TXT Retail Division (TXT UK Ltd, TXT North America Inc., Maple Lake Australia Pty Ltd, TXT USA Inc., TXT Retail AsiaPacific Ltd and TXT Singapore Pte Ltd.).

Canadian Dollar	Increase/Decrease	Effect on profit (loss)
2017	+5%	(39,476)
	-5%	43,631
Australian Dollar	Increase/Decrease	Effect on profit (loss)
2017	+5%	956
	-5%	(1,056)
US Dollar	Increase/Decrease	Effect on profit (loss)
2017	+5%	(84,595)
	-5%	93,500
British Pound Sterling	Increase/Decrease	Effect on profit (loss)
2017	+5%	(11,935)
	-5%	13,191
Singapore Dollar	Increase/Decrease	Effect on profit (loss)
2017	+5%	12,908
	-5%	(14,266)
Hong Kong Dollar	Increase/Decrease	Effect on profit (loss)
2017	+5%	269
	-5%	(297)
Swiss Franc (CHF)	Increase/Decrease	Effect on profit (loss)
2017	+5%	(11,494)
	-5%	12,704

Interest rate risk

The Group's net financial exposure is subject to floating interest rates, and therefore the Group 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 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:

(Amounts in thousands of Euro)	31 Dec. 2017	Interest rate change	Financial in- come/charges
Net financial position	87,341,276		
Fixed rate payables	0		
Financial exposure (floating rate)	87,341,276	+1%	873,413
		-1%	(873,413)

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:

	Amount in Euro	Concentration %
Total receivables due from customers	14,680,812	-
Receivables due from customers (Top 5)	8,579,945	58.44%
Receivables due from customers (Top 10)	11,059,925	75.34%

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 35.16% of the Group's total trade receivables. The first five and ten customers respectively account for 58.44% and 75.34% of the total trade receivables collectible.

Other risks

The Group has business dealings in the United Kingdom exclusively with the newly-founded subsidiary TXT Next Ltd. Following the outcome of the Brexit referendum, a process was launched to examine its potential effects and possible repercussions on the Company's activities. A more reasonable estimate of the impact of Brexit will be possible once the relative measures become formally effective.

5. 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 at 31 December 2017, in view of the significant allocation of assets and cash and the positive current and prospective economic results.

6. 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 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. 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 2017	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	1,460,276	0	2,799,506	0
Total as at 31 December 2017	0	1,460,276	0	2,799,506	0

As at 31 December 2016	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	1,645,654	0	1,732,738	0
Total as at 31 December 2016	0	1,645,654	0	1,732,738	0

Transactions with directors and key management personnel refer to the fixed and variable components of their remuneration (composed of salaries as Company managers and compensation for offices held), and to costs allocated during the year for rights vested for Stock Options. The change in costs from 2016 is mainly due to provisions for payments decided on by the Board of Directors in relation to the extraordinary transaction consisting of the assignment of the TXT Retail Division. The Remuneration Report details the amounts paid to each beneficiary and the underlying policy.

Impact of positions or transactions with related parties on the balance sheet, income statement and cash flows

	Total	Related parties	Impact
Employee benefits expense	2,589,776	1,171,526	45.2%
Sundry payables and other current liabilities	11,046,750	288,750	2.6%
Purchase of materials and external services	6,236,241	613,734	9.8%
Personnel costs	24,636,022	2,185,772	8.9%

	Total	Related parties	Impact
Cash flows generating by operating activities	221,471	(2,984,883)	>100%

NOTES TO THE BALANCE SHEET AND INCOME STATEMENT AS AT 31 DECEMBER 2017

7. Balance sheet

7.1. Goodwill

Goodwill is down € 12,461,462 from 31 December 2016. After the assignment of the TXT Retail Division the Group now consists solely of the TXT Next Division, a Cash-Generating Unit (CGU) of which Pace is a part. The TXT Sense initiative launched over the course of 2017 is not a separate CGU as it is still embryonic, with no revenue in 2017. For 2017 no separate CGUs were therefore identified within TXT, for which the goodwill recoverability assessment is based on the entire Company's Budget and Plan

A breakdown of the item at 31 December 2017 and the comparison with 31 December 2016 are shown below:

Goodwill	Amount as at 31 December 2017	Amount as at 31 December 2016
Program Acquisition	0	800,000
MSO Concept Acquisition	0	2,326,982
BGM Acquisition	0	1,603,540
Maple Lake Acquisition	0	7,730,940
PACE Acquisition	5,369,231	5,369,231
TOTAL GOODWILL	5,369,231	17,830,693

The goodwill deriving from the acquisition of Pace, which occurred in 2016, of € 5,369 thousand derives from the acquisition price of €9,097 thousand, net of the fair value of the shareholders' equity on the acquisition date of € 1,352 thousand, the valuation of the intangible assets with a finite useful life "Customer Relationship" of € 1,112 thousand and "Intellectual property of software" of € 1,350 thousand and prepaid and deferred taxes 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. The directors, for the purposes of drafting the Consolidated Financial Statements, furthermore 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's capital and consequently to value 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, linked to the updating component, have impacted the income statement). Likewise, the above-mentioned allocation is also to be considered definitively determined as at the end of the measurement period set out in par. 45 of IFRS 3 no significant changes have been identified in the estimation conditions used for preparing the financial statements as at 31 December 2016.

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. The plans based on which the recoverable amounts were measured were approved by the Company's Board of Directors on 18 July 2017 and updated on 13 December 2017.

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, 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 is 7.12%, based on the following assumptions:

- The risk-free interest rate of 1.62% includes 119 basis points of "systematic" risk compared to the German rate (0.43%), 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: $1.62\% + 5.50\% \times 1.00 = 7.12\%$.

Since at 31 December 2017 the TXT Group had no net financial debt, but the entire invested capital was covered by equity, the discount rate is equal to 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. Increase in the interest rate used to discount cash flows by 200 bps, other conditions being equal (from 7.12% and 9.12%).
2. 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 2018-2022 of -75%.
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 amount was determined. Below is a table summarising the differences in the various scenarios:

Amounts (€ thousand)	Margin (Baseline Case)
CGU NEXT	33,964

Post-sensitivity margin			
WACC	g-rate	Revenue CAGR	EBITDA Margin TC
20,412	30,705	23,769	20,993

In all scenarios the difference between the recoverable value and the net book value remains very positive.

7.2. Intangible assets with a finite useful life

Net of amortisation, intangible assets with a finite useful life amounted to € 1,962,454 as at 31 December 2017. The changes that occurred during the year are detailed below:

Intangible assets	Software licences	Intellectual Property	Customer Relationship	Other intangible assets	TOTAL
Balances as at 31 December 2016	39,375	1,585,010	1,840,586	86	3,465,058
Acquisitions	103,483	-	-	-	103,483
Disposals	27,500	(276,113)	(737,157)	-	(985,769)
Amortisation	(54,249)	(296,395)	(269,427)	(71)	(620,142)
Other Changes	(160)	-	-	(15)	(176)
Balances as at 31 December 2017	115,950	1,012,502	834,002	-	1,962,454

The item is detailed as follows:

- **Software licences:** these refer to software licences acquired by the Company for the operation of internal tools. Investments for the year of € 103,483 refer mainly to software licences acquired from the subsidiary Pace.
- **Intellectual Property and Customer Relationship:** these intangible assets were acquired as part of the Pace acquisition transactions. The directors allocated these assets in 2016 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.

€ 620,142 of the negative variation compared with the end of the last year (€ 1,502,604) is due to amortisation for the year and the difference is attributable mainly to the assignment of fixed assets relating to the TXT Retail Division referring to the allocation of the higher price paid for the acquisition of the Maple Lake Group.

7.3. Property, plant and equipment

Net of depreciation, property, plant and equipment amounted to € 793,444 at 31 December 2017, down € 804,816 compared with 31 December 2016. The changes that occurred during the year are detailed below:

Property, plant and equipment	Plants	Vehicles	Electronic machinery	Furniture and fixtures	Other property, plant and equipment	TOTAL
Balances as at 31 December 2016	37,694	263,950	852,529	299,611	144,476	1,598,260
Acquisitions	2,881	0	477,362	3,049	0	483,292
Disposals	(27,395)	(200,199)	(196,852)	(225,668)	(48,285)	(698,399)
Depreciation	(13,180)	(63,751)	(406,661)	(37,548)	(68,569)	(589,709)
Balances as at 31 December 2017	0	0	726,378	39,444	27,622	793,444

The disposals refer mainly to the assignment of the TXT Retail Division.

Investments in the “electronic machinery” category mainly refer to the purchase of computer systems and hardware.

7.4. Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to € 75,173 as at 31 December 2017, compared with € 160,498 at 31 December 2016. 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 decrease compared with the previous year is mainly attributable to the security deposits assigned with the TXT Retail Division.

7.5. Deferred tax assets / liabilities

The breakdown of deferred tax assets and liabilities as at 31 December 2017, compared to the figures as at the end of 2016, is shown below:

	Balances as at 31 December 2017	Balances as at 31 December 2016	Change
Deferred tax assets	659,656	2,373,623	(1,713,967)
Deferred tax provision	(503,014)	(1,843,436)	1,340,422
Total	156,642	530,187	(373,545)

Deferred tax assets mainly refer to the recognition of prepaid taxes on previous tax losses, and to temporary differences (deductible in future years) for which recovery in the next few years is deemed to be reasonably certain.

The recognition of deferred tax assets on the previous losses was based on company plans that consider future profitability and within the limits of the capacity to absorb previous losses in the next three years on Pace GmbH.

The main change in the year, in addition to the reduction in deferred tax assets and liabilities attributable to the assignment of the TXT Retail Division, concerns the use of deferred tax assets on previous losses as a result of the significant profits for 2017 by the parent company.

The deferred tax provision referred to the recognition of deferred tax for the assets acquired during 2016 as part of the Pace acquisition (Customer List and Intellectual Property).

The total net changes of € 373,545 is the result of various movements: a) transfer of part of the financial balances to the purchaser of the TXT Retail Division; b) the use with impact on profit/loss of discontinued operations (in particular the use of prepaid taxes on capital gains), see chapter 13 "Significant non-recurring events and transactions"; c) and for the rest, partial use with effect on taxes of continued operations, see chapter 8.7 "Income taxes".

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 2016		Change	31 December 2017	
	Temporary differences	Tax effect	Temporary differences	Temporary differences	Tax effect
Prepaid taxes for recoverable losses	12,686,092	2,044,022	(11,296,092)	1,390,000	417,000
Provisions	288,905	69,337	(75,000)	213,905	51,337
Provision for bad debts	293,918	70,540	0	293,918	70,540
Write-down on treasury shares	244,664	58,719	0	244,664	58,719
Provision for TXT e-solutions Sarl pension fund	138,770	41,631	(138,770)	0	0
Provision for TXT e-solutions GmbH pension fund	97,600	29,280	(97,600)	0	0
Costs allocated on an accrual basis and deductible on a cash basis	241,902	60,094	22,224	264,126	62,060
Total	13,991,851	2,373,623	(11,585,238)	240,613	659,656

Deferred tax liabilities		31 December 2016		Change	31 December 2017	
		Temporary differences	Tax effect	Temporary differences	Temporary differences	Tax effect
Goodwill Program	Goodwill Mismatch	666,663	179,499	(666,663)	0	0
BGM and Maple Lake Goodwill	Goodwill Mismatch	2,898,725	579,745	(2,898,725)	0	0
Maple Lake Purchase Price Allocation	IP & CR tax values	1,227,360	385,391	(1,227,360)	0	0
PACE Purchase Price Allocation	PPA PACE	2,044,347	613,304	(368,120)	1,676,227	502,868
TXT e-solutions GmbH	Miscellaneous	177,500	53,250	(177,500)	0	0
Parent Company	Miscellaneous	134,361	32,247	(133,748)	613	146
Total		7,148,956	1,843,436	(5,472,116)	1,676,840	503,014

Furthermore, it should be noted that the Group's overall tax losses at 31 December 2017 amounted to € 4.4 million, for which no deferred tax assets were recorded for € 3 million.

7.6. Period-end inventories

Period-end inventories amounted to € 2,527,917 at 31 December 2017, down € 618,446 compared to the end of 2016, due to the reduction in activities carried out but not yet billed to customers on current orders.

The table below reports the breakdown of inventories of work-in-progress among the Group companies:

Company	31 December 2017	31 December 2016	Change
TXT SPA	2,459,524	2,877,326	(417,802)
Pace GmbH	68,393	0	68,393
TXT e-solutions S.a.r.l.	0	269,036	(269,036)
TOTAL	2,527,917	3,146,362	(618,446)

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.

7.7. Trade receivables

Trade receivables at 31 December 2017, net of the provision for bad debts, amounted to €14,680,812, down €9,058,988 compared with the end of 2016, mainly as a result of the assignment of the TXT Retail Division.

The item is detailed in the table below:

Trade receivables	31 December 2017	31 December 2016	Change
Gross value	15,059,636	24,571,865	(9,512,229)
Provision for bad debts	(378,824)	(832,065)	453,241
Net value	14,680,812	23,739,800	(9,058,988)

The provision for bad debts changed as follows during the year:

Provision for bad debts	31 December 2017
Opening amount	(832,065)
Use	453,241
Closing amount	(378,824)

The provision went down as a result of both the assignment of the TXT Retail Division and the closure of customer balances for the business branch TXT Retail Italy that are no longer recoverable and not transferred with the assignment.

The breakdown of trade receivables into coming due and past due as at 31 December 2017, compared to 31 December 2016, is shown below:

Due date	Total	Coming due	Past due	
			0-90 days	More than 90 days
31 December 2017	14,680,812	9,782,448	3,609,418	1,288,947
31 December 2016	23,739,800	18,259,184	3,460,988	2,019,627

7.8. 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 €5,690,021 as at 31 December 2017, compared to €2,629,183 as at 31 December 2016. The increase is mainly attributable to the Working Capital Adjustment receivable for the assignment of TXT Retail, equal to €3,156,172. The breakdown is shown below:

Sundry receivables and other current assets	31 December 2017	31 December 2016	Change
Receivables due from EU	659,064	962,314	(303,250)
Tax receivables	1,030,307	791,957	238,350
Other receivables	3,368,556	458,761	2,909,795
Accrued income and prepaid expenses	632,094	416,151	215,944
Total	5,690,021	2,629,183	3,060,838

The item “receivables due from EU” included receivables for research grants from the European Union 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 € 1,030,307, 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, bank interest income, and tax credits for post-employment benefits.

Other receivables amount to € 3,368,556 and show an increase of € 2,909,795. This item includes the receivable of € 3,156,172 relating to the working capital adjustment for the TXT Retail division assigned to Aptos Inc. This amount was collected by the parent company on 12 February 2018.

Accrued income and prepaid expenses, amounting to € 632,094, consist of reversals of prepaid expenses that did not relate to the period.

7.9. Cash and cash equivalents

The Group's cash and cash equivalents amount to €86,527,488, up €78,957,009 from 31 December 2016, mainly as a result of the collection of the closing price for the assignment of the TXT Retail Division. Please refer to the statement of cash flows for details about cash flow generation.

Cash and cash equivalents refer to ordinary current accounts held with Italian banks, amounting to €85,421,619, as well as with foreign banks, totalling € 1,105,869.

Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability.

7.10. Shareholders' equity

The Company's share capital at 31 December 2016 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 (€ 1,005,000), the share premium reserve (€ 12,136,607), the merger surplus reserve (€ 1,911,444), the first-time adoption reserve (€ 140,667) the stock option/stock grant reserve (€ 1,164,184), the reserves for actuarial differences on post-employment benefits (negative to the tune of € 913,844), the reserves for retained earnings (€ 9,691,188), and the translation reserve (negative to the tune of € 300,045).

The stock option reserve is used to recognise the value of share-based payments due to employees, including the benefits for key management personnel settled with equity instruments, which form part of their remuneration.

This reserve amounts to € 1,164,184 (€ 921,297 at 31 December 2016) and refers to the 2017-2019 stock option plan and to the stock grant plan approved by the Shareholders' Meeting on 23 April 2012.

For additional details on the calculation methods for the unit value, see the paragraph “Employee benefits expense”.

The disclosures required by IFRS 2 with regard to the stock option plan are reported below:

STOCK OPTION PLAN DISCLOSURES - IFRS 2

2017-2019 STOCK OPTION PLAN		
Options		2017
(i)	Outstanding at the beginning of the period	0
(ii)	Granted during the period	635,000
(iii)	Forfeited during the period	(476,250)
(iv)	Exercised during the period	(118,512)
(v)	Expired during the period	0
(vi)	Outstanding at the end of the period	40,238
(vii)	Exercisable at the end of period	40,238

For further details and information, reference should be made to the Directors' report on operations. Here below is the table regarding the amounts of the reserves:

Description	Free	Required	Established by	TOTAL
		by Law	Shareholders' Meeting	
Share premium reserve	12,091,087	45,520	0	12,136,607
Legal reserve	0	1,005,000	0	1,005,000
Stock option reserve	0	0	1,164,184	1,164,184
Merger surplus	1,911,444	0	0	1,911,444
First-time adoption reserves	0	0	140,667	140,667
Reserve for retained earnings	0	0	9,691,188	9,691,188
Translation reserve	0	0	(300,045)	(300,045)
Reserve for actuarial differences on post-employment benefits	0	0	(913,844)	(913,844)
Total	14,002,531	1,050,520	9,782,150	24,835,204

Incentive plans

The Shareholders' Meeting held on 22 April 2016 approved a stock option plan for the Group's executive directors and senior managers, involving up to 1,200,000 shares subject to the achievement of specific performance objectives, such as performance of revenues, profit or specific individual performance objectives.

On 22 December 2016, the Board of Directors, upon favourable opinion by the Remuneration Committee, assigned 635.00 options for the purchase of an equal number of shares of the company to 33 individuals, comprising executive directors, managers with strategic responsibilities and other directors and managers of the Group, for the period 2017-2019, at the exercise price of €5.50.

As a result of the assignment of the TXT Retail Division, the Board of Directors has decided on the early partial maturation of the option rights and the cancellation of the remaining options not only for employees transferred to Aptos, as established in the Plan, but also for employees remaining at TXT, in order to ensure uniform treatment of all beneficiaries and to take account of the transformative effect of the assignment of the TXT Retail Division, which will require targets to be redefined. Therefore 25% of options (158,750) have matured, while the remaining 75% have been cancelled (475,250). At 31 December 2017 118,512 options had been exercised with 40,238 not yet exercised. On the date of drafting this report all options had been exercised.

Over the course of the fourth quarter, 118,512 were exercised for a collection of €651,816.

For further details, see the Directors' report on operations.

Treasury shares

At 31 December 2017, the Company held 1,268,321 treasury shares (1,354,133 at 31 December 2016), equal to 9.75% of shares outstanding, amounting to €2,715,604 (€3,298,518 at 31 December 2016), for a total par value of €634,160 (€677,066 at 31 December 2016) and a market value of €12,226,614. The price of TXT stock as at 31 December 2017 was €9.64 (€10,155,997 as at 31 December 2016, stock price €7.50). Shares outstanding (issued) at 31 December 2017 numbered 13,006,250.

The purchase of treasury shares was authorised again by the Shareholders' Meeting of 21 April 2017. The plan provides for a maximum number of shares so as not to exceed the legal maximum number at the maximum price not exceeding the average of the official stock market prices in the three sessions prior to the purchase transaction, plus 10%, and in any case not more than €25.00.

In order to maintain the necessary operational flexibility over a suitable time horizon, and considering that said authorisation expires on 21 October 2017, the Shareholders' Meeting renewed for an additional 18 months the authorisation to purchase and dispose of treasury shares through subsidiaries as well, simultaneously revoking the analogous authorisation of 21 April 2016 for the portion not yet executed.

During 2017, the Company purchased 32,700 treasury shares at an average price per share of €9.53, for a total amount of €311,613.54 (in 2016, the Company purchased 110,952 treasury shares at an average price per share of €7.46, for a total value of €827,756).

7.11. Non-current financial liabilities

The item "non-current financial liabilities" amounted to €1,688,023 (€1,391,140 at 31 December 2016).

This item includes the valuation of the debt of €1,667,523 for the acquisition of PACE, as an estimate of the additional outlays for exercising the Put/Call option in the period 2020-2021 for the acquisition of the remaining 21% of the company's shares.

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.

	Note no.	1 January 2017	Cash flows	Other	31 December 2017
Debt for PUT/CALL option	7.11	1,391,140	272,643	24,240	1,688,023
Total liabilities deriving from financing activities		1,391,140	272,643	24,240	1,688,023

	Note no.	1 January 2016	Cash flows	Other	31 December 2016
Debt for PUT/CALL option	7.11	0	0	1,391,140	1,391,140
Total liabilities deriving from financing activities		0	0	1,391,140	1,391,140

The change refers mainly to the settlement of a credit position recognised the previous year net of debt as it arises in the context of the same transaction and with the same contractual parties.

7.12. Employee benefits expense

The item "Employee benefits expense" at 31 December 2017 amounted to €2,589,776, all relating to obligations to employees of the Parent Company. The breakdown of and changes in this item over the period are presented below:

Employee benefits expense	31 December 2016	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	31 December 2017
Post-employment/severance benefits	3,563,347	1,306,025	(2,239,857)	(61,453)	21,714	2,589,776
Pension fund for German subsidiary management	256,987	84,529	(341,516)	0	0	0
Pension fund for French subsidiary management	125,306	13,733	(139,039)	0	0	0
Total non-current provisions relating to employees	3,945,640	1,404,287	(2,720,412)	(61,453)	21,714	2,589,776

The breakdown of and changes in the Post-employment/Severance Benefits item over the period are presented below:

Employee benefits expense	31 December 2016	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	31 December 2017
Post-employment benefits	2,536,130	1,228,525	(2,239,857)	(61,453)	21,714	1,485,059
Provision for severance for end of term of office	1,027,217	77,500	0	0	0	1,104,717
Pension fund for management	382,293	98,262	(480,555)	0	0	0
Total non-current provisions relating to employees	3,945,640	1,404,287	(2,720,412)	(61,453)	21,714	2,589,776

Post-employment benefits for personnel of € 1,485,059 at 31 December 2017 (€ 2,536,130 at 31 December 2016) were measured as a defined benefit provision. The portion allocated to the provision amounted to € 1,228,525. In addition to these payments the item uses/payments includes advance payments to personnel still in service of € 30,614, settlements of € 85,722 and the portion transferred in the assignment of TXT Retail Italy of € 974,128.

Below is the reconciliation of the provision for post-employment benefits based on statutory regulations and IAS – IFRS carrying amount:

	2017	2016
Provision for post-employment benefits	1,353,715	2,324,748
Current cost	(40,299)	(34,890)
Financial charges	21,714	35,562
Actuarial differences	(61,453)	64,314
Retained earnings	211,381	146,395
Total	1,485,059	2,536,130

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 5% staff turnover rate was calculated.

- As for the probability of requests for advance payment of benefits, 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 0.5101% per year, i.e. the rate on Bonds issued by AA-rated European Companies at 31 December 2017 with maturities of between 7 and 10 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 € 1,485,059):

Sensitivity analysis as at 31 December 2017	% Change in liabilities (DBO)			
	Decrease	Increase	Decrease	Increase
Decrease or increase of 50% of company's staff turnover	1.36%	-1.23%	1,505,255	1,466,792
Decrease or increase of 50% in frequency of advanced payments	0.18%	-0.18%	1,487,732	1,482,385
Decrease or increase of inflation by one percentage point	-3.84%	3.62%	1,428,032	1,538,818
Decrease or increase of discount rate by one percentage point	1.49%	-1.45%	1,507,186	1,463,525

The end-of-term severance debt refers to the fee for the Chairman 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.

7.13. Current financial liabilities

The item “current financial liabilities” amounted to € 674,861 (€ 808,225 at 31 December 2016) and includes:

- the payable of € 588,309 for advances on research projects funded by the European Union (€ 706,825 at 31 December 2016) and received by TXT e-solutions S.p.A. as lead manager, to be reimbursed to the project partners. This payable will be paid off during 2018;
- Short-term loans obtained by the branch PACE GmbH for € 86,552.

7.14. Trade payables

Trade payables amounted to € 1,341,308 at 31 December 2017 and decreased by € 284,432 compared to 31 December 2016. Payables due to suppliers are of a trade, non-interest bearing nature and are due within twelve months.

7.15. Tax payables

Tax payables at 31 December 2017 totalled € 548,642 and refer to income taxes of the Parent Company and of the foreign subsidiaries net of payments on account made over the course of the year. The decrease compared with the previous year is attributable mainly to the assignment of the TXT Retail Division.

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.

	Note no.	1 January 2017	Decision on distribution of dividends	Cash flows	31 December 2017
Dividend payables	7.10	0	2,931,493	(2,931,493)	0
Other current liabilities	7.13	803,883	0	(129,022)	674,861
Other derivatives		4,342	0	(4,342)	0
Total liabilities deriving from financing activities		808,225	2,931,493	(3,064,857)	674,861

	Note no.	1 January 2016	Decision on distribution of dividends	Cash flows	31 December 2016
Dividend payables	7.10	0	3,495,634	(3,495,634)	0
Other current liabilities	7.13	794,459	0	9,424	803,883
Other derivatives	7.13	(14,937)	0	19,279	4,342
Total liabilities deriving from financing activities		779,522	3,495,634	(3,466,931)	808,225

7.16. Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 11,046,750 at 31 December 2017, compared with € 17,928,590 at 31 December 2016, as detailed in the table below:

Sundry payables and other current liabilities	31 December 2017	31 December 2016	Change
Other payables	1,704,259	3,005,772	(1,301,513)
Accrued expenses and deferred income	3,001,047	5,047,991	(2,046,944)
Advance payments for multi-year orders	1,803,164	2,304,561	(501,397)
Payables due to social security institutions	1,003,971	1,623,084	(619,113)
Payables due to employees and external staff	3,534,308	5,947,162	(2,412,854)
Sundry payables and other current liabilities	11,046,750	17,928,570	(6,868,530)

The item "Payables due to employees and external staff" includes payables to employees for variable payments (bonuses) that will be paid over the course of 2018 to personnel on the basis of achievement of company and personal targets, and provisions for deferred remuneration (predominantly the fourteenth-month bonus and holiday/leave accrued and not yet taken).

The item accrued expenses and deferred income refers mainly to the allocation of costs for the year relating to the assignment of the TXT Retail Division and classified as accrued expenses, revenues for the subsequent year invoiced in advance to customers and other costs for the current year for the remaining part.

The item "Other payables" mainly includes payables due to taxation authorities for withholding taxes on salaries of employees and European Union grants to be redistributed.

The item "Advance payments for multi-year orders" included the advance payments received from customers for orders currently being processed.

8. Income statement - Continued Operations

8.1. Total revenues and other income

Consolidated revenues and other income amounted to € 35,850,918, up 8.4% compared with the previous year, as detailed below:

	31 December 2017	31 December 2016	Change	% change
Revenues and other income	35,850,918	33,059,797	2,791,121	8.44%
Total	35,850,918	33,059,797	2,791,121	8.44%

For additional information on the analysis of revenues, as well as the breakdown by line of revenue, of see the Directors' report on operations.

Other income includes the portion of grants received from the European Union accrued during the financial year amounting to € 290,108 (€ 459,006 at 31 December 2016).

8.2. Purchase of materials and external services

Purchases of materials and external services amounted to € 6,236,241, down from 2016, when they totalled € 7,077,022.

The item is detailed below:

	31 December 2017	31 December 2016	Change
Consumables and resale items	240,384	280,556	(40,172)
Technical consulting	1,283,278	1,613,485	(330,207)
Travel expenses	1,603,998	1,643,459	(39,461)
Utilities	370,347	384,376	(14,028)
Media & marketing services	527,978	479,759	48,219
Canteen and ticket services	296,524	328,709	(32,184)
Administrative and legal services	1,244,510	1,677,666	(433,157)
Directors' fees	669,222	669,012	210
Total	6,236,241	7,077,022	(840,781)

As a percentage of consolidated revenues, costs for purchasing materials and services were 17.39%, down from 21.69% in 2016.

The overall change of € 840,781 compared with the end of the previous year is attributable mainly to the decrease in technical consultancy and administrative services in general.

In particular, technical consultancy of € 1,283,278 is down from 2016 as a result of the insourcing of certain software development activities previously entrusted to external consultants and costs for general, administrative and legal services of € 1,244,510 are down from 2016, mainly as a result of certain non-recurring expenses relating to the acquisition of Pace that were a feature of the previous year.

8.3. Personnel costs

Personnel costs for 2017 amounted to € 24,636,022, growing by € 3,185,674 (14.8%) compared to 31 December 2016.

This increase is mainly attributable to the increase in the average number of staff over the course of the year due to the increase in business volume and the recruitment of highly specialist personnel to deal with the insourcing of certain software development activities previously entrusted to external consultants. Pace personnel costs are included in 2017 for the entire 12-month period, while in 2016 they contributed for only 9 months from the date of acquisition, 1 April 2016.

	31 December 2017	31 December 2016	Change
Wages and salaries	19,493,096	16,972,451	2,520,644
Social security costs	4,118,025	3,585,525	532,500
Provision for post-employment benefits and other pension funds	813,639	708,428	105,211
Other personnel costs	211,262	183,944	27,318
Total	24,636,022	21,450,348	3,185,674

The item “Other personnel costs” mainly includes costs sustained for the stock option plan (€69,887) and the amounts paid to employees following out-of-court settlements.

The employees of the TXT Group, excluding directors and external consultants, numbered 481 as at 31 December 2017 (476 as at 31 December 2016), with an increase of 5 employees.

	White-collar staff	Middle managers	Executives and managers	Total
31/12/2016	440	25	11	476
31/12/2017	443	27	11	481

8.4. Other operating costs

“Other operating costs” in 2017 amounted to € 1,512,215, compared with € 772,414 in 2016, as a result of the consolidation of Pace for the entire 12-month period and costs relating to the assignment of the TXT Retail Division.

This item includes mainly rental expenses for premises, vehicles and other things, and sundry operating costs.

	31 December 2017	31 December 2016	Change
Rental expense for premises	711,641	446,136	265,505
Rental expense for motor vehicles	443,544	245,283	198,261
Contingent liabilities	89,792	18,112	71,680
Sundry operating costs	267,238	62,884	204,355
Total	1,512,215	772,414	739,801

The item Rental expense for premises includes the costs incurred for the offices in Milan, Turin, Genoa and Berlin used in the context of Continuing Operations.

The item rental expense for motor vehicles includes both the rental expense for motor vehicles in the long term and occasional rentals for business trips. The costs incurred for cars assigned to managers and other personnel depend on the business role and service requirements for business trips. The amount was up from 2016 as a result of new cars assigned to employees for personal and business use and the increase in international travel and business trips.

Donations, deductible taxes, and other costs of a low amount are also included under the item sundry operating costs.

8.5. Depreciation, amortisation and impairment

Depreciation, amortisation and impairment for 2017 amounts to € 794,688, up € 166,830 from 2016 as a result of the depreciation and amortisation of Pace's tangible and intangible fixed assets, impacting on the income statement for the entire year.

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 section 3.1 "Accounting standards and basis of consolidation".

8.6. Financial income (charges)

The negative financial income (charges) balance in 2017 amounts to € 207,456, compared with a positive balance of € 49,322 in 2016, mainly as a result of the foreign exchange losses on transactions in currencies other than the Euro, mainly the American Dollar.

Financial income (charges) at 31 December 2017 is broken down as follows:

	31 December 2017	31 December 2016	Change
Bank interest income	7,022	3,746	3,276
Balance of foreign exchange gains/losses	(149,165)	86,517	(235,682)
Bank interest expense	(2,414)	(1,190)	(1,224)
Other financial charges	(62,898)	(39,751)	(23,147)
Total	(207,456)	49,322	(256,778)

8.7. Income taxes

Income taxes as at 31 December 2017 were equal to € 710,381, detailed as follows:

	31 December 2017	31 December 2016	Change
Current taxes	515,363	620,122	(104,759)
Previous years' taxes	(7,868)	(3,359)	(4,509)
Prepaid taxes	234,986	205,914	29,072
Deferred taxes	(32,100)	(162,081)	129,981
Total taxes	710,381	660,596	49,785

€ 140,359 of current taxes can be attributed to IRAP and the difference to corporate income tax (IRES).

Prepaid and deferred taxes correspond to the change in the corresponding balance sheet items with the exception of those with no impact on the income statement; please refer to the comments on the Balance Sheet.

Effective/theoretical income tax rate reconciliation

Description	Amount	Taxes
Earnings before taxes	68,555,495	
Theoretical tax expense (24%)		16,453,319
Differences that will not be carried forward in future years:	(62,663,419)	(15,039,220)
Taxes expensed in the year		1,414,099
Temporary differences taxable in future years:	(613)	(147)
Temporary differences deductible in future years:	229,205	55,009
Reversal of temporary differences from previous years	(183,579)	(44,059)
IRES tax base for the year	5,937,089	
Current theoretical IRES for the year		1,424,901
Use of previous years' losses	(4,374,574)	
Current effective IRES for the year		375,004

Effective/theoretical IRAP rate reconciliation (parent company only)

Description	Amount	Taxes
Theoretical tax expense (3.90%)	3,567,742	139,142
Differences that will not be carried forward in future years:	31,897	1,244
Tax expensed in the year		147,419
Temporary differences deductible in future years:	19,317	
Temporary differences deductible in future years:	0	
Temporary differences from previous years:	(20,000)	
IRAP tax base for the year	3,598,956	
Current IRAP for the year		140,359

9. Net earnings per share

Basic net earnings per share

The basic net earnings per share for 2017 is calculated by dividing net profit of € 68,555,465 (€ 5,555,363 at 31 December 2016) by the average number of ordinary shares outstanding in 2017, equal to 11,665,375. This amounts to € 5.88 (€ 0.48 in 2016).

Basic earnings per share on:

- discontinued activities for 2017 amounted to € 5.73
- continued activities for 2017 amounted to € 0.15

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.

The weighted average number of ordinary shares outstanding in 2017 was 11,705,613, and the diluted earnings per share amounted to € 5.86 (€ 0.48 in 2016).

Diluted earnings per share on:

- discontinued activities for 2017 amounted to € 5.71
- continued activities for 2017 amounted to € 0.15

10. Segment disclosures

Information on the sector has not been presented as the TXT Retail Division, identified as one of the two autonomous segments for the purposes of IFRS 8 in 2016, has been assigned over the course of the year and is presented as a discontinued operation. For management purpose, the Group as at 31 December 2017 is therefore organised in a single operational segment.

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 the TXT e-solutions Group's net financial position at 31 December 2017 is as follows:

<i>(€ thousand)</i>	31 Dec. 2017	31 Dec. 2016	Change
Cash and bank assets	86,527	7,570	78,957
Short-term financial receivables	3,156	0	3,156
Short-term financial payables	(675)	(808)	133
Short-term financial resources	89,009	6,762	82,247
Payables due to banks with maturity beyond 12 months	(1,668)	(1,391)	(277)
Net Available Financial Resources	87,341	5,371	81,970

In the Net Financial Position there are no positions with related parties.

12. Subsequent events

The Company has received news that on 21 February 2018 a contract was concluded for the sale by E-Business Consulting S.A. to Laserline S.p.A., a company in which Enrico Magni directly holds a 60% stake, of its entire holding in TXT e-solutions S.p.A., representing 25.62% of its share capital.

The payment agreed between the parties was € 35 million, corresponding to a valuation of around € 10.50 per TXT share.

The transfer of the shares will occur on the closing date, scheduled for 30 March 2018 at the latest.

Enrico Magni has informed the Company in advance of his desire to play an active role, wherever possible, in the Board of Directors and in the Company, as well as his preference for the Company to maintain its current listed status with a multi-divisional structure.

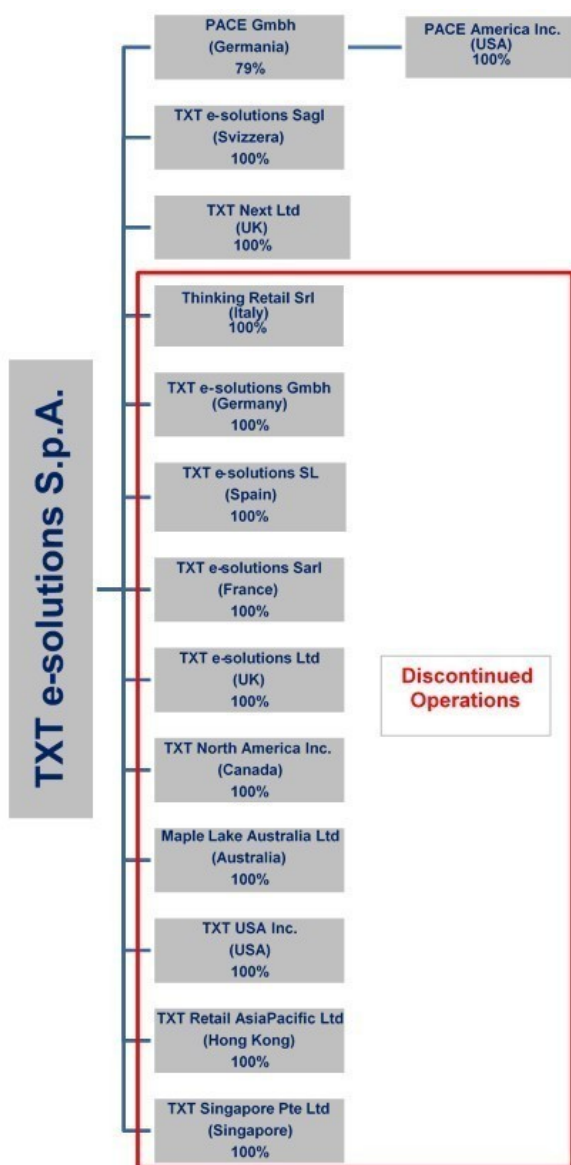
In 2018, the Company expects positive growth in its core business. During first quarter 2018, taking into account the seasonal effects and the weaknesses of end markets, the profit level may be more limited, also due to the acceleration in investments in research and development and the international commercial strengthening underway.

For further details, reference should be made to the Directors' report on operations.

13. Significant non-recurring events and transactions

This Chapter provides the analytical details of items under Discontinued Operations, as presented in the consolidated Income Statement. Also provided is the consolidated balance sheet for the section assigned, consisting of the subsidiaries indicated below, on the date of disposal compared with the previous year on a like-for-like basis.

From a methodological standpoint, with regard to the representation of Discontinued Operations envisaged by IFRS 5, these were included in the scope of consolidation of the TXT Group until 30 September 2017 and, therefore, the total balances for the entire Group were determined by making the appropriate eliminations of economic and financial transactions between Continuing and Discontinued Operations.



Discontinued Operations	31 Dec. 2017	31 Dec. 2016
Revenues and other income	27,267,035	36,092,418
TOTAL REVENUES AND OTHER INCOME	27,267,035	36,092,418
Purchase of materials and external services	(6,424,918)	(6,196,367)
Personnel costs	(20,658,407)	(24,210,352)
Other operating costs	(949,932)	(1,230,281)
EBITDA	(766,222)	4,455,418
Depreciation and amortisation/Impairment	(1,115,541)	(681,317)
OPERATING PROFIT (LOSS)	(1,881,763)	3,774,101
Financial income (charges)	69,889,831	55,529
EARNINGS BEFORE TAXES	68,008,068	3,829,630
Income taxes	(1,206,488)	(795,147)
NET PROFIT (LOSS) FOR THE YEAR	66,801,580	3,034,483

The capital gains included in the item “Financial Income (Charges)”, deriving from the assignment of the TXT Retail Division, amount to €70,634,748. The extraordinary costs for the transaction included in the operating profit (loss) amount to € 3.6 million and include among other things consultancy costs, provisions for personnel incentives and provisions for potential liabilities of a contractual nature relating to the transaction.

The item “Income taxes” includes mainly calculated taxes on Capital Gains deriving from the assignment of investments payable by the Parent Company amounting to € 830,392, and for the residual component taxes on operating profit taking into account tax adjustments up to the date of assignment.

ASSETS	30 Sept. 2017	31 Dec. 2016
NON-CURRENT ASSETS		
Goodwill	12,217,681	12,461,462
Intangible assets with a finite useful life	985,960	1,200,918
Intangible assets	13,203,641	13,662,380
Property, plant and equipment	773,414	833,030
Property, plant and equipment	773,414	833,030
Sundry receivables and other non-current assets	169,441	136,175
Deferred tax assets	725,474	648,778
Other non-current assets	894,915	784,953
TOTAL NON-CURRENT ASSETS	14,871,970	15,280,363
CURRENT ASSETS		
Period-end inventories	103,396	379,002
Trade receivables	10,836,198	9,724,570
Sundry receivables and other current assets	705,649	675,516
Cash and cash equivalents	2,750,082	2,278,928
TOTAL CURRENT ASSETS	14,395,325	13,058,016
TOTAL ASSETS	29,267,295	28,338,379

LIABILITIES		
NON-CURRENT LIABILITIES		
Non-current financial liabilities	10,120	13,310
Employee benefits expense	1,388,112	1,380,115
Deferred tax provision	1,156,862	1,018,386
TOTAL NON-CURRENT LIABILITIES	2,555,094	2,411,811
CURRENT LIABILITIES		
Current financial liabilities	0	435
Trade payables	149,205	548,753
Tax payables	71,979	465,508
Sundry payables and other current liabilities	8,969,178	8,641,840
TOTAL CURRENT LIABILITIES	9,190,362	9,656,537
TOTAL LIABILITIES	11,745,456	12,068,348
SHAREHOLDERS' EQUITY	17,521,839	16,270,031

With regard to the statement of cash flows table, the main effects in terms of cash flows are in the investments area and are attributable to the collection of the fixed component of the sale price of 85 million.

Please note that no other “non-recurring events and transactions” have been identified (in accordance with Consob Resolution no. 15519 of 27 July 2006).

14. 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.

15. 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 2017 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.	64
Auditing	Ernst & Young	Subsidiary TXT e-solutions GmbH	13
Auditing	Ernst & Young	Subsidiary TXT e-solutions SL	2
Auditing	Ernst & Young Network	Subsidiary TXT e-solutions Sarl	12
Auditing	Ernst & Young Network	Subsidiary TXT e-solutions Ltd	11
Auditing	Ernst & Young	Subsidiary TXT North America Inc.	12
Auditing	Ernst & Young	PACE GmbH	13
Professional activities in the IFRS 15 preliminary impact assessment phase	Ernst & Young	Parent Company TXT e-solutions S.p.A.	15
Audit of non-financial declarations pursuant to Legislative Decree 254/2016	Ernst & Young	Parent Company TXT e-solutions S.p.A.	18

16. 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 Alvisè Braga Illa as Chairman of the Board of Directors and Paolo Matarazzo 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 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 2017.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2017 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 2017:

- 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 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

Paolo Matarazzo

Milan, 8 March 2018

Chairman of the Board of Directors

Alvisè Braga Illa

TXT e-solutions S.p.A.

Financial statements as at 31
December 2017

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 2019:

Alvise Braga Illa	Chairman	(1)
Marco Edoardo Guida	Chief Executive Officer	(2)
Paolo Matarazzo	Director	(2)
Fabienne Anne Dejean Schwalbe	Independent Director	(3)
Teresa Cristiana Naddeo	Independent Director	(3)
Stefania Saviolo	Independent Director	(3)
Andrea Lanciani	Non-executive Director	(3)(4)

(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 on 3 August 2017 to replace Andrea Casanova, who resigned. 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 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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Telephone: +39 2 25771.1

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Balance Sheet

BALANCE SHEET: ASSETS					
Amounts in Euro	Notes	31 Dec. 2017	Of which due to related parties	31 Dec. 2016	Of which due to related parties
NON-CURRENT ASSETS					
- Goodwill	1.1	0		800,000	
- Intangible assets with a finite useful life	1.2	45,380		46,683	
Intangible assets		45,380	0	846,683	0
- Other tangible assets	1.3	613,237		918,585	
Property, plant and equipment		613,237	0	918,585	0
- Investments	1.4	7,722,408		19,009,167	
- Sundry receivables and other non-current assets	1.5	10,602	0	58,680	0
- Deferred tax assets	1.6	242,467		1,307,845	
Other non-current assets		7,975,477	0	20,375,692	0
TOTAL NON-CURRENT ASSETS	(A)	8,634,094	0	22,140,960	0
CURRENT ASSETS					
Inventories	1.7	2,459,524		2,877,326	
Trade receivables	1.8	12,590,636	190,327	19,114,143	4,491,228
Sundry receivables and other current assets	1.9	1,836,757		1,933,756	
Other financial receivables	1.10	3,255,387	99,215	3,949,307	3,694,483
Cash and cash equivalents	1.11	85,421,619		4,443,217	
TOTAL CURRENT ASSETS	(B)	105,563,923	289,542	32,317,749	8,185,711
TOTAL ASSETS	(A + B)	114,198,017	289,542	54,458,709	8,185,711
BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY					
Amounts in Euro	Notes	31 Dec. 2017	Of which due to related parties	31 Dec. 2016	Of which due to related parties
SHAREHOLDERS' EQUITY					
Share capital	1.12	6,503,125		6,503,125	
Reserves		15,303,391		14,503,848	
Retained earnings (accumulated losses)		1,271,553		1,836,480	
Profit (loss) for the year		75,594,620		3,085,708	
TOTAL SHAREHOLDERS' EQUITY	(A)	98,672,688	0	25,929,161	0
NON-CURRENT LIABILITIES					
Employee benefits expense	1.13	2,589,776	1,171,526	3,563,347	1,283,958
Deferred tax provision	1.6	146		211,746	
Provisions for future risks and charges	1.14	718,905		288,905	
TOTAL NON-CURRENT LIABILITIES	(B)	3,308,827	1,171,526	4,063,998	1,128,958
CURRENT LIABILITIES					
Current financial liabilities	1.15	1,196,404	600,000	10,130,101	9,288,955
Trade payables	1.16	3,197,885	99,312	4,769,361	1,552,253
Tax payables	1.17	364,914		90,904	
Sundry payables and other current liabilities		7,457,298	288,750	9,475,185	1,198,605
TOTAL CURRENT LIABILITIES	(C)	12,216,502	988,062	24,465,550	12,039,813
TOTAL LIABILITIES	(E = B + C)	15,525,329	2,159,588	28,529,549	13,323,771
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	(A + E)	114,198,017	2,159,588	54,458,709	13,323,771

Income Statement

	Notes	31 Dec. 2017	Of which due to related parties	31 Dec. 2016	Of which due to related parties
Revenues and other income		27,029,866	562,785	26,243,212	197,435
TOTAL REVENUES AND OTHER INCOME	2.1	27,029,866	562,785	26,243,212	197,435
Purchase of materials and external services	2.2	(5,781,381)	(147,998)	(5,901,663)	(61,404)
Personnel costs	2.3	(18,701,716)	(1,549,166)	(17,799,583)	(1,237,562)
Other operating costs	2.4	(831,131)		(720,927)	
EBITDA		1,715,638	(2,384,719)	1,821,039	(1,596,707)
Depreciation and amortisation/Impairment	2.5	(230,551)		(352,511)	
OPERATING PROFIT (LOSS)		1,485,087	(2,384,719)	1,468,528	(1,596,707)
Financial income (charges)	2.6	(16,320)	(4,630)	(60,122)	(1,873)
EARNINGS BEFORE TAXES		1,468,768	(2,389,349)	1,408,406	(1,598,580)
Income taxes	2.7	(702,545)		(184,785)	
NET PROFIT (LOSS) FOR THE YEAR		766,222	(2,389,349)	1,223,622	(1,598,580)
Net profit from Discontinued Operations	5	74,828,399		1,862,086	
NET PROFIT (LOSS) FOR THE YEAR		75,594,621	(2,389,349)	3,085,708	(1,598,580)

Statement of Comprehensive Income

	31 Dec. 2017	31 Dec. 2016
NET PROFIT (LOSS) FOR THE YEAR	75,594,621	3,085,708
Foreign currency translation differences - foreign operations	0	0
Total items of other comprehensive income that will be subsequently reclassified to profit/(loss) for the year net of taxes	0	0
Defined benefit plans actuarial gains (losses)	(18,097)	(64,314)
Total items of other comprehensive income that will not be subsequently reclassified to profit/(loss) for the year net of taxes	(18,097)	(64,314)
Total profit/(loss) of Comprehensive income net of taxes	(18,097)	(64,314)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	75,576,524	3,021,394

Statement of Cash Flows

<i>Amounts in Euro</i>	Notes	31 Dec. 2017	31 Dec. 2016
Cash flows from operating activities		766,222	1,223,622
Cash flows from non-operating activities	5	74,828,399	1,862,086
Profit (loss) for the year		75,594,621	3,085,708
Depreciation and amortisation, impairment and provisions	2.5	339,118	338,286
Impairment on investments		0	978,389
Provision for bad debts		0	94,501
Variation of provisions		430,000	198,905
Dividends from investment for the period		(3,106,479)	(1,000,000)
Dividends collected		3,106,479	1,000,000
Income taxes	2.7	507,529	411,391
Change in deferred taxes		1,033,278	(326,903)
Income taxes paid during the year		(161,507)	(156,519)
Interest paid/collected		81,443	2,123
Stock options/Stock grants		242,888	0
Capital gains		(75,736,496)	0
Cash flow from operating activities before change in working capital*		2,330,874	4,625,881
<i>* of which with related parties</i>		<i>(2,384,719)</i>	<i>4,526,616</i>
(Increases)/decreases in trade receivables		(770,012)	(364,178)
(Increases)/decreases in inventories		391,199	(869,454)
Increases/(decreases) in payables due to suppliers		(176,531)	1,941,129
Increases/(decreases) in tax payables (receivables)		(153,455)	221,772
Increases/(decreases) in post-employment benefits	1.13	(17,540)	(9,118)
Increases/(decreases) in other assets and liabilities		1,411,777	1,029,391
Net cash from operating activities*		3,016,312	6,575,423
<i>* of which with related parties</i>		<i>(559,045)</i>	<i>3,323,406</i>
Cash flows from investing activities			
Increases in non-current assets:			
- Intangible assets	1.2	(15,682)	(22,429)
- Property, plant and equipment	1.3	(375,488)	(396,614)
- Financial assets	1.4	(263,135)	(7,509,272)
Decreases and other changes in non-current assets:			
Cash flow deriving from the assignment of TXT Retail holdings		85,000,000	0
Other decreases		893,521	0
Net cash used in investing activities*		85,239,216	(7,928,315)
<i>* of which with related parties</i>		<i>0</i>	<i>0</i>
Cash flows from financing activities			
Increases/(decreases) in financial payables/receivables		(4,121,692)	2,237,392
Sale of treasury shares	1.12	651,816	0
Purchase of treasury shares	1.12	(311,614)	(827,756)
Distribution of dividends		(3,495,634)	(2,931,492)
Net cash used in financing activities*		(7,277,124)	(1,521,856)
<i>* of which with related parties</i>		<i>(4,241,966)</i>	<i>2,464,807</i>
Increases/(decreases) in cash and cash equivalents		80,978,404	(2,874,748)
Cash and cash equivalents at the beginning of the year		4,443,217	7,317,967
Cash and cash equivalents at the end of the year	1.11	85,421,619	4,443,217

Statement of Changes in Equity as at 31 December 2017

	Capitale	Riserva Legale	Riserva Sovraprezzo azioni	Avanzo Fusione	First Time application	Riserva stockoption	Differenze attuariali	Risultato periodo precedenti	Risultato di periodo	Totale
(importo in euro)										
Al 31 dicembre 2016	6,503,125	850,000	11,796,405	1,911,444	0	921,297	(975,298)	1,836,480	3,085,708	25,929,161
Destinazione risultato eserc. precedente		155,000			0			2,930,708	(3,085,708)	0
Distribuzione dividendi								(3,495,634)		(3,495,634)
Conferimento TXT Retail Italia							79,550			79,550
Accantonamento piano Stock Options						242,888				242,888
Acquisto Azioni proprie			(311,614)							(311,614)
Vendita Azioni proprie			651,816							651,816
Attualizzazione TFR							(18,097)			(18,097)
Utile complessivo 31 dicembre 2017							(18,097)		75,594,621	75,576,524
Al 31 dicembre 2017	6,503,125	1,005,000	12,136,607	1,911,444	0	1,164,184	(913,845)	1,271,553	75,594,621	98,672,690

	Capitale	Riserva Legale	Riserva Sovraprezzo azioni	Avanzo Fusione	First Time application	Riserva stockoption	Differenze attuariali	Risultato periodo precedenti	Risultato di periodo	Totale
(importo in euro)										
Al 31 dicembre 2015	6,503,125	620,000	12,624,161	1,911,444	0	921,297	(910,984)	473,095	4,524,878	26,667,016
Destinazione risultato eserc. precedente		230,000			0			4,294,878	(4,524,878)	0
Aumento capitale gratuito										0
Distribuzione dividendi								(2,931,493)		(2,931,493)
Accantonamento piano Stock Grant						0				0
Acquisto Azioni proprie			(827,756)							(827,756)
Attualizzazione TFR							(64,314)			(64,314)
Utile complessivo 31 dicembre 2016							(64,314)		3,085,708	3,021,394
Al 31 dicembre 2016	6,503,125	850,000	11,796,405	1,911,444	0	921,297	(975,298)	1,836,480	3,085,708	25,929,161

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. Through the newly-founded internal start-up TXT SENSE, it develops and markets innovative Augmented Reality applications for other segments of industry and services. 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 2017 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 2017 featured in particular the assignment of the TXT Retail Division and the Company consequently focusing on the activities of the TXT Next Division, mainly in software for the aeronautical sectors and transport systems. More details are provided in chapter 2 “Extraordinary Transactions” of the consolidated financial statements.

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 2017 have been prepared on the historical cost basis, except for derivative financial instruments. 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. The capital gains from the assignment of the TXT Retail Italy Division and the profits from the operating activities assigned have been reclassified and presented separately while for the balance sheet the comparative data have not been presented again, in accordance with this standard.

Financial statements have been prepared based on accounting entries at 31 December 2017 and on a going concern basis. Comparative data for the corresponding period of 2016 have been restated to reflect the new accounting policies.

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 held on 8 March 2018. 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 2017.

Information on the sector has not been presented as the TXT Retail Division, identified as one of the two autonomous segments for the purposes of IFRS 8 in 2016, has been assigned over the course of the year and is presented as a discontinued operation. For management purpose, the Group as at 31 December 2017 is therefore organised in a single autonomous operational segment.

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.

Property, plant and equipment

Property, plant and equipment is measured at acquisition or production cost including directly attributable costs necessary to bring the asset to its working condition.

Property, plant and equipment is depreciated on a straight-line basis over its 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.

Assets held under finance leases (for which the Company essentially takes on all the risks and rewards) are accounted for as property, plant and equipment (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. On the date of this report, the Company has no current financial leasing contracts in accordance with IAS 17.

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 amount 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:

Goodwill

Goodwill is tested for impairment at least annually (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.

Intangible assets with an indefinite useful life

An intangible asset with an indefinite useful life is tested for impairment at least annually (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

Initial recognition and measurement

The financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets, or derivatives designated as hedging instruments that are determined to be effective hedges, as appropriate. TXT determines the classification of its financial assets upon initial recognition.

Financial assets are initially recognised at fair value plus the transaction costs directly attributable to the acquisition, except in the case of financial assets at fair value through profit or loss.

A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned is a regular way purchase or sale and is recognised using trade date accounting. Trade date is the date that TXT commits itself to purchase or sell an asset.

TXT's financial assets include cash and short-term deposits, trade receivables and other receivables, loans and other receivables, quoted and unquoted financial instruments, and derivatives.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification as follows:

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.

Assets held for trading are all those assets acquired for the purpose of selling them in the near term.

This category includes the derivative financial instruments subscribed that were not designated as hedging instruments in accordance with the hedging relationship as defined by IAS 39. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments.

The financial instruments at fair value through profit or loss are recognised in the balance sheet at fair value, while the changes in fair value are recognised in profit or loss as financial income or charges.

No financial asset was designated upon initial recognition as at fair value through profit or loss.

TXT assessed its financial assets held for trading, other than derivatives, to verify whether the intention to sell them in the near term is still appropriate. In rare cases, i.e. when TXT is unable to sell these financial assets because markets are not active and management's intention to sell them in the foreseeable future changes significantly, TXT may choose to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale financial assets, or held-to-maturity financial assets depends on the nature of the asset. This assessment has no impact on any financial asset designated as at fair value through profit or loss designated under the fair value option.

The embedded derivatives contained in host contracts are accounted for as separate derivatives and measured at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not held for trading or measured at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. The initial assessment is not revised unless a change in the contractual terms significantly modifies the cash flows that otherwise would be expected. None of these cases applied to the Company in the course of 2017.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. The amortised cost is calculated by accounting for any discounts, acquisition premiums, fees or costs that are an integral part of the effective interest rate.

The amortisation at the effective interest rate is recognised as financial income in profit or loss. The losses arising from impairment are recognised as financial charges in profit or loss.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments are classified as “held-to-maturity financial assets” whenever TXT has the positive intention and ability to hold them to maturity.

After initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. The amortised cost is calculated by accounting for any discounts, acquisition premiums, fees or costs that are an integral part of the effective interest rate. The amortisation at the effective interest rate is recognised as financial income in profit or loss. The losses arising from impairment are recognised as financial charges in profit or loss. TXT did not hold any investments of this type during the financial years ended 31 December 2017 and 2016.

Impairment of financial assets

At the end of each reporting period, TXT determines whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment can be represented by indicators such as financial difficulty, a breach of contract, default or delinquency in interest or principal payments, that borrowers, or a group of borrowers, are incurring; it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in circumstances or in the economic conditions related to the obligations.

In particular, for financial assets carried at amortised cost, TXT first of all assessed whether objective evidence of impairment existed individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If TXT determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be estimated based on the reduced carrying amount and is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recognised in profit or loss as part of financial income. Loans and the relevant provisions are reversed when there is no realistic prospect of recovery and all guarantees have been enforced or transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases following an event occurring after the impairment was recognised, the previously recognised impairment loss shall be

increased or decreased by adjusting an allowance account. If a reversal is subsequently recovered, the amount of the reversal is recognised in profit or loss as a decrease in financial charges.

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.

An associate is a company in which TXT e-solutions S.p.A. holds at least 20% of the voting rights.

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.

As at 31 December 2017 the Company has investments only in subsidiaries, except as specified in note 1.4 "Investments" for investments in other companies.

Other non-current assets, Trade receivables, Current financial receivables and Other current receivables

With the exception of assets deriving from derivative financial instruments, the other assets and all financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured, if they have fixed maturity, at amortised cost using the effective interest method. When financial assets do not have fixed maturity, they are measured at cost. Loans with maturity over one year, granted interest-free or at a below-market rate, are discounted at market rates of interest.

The Group regularly assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the impairment loss is recognised as an expense when incurred.

Inventories

Inventories 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.

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. 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.

Financial Liabilities, Other non-current liabilities, Trade payables, Current financial payables and Other payables

Upon initial recognition, they are designated as at fair value (typically represented by the cost of the transaction that originated them), including transaction costs.

Subsequently, except for derivative financial instruments, financial liabilities are measured at amortised cost using the effective interest method.

The receivables and payables in the foreign currency of countries outside the Euro area are translated at closing rates; any positive or negative differences between the amounts of the receivables and payables translated at closing rates and those measured at the original exchange rates are recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

The financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, such as loans and borrowings, or derivatives designated as hedging instruments, as appropriate. TXT determines the classification of its financial liabilities upon initial recognition.

Financial liabilities are initially recorded at fair value plus transaction costs directly attributable to them in the case of loans and borrowings.

Financial liabilities include trade payables and other payables, bank overdrafts, loans and borrowings, guarantees issued and derivative financial instruments.

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 financial 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 liabilities acquired for the purpose of selling them in the near term. This category includes the derivative financial instruments subscribed by TXT that were not designated as hedging instruments in accordance with the hedging relationship as defined by IAS 39. Separated embedded derivatives are classified as financial instruments held for trading unless they are designated as effective hedging instruments.

Gains and losses on financial liabilities held for trading are recognised in profit or loss.

Financial liabilities are designated upon initial recognition as at fair value through profit or loss only if the conditions in IAS 39 are met. TXT has not designated upon initial recognition any financial liability as at fair value through profit or loss.

Loans and borrowings

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 any 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 profit or loss.

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. 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

Related parties are:

- 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 relevant section of the Consolidated Financial Statements as at 31 December 2017.

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

REVENUE AND EXPENSES

Revenue is recognised when it is probable that the economic benefits will flow to the TXT Group and the relevant amount can be measured reliably, irrespective of collection date. Revenue is measured at the fair value of the consideration received or receivable, taking into account the contract terms of payment and excluding taxes and duties. The Group specifically assessed its sales contracts and concluded that it is acting directly as the principal in all sales contracts.

These specific measurement criteria shall also apply with reference to revenue recognition.

Revenues from software licences, including subscriptions

Revenues from software licences can derive from two different types of contractual formula: allocation of users' rights in the form of end user software licences and subscriptions. With the former TXT offers the customer the possibility, contractually for an indefinite and irrevocable period, to be exploited non-exclusively, TXT licensed software, solely for the customer's own business purposes.

TXT licensed software means both software relating to the TXT Retail division and software integrated into the offer of the TXT Next division from 2016 and relating mainly to the Aerospace sector. As a result of the assignment of the TXT Retail division, revenues from licences in the Retail sector contributed to the profits of the discontinued operation.

Revenues from end user software licences are recognised when the right is transferred to the customer, as they do not intrinsically and necessarily require extensive and significant customisation, and the following requirements are met: a) there is persuasive evidence of the agreement with the customer; b) delivery has occurred; c) payment has been or can be determined; d) collection of the amount receivable is likely. The amount receivable linked to this line of revenue is generally paid by the customer in one go.

Subscription contracts, typical of the TXT Next division, allow the customer access to TXT licensed software, and maintenance and updates for the latter, for a limited period of time. Revenues of this type are recognised along the period of time covered by the contract. The financial transaction is generally aligned with this period.

Revenue is recognised net of returns, discounts, rebates and premiums, as well as of any directly related taxes.

Revenues from maintenance contracts

Revenues from maintenance services include fees received for activities involving updates, supply of documentation and manuals and assistance linked to licensed software incorporated into a unitary service contract. These revenues are recognised by TXT for the period along the period of time covered by the maintenance contract.

Revenues from professional services

Revenues deriving from the sale of services (for example development of technological solutions, consultancy, integration services, training) are recorded on the basis of the fees agreed in relation to the state of progress of the work. 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, takes into account the hours spent by personnel involved in the project on the reference date and any other direct costs. Subsequent amendments and adjustments and contractual variants are considered as appropriate and affect the calculation of revenues from the order if formally defined by the parties. When the outcome of a contract cannot be reliably measured, revenue is recognised only to the extent that costs incurred are deemed to satisfy the recoverability requirements.

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 profit or loss (IAS 18.30 a).

Costs

Costs 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 granted to employees. In determining these costs, reference is made to the comments in the paragraph "Employee benefits expense" 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 the 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 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 amount 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 taxation 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 2017.

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 Euro	31 Dec. 2017	Level 1	Level 2	Level 3
Financial assets for which the fair value is indicated				
- other non-current financial assets	0	0	0	0
- other current financial assets	3,156,172	0	3,156,172	0
Total financial assets	3,156,172	0	3,156,172	0
Financial liabilities for which the fair value is indicated				
- other non-current financial liabilities	0	0	0	0
- other current financial liabilities	596,404	0	596,404	0
Total financial liabilities	596,404	0	596,404	0

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.

On completion of the above, it is furthermore specified that on the date of the financial statements the directors deemed the fair value of the option on minority shares in the subsidiary PACE GmbH not to be significant, as the call option was stipulated at the same conditions as the combined put option, which envisage a variable forward price, based on multiples of the prospective results that approximate the fair value upon their exercise. For further details, please refer to note no. 1.14.

Guarantees issued, obligations and other contingent liabilities

At 31 December 2017, 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 2018) and Turin (expiring in October 2022) and for the vehicle fleet for staff use with contracts stipulated for an average duration of 48 months.

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.

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.

New accounting standards, interpretations and amendments adopted by the Group

The accounting standards adopted in preparing the financial statements as at 31 December 2017 are consistent with those used in preparing the Company's financial statements as at 31 December 2016, except for the adoption of the new standards, amendments and interpretations effective since 1 January 2017. The Company Group has not opted for the early application of any other standard, interpretation or amendment published but not yet effective.

Contents and effects of each new standard/amendment are detailed below:

Disclosure initiative – Amendments to IAS 7 Statement of Cash Flows

The amendments require entities to provide additional information on changes in liabilities linked to funding activities, including both changes linked to cash flows and non-monetary changes (for example foreign currency gains and losses). The Company has provided in note 1.15 information for both the current year and for the comparative period.

Recording of deferred tax assets for unrealised losses - Amendments to IAS 12 Income Taxes

The amendments clarify that an entity must consider whether tax regulations limit the sources of taxable income in relation to which the entity could make deductions linked to the reversal of temporary deductible differences. Furthermore, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances in which the taxable income could include the recovery of certain assets for a value greater than their carrying amount.

The Company has taken account of these amendments retrospectively. Furthermore, their application has not had significant effects on the Company's financial position and profits and loss.

The Company has provided information on deferred taxes in 1.6.

Accounting standards to be applied soon

IFRS 15 Revenues from Contracts with Customers

IFRS 15 was issued in May 2014, amended in April 2016, and approved in September 2016. The standard introduces a new model in five phases that will be 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

IFRS 15 sets out the recording of revenues for an amount that reflects the fee to which the entity considers itself entitled in the context of trade with the customer for the transfer of products or services. The new standard requires more evaluation elements and choices by the directors to define its policy for recognising revenues. The new model represents a change in basic standards in relation to the current model of "transfer of risks and benefits" which defines the current practice developed around IAS 18 Revenue, which furthermore did not specifically deal with the granting of software use licences, and will replace all the current requirements present in the IFRS with regard to the recognition of revenues, including those of IAS 11 Construction Contracts, to which the TXT Group's policy refers mainly for the recognition of revenues from project services (the other standards and interpretations superseded but that do not apply to the TXT Group are: IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers for Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services).

The Group plans to apply the new standard from the obligatory effective date, using the modified retrospective application method. This method will consist of recording the cumulative effect of the initial application of the new standard on the initial shareholders' equity at the start of the period, without showing the comparison again; the Group may furthermore choose to apply the new standard retrospectively only to contracts that are not completed on the date of initial application. Over the course of 2017 the Group concluded its preliminary evaluation of the effects of IFRS 15. The TXT Group, as discussed further in other sections of the financial statements, operates in the supply of software products and strategic solutions. In the light of the analysis activities carried out, the main points of interest are listed below (for the description of the criteria currently used, please refer to the section "Relevant accounting standards").

(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 to carry 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. Because, 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, being proprietary licences, the Group considers that the licence and the maintenance services should be considered in application of IFRS 15 as the only contractual promise for which the overall fee should be recognised along the period covered by the maintenance contract. With the new model it is therefore expected that there will be an initial impact linked to the partial deferral of revenues from licences for which, on the date of transition, there are existing maintenance contracts. For full information, in order to provide some useful indications for evaluating the relevance of the phenomenon, some quantitative data are provided below. Contracts signed in 2017 for licences only (excluding therefore the part of the fee that according to the current policy is allocated to maintenance and recognised over the time covered by the corresponding contract), including in continued operations, that would fall within the aforementioned category generated revenues of € 1,197 thousand. The Group is in the process of completing the analysis, including with reference to licence contracts sold in the immediately preceding years that could be affected by the new model in the presence of related maintenance agreements for more than one year; in this regard please note that the total revenues generated by licences alone for 2016 amounted to €979 thousand.

On the occasion of the first application, these licence contracts, as they are not attributable to the parent company TXT e-solutions S.p.A., will have no effect on the opening in the financial statements (but only on the consolidated statements).

(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, already recognised “over time” along the contractual period, the transition to IFRS 15 is not expected to have any impact.

(b) Provision of services for projects

Currently the Group recognises revenues from the provision of services for technological solutions projects on the basis of the state of progress of the projects. 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 provided as and when by the entity;
- the entity's service creates or improves the activity (for example ongoing work) 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 current accounting model with the means of measuring the progress of the project permitted by IFRS 15. Projects are not usually multi-year and the payment conditions do not present significant financial components. Consequently no significant impact is expected 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 debited from 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 entail deferral of the 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 plan to recognise commercial costs incurred under assets as they are considered mostly recurring in nature.

(iii) Presentation and information required

The provisions of IFRS 15 with regard to presentation and information required are more detailed than in the current standards. In particular the Group expects that the notes to the financial statements could be extended as a result of the information on significant real estate appraisals and furthermore, as required by IFRS 15, the Group will separate revenues deriving from contracts with customers into categories that represent how the nature, amount, timeframe and uncertainty of the revenues and cash flows are affected by economic factors.

IFRS 16 Leases

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 current practice 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 lease liabilities should certain events occurs (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 recognise 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 relating to “low-value” assets (cases that the Company could handle with reference to operating leases for office equipment such as photocopiers, currently recorded in the financial statements under “Other operating costs”)
- short-term lease contracts (for example contracts expiring within 12 months or less).

The accounting established by IFRS 16 for lessees is substantially unchanged from the current accounting in accordance with IAS 17.

IFRS 16 furthermore requires lessees and lessors to provide more extensive information than IAS 17.

IFRS 16 will take effect for periods beginning on or after 1 January 2019. Early application is permitted, but not before the entity has adopted IFRS 15. A lessee can choose to apply the standard using a fully retrospective approach or a modified retrospective approach. In the case of application of the latter approach the temporary provisions established by the standard would allow certain optional resources that the Group is evaluating in order to make a complete assessment of the cost-benefit ratio.

Given that the Company had not as at 31 December 2017 established any lease classifiable as “financial”, in accordance with the accounting standards currently in force, the positions that could fall within the scope of IFRS 16 and that it is expected at the moment could in principle have an appreciable effect are related to:

- lease contracts for the main office (Milan)
- lease contracts for the national secondary offices (Turin)
- portfolio of hire vehicles for the Company's staff

These rents are recorded in the Company's income statement under “Other operating costs” for an annual total of €420 and €320 respectively for the leases and for the vehicles (see note 2.4). Please refer to the section Guarantees issued, obligations and other contingent liabilities for a description of the types of contract.

In 2018 the Company will continue to define the effects of IFRS 16 on its financial statements taking into account potential changes that may occur in the existing contractual positions on the date of presentation of the statements as well as in the case of early adoption and simplifications established by the standard.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments. Recording and valuation and all previous version of IFRS 9. IFRS 9 brings together all three aspects relating to the plan for accounting for financial instruments: classification and valuation, impairment and hedge accounting. The Group will adopt the new standard from the effective date (1 January 2018) and will not present the comparative information again.

The Group has carried out a detailed analysis on the impact of all aspects covered by IFRS 9. This analysis was based on the information currently available, including strategies for using financial instruments, and could be subject to changes if further or different information becomes available for the Group in 2018, when the Group will adopt IFRS 9. In principle, the Group does not foresee any significant impact on its consolidated balance sheet and shareholders' equity with reference to the main areas of procedural intervention governed by the standard described below.

a) Classification and valuation 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 the classification and valuation requirements established by IFRS 9. In particular the Company does not at the moment have a financial liability designated at FVTPL for the purposes of adopting the fair value option. 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 Company does not at the moment hold, nor did it manage in the year, active financial instruments, such as debt securities, with the aim of selling them or in absolute terms. The Company also does not have investments in the form of shareholdings that could fall within the scope of IFRS 9 or derivatives, even incorporated. Trade receivables and intercompany financial relations 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 Group 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. It will therefore not be necessary to reclassify these financial instruments. Similar conclusions can be reached for the items relating to cash and cash equivalents.

b) Impairment

IFRS 9 requires the Company to record losses on expected 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 will apply the simplified approach and will therefore record the expected losses on all trade receivables on the basis of their residual contractual duration. The standard permits the adoption of matrices for calculating the fund, capable of incorporating forecast information and not limited to historical evidence, as a practical expedient. The Company will however continue to consider analytically the specific features of the sector and of some customers in its valuations. The Company, while not expecting significant changes in the value of the fund already allocated for the sole effect of the change of standard, is evaluating the necessary disclosure for dealing with the increased requirements established by IFRS 9.

c) Hedge accounting

The Company has in the past established transactions to hedge currency risk, mainly relating to transactions for commercial and financial relationships in foreign currency occurring with other companies of the Group, by the signature of currency forward contracts. The Company in this case had not activated hedge accounting and consequently had recorded, on the basis of the general rules in IAS 39 for derivatives, all effects deriving from the change in their FV in the income statement. If the Company were to decide in future to establish hedge transactions using derivatives and to implement hedge accounting, it would have to adopt the rules in IFRS 9. 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 test of efficacy of the hedging 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 hedge instrument and the element hedged – the possibility of designating as a hedge object only a risk component even for non-financial elements (provided that the risk component is separately identifiable and can be reliably estimated) – introduction of the “costs of hedging” item – greater possibility of designating groups of elements as a hedge object, 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 adoption of IFRS 9 will not entail for the Company any significant adjustment of other items in the financial statements registered on 1 January 2018.

Financial risk management

TXT 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, also 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 € 85,421,619 at 31 December 2017 (€ 4,443,217 at 31 December 2016) and an essential lack of financial debt, except for the exposure to other Group companies (see the financial

position under paragraph 3 “Net financial position”), TXT's liquidity risk is limited and manageable.

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.

At 31 December 2017, 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 shows the concentration of the Company's trade receivables:

	Amount in Euro	Concentration %
Receivables due from customers (invoices issued)	12,425,308	-
Provision for bad debts	(378,824)	
Total receivables due from customers	12,046,484	
Receivables due from customers (Top 5)	8,156,278	68%
Receivables due from customers (Top 10)	10,035,451	83%

In general, trade receivables are mainly concentrated in Italy. Receivables from an important Italian customer operating in the Aerospace & High Tech business account for 41% of the TXT's total trade receivables. The first ten customers account for 83% 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 of Euro)	31 Dec. 2017		
Cash, bank assets, and securities	85,421,619		
Financial exposure (fixed rate)	0	Interest rate change	Financial income/charges
Financial exposure (floating rate)	2,058,983		
Net financial position	87,480,602		
Financial exposure (floating rate)	(2,058,983)	+1%	-20,590
		-1%	20,590

Other risks

The Company has business dealings in the United Kingdom exclusively with the newly-founded subsidiary TXT Next Ltd. Following the outcome of the Brexit referendum, a process was launched to examine its potential effects and possible repercussions on the Company's activities. A more reasonable estimate of the impact of Brexit will be possible once the relative measures become formally effective.

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 at 31 December 2017, in view of the significant allocation of assets and cash and the positive current and prospective economic results.

Notes to the BALANCE SHEET and INCOME STATEMENT as at 31 December 2017

1. Balance sheet

1.1. Intangible assets with an indefinite useful life

This item at 31 December 2016 included goodwill amount to € 800,000 deriving from the purchase of Aisoftw@are's "Program" business in 2003 concerning operations in the Fashion sector based in Vicenza.

At 31 December 2017 the item changed to zero as a result of the assignment of the entire TXT Retail Division to Aptos.

1.2. Intangible assets with a finite useful life

Intangible assets with a finite useful life amounted to € 45,380 at 31 December 2017, net of amortisation, and refer to licences for software use purchased by the Company for the operation of internal tools. Investments in the period of € 13,345 referred to the purchase of software licences.

Research and development costs capitalised in previous years and completely amortised referred entirely to the TXT Retail Division and have been disposed of in the context of the transaction with Aptos.

The changes occurring over the year are presented below:

	Software licences	Research and development	Total
Historical cost	836,489	1,340,648	2,177,137
Accumulated amortisation	(789,806)	(1,340,648)	(2,130,454)
Balance as at 31 December 2016	46,683	0	46,683
Acquisitions/capitalisations	13,354	0	13,354
Disposals	(139)	(1,340,648)	(1,340,788)
Other changes	0	1,340,648	1,340,648
Amortisation	(14,518)	0	(14,518)
Net value at 31 December 2017	45,380	0	45,380
Balance as at 31 December 2017			
Historical cost at 31 December 2017	844,463	0	844,463
Accumulated amortisation at 31 December 2017	(799,083)	0	(799,083)
Net value	45,380	0	45,380

1.3. Property, plant and equipment

Net of depreciation, property, plant and equipment amounted to € 613,237 at 31 December 2017, down € 305,348 compared with 31 December 2016. The changes that occurred during the year are detailed below:

	Plants	Furniture and fixtures	Electronic office machinery	Other assets	Leasehold improvements	Total
Historical cost	5,695	362,685	2,705,602	1,395	562,434	3,637,810
Accumulated depreciation	(5,695)	(301,468)	(1,929,493)	(1,395)	(481,174)	(2,719,224)
Balance as at 31 December 2016	0	61,217	776,108	0	81,260	918,585
Acquisitions/capitalisations	0	3,049	376,685	0	0	379,734
Disposals	0	(24,707)	(335,776)	0	0	(360,482)
Depreciation	0	(10,552)	(260,403)	0	(53,645)	(324,600)
Net value at 31 December 2017	0	29,007	556,614	0	27,615	613,237
Balance as at 31 December 2017						
Historical cost at 31 December 2017	5,695	295,561	2,746,511	1,395	562,434	3,611,595
Accumulated depreciation at 31 December 2017	(5,695)	(266,554)	(2,189,896)	(1,395)	(534,819)	(2,998,359)
Net value	0	29,007	556,614	0	27,615	613,237

Investments during the year in the electronic equipment category refer mainly to IT systems and hardware equipment, purchased in order to boost productive capacity. The present amount of accumulated depreciation is deemed adequate to face the depreciation of each class of fixed assets in relation to their estimated remaining useful life. The disposals refer mainly to the assignment of the TXT Retail Italy Division.

1.4. Investments

The item "Investments" amount to 7,722,408 at 31 December 2017, compared with € 19,009,167 at 31 December 2016.

Over the course of the year the company Thinking Retail Srl was established and the business branch TXT Retail Italy, part of the TXT Retail Division, was conferred to this company. The transaction was preparatory to the assignment of the entire TXT Retail Division to Aptos, completed on 2 October 2017 with the assignment of Thinking Retail Srl and the nine international investments through which the Division operated.

Over the course of the year two companies were established in France (TXT Next Sarl) and in the United Kingdom (TXT Next Ltd) to support the Group's activities with certain local customers.

The changes occurring over the year are presented below:

Company name	Balances as at 31 December 2016	Increases	Decreases	Disposals	Balances as at 31 December 2017
TXT e-solutions GmbH	3,576,930	0	(893,521)	(2,683,739)	0
TXT e-solutions SL	735,107	0		(735,107)	0
TXT e-solutions SARL	1,676,217	0		(1,676,217)	0
TXT e-solutions LTD	2,462,055	0		(2,462,055)	0
Maple Lake Australia Pty Ltd	466,001	0		(466,001)	0
TXT North America Inc.	2,493,000	0		(2,493,000)	0
TXT USA Inc.	72,920	0		(72,920)	0
TXT Retail AsiaPacific Ltd	11,298	0		(11,298)	0
TXT Singapore Pte Ltd	6,366	0		(6,366)	0
Thinking Retail SpA	0	1,813,130		(1,813,130)	0
Pace GmbH	7,472,191	0		0	7,472,191
TXT e-solutions Sagl	37,082	0		0	37,082
TXT Next Sarl	0	100,000		0	100,000
TXT Next Ltd	0	113,135		0	113,135
Total	19,009,167	2,026,265	(893,521)	(12,419,833)	7,722,408

Below is a table showing the main financial data for subsidiaries, 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	Shareholders' equity
Pace GmbH	Berlin	295,000	3,586,720	49,646	79	7,472,191	2,833,508
TXT e-solutions Sagl	Chiasso	43,784	182,049	129,626	100	37,082	182,049
TXT Next Sarl	Paris	100,000	95,678	(4,322)	100	100,000	95,678
TXT Next Ltd	London	113,135	102,779	(10,099)	100	113,135	102,779
Total		551,919	3,967,226	164,851		7,722,408	

(*) The figures refer to the financial statements drawn up for the Group's consolidated financial statements.

The difference between the Shareholders' equity and Share capital of TXT Next Sarl and TXT Next Ltd is due for both companies to the loss in the first year after starting activities in 2017. The directors, considering the costs of establishing and starting up these newly-founded companies, the current activities and the forecasts for 2018, determined that this misalignment does not represent, as at the reporting date, an indicator of impairment.

The investment in Pace GmbH, in the presence of a difference between the carrying amount and the corresponding fraction of the underlying shareholders' equity, was subjected to checks of the recoverability of the registration amounts. The recoverable amount was assumed to be equal to their value in use (equity value), estimated by discounting the expected cash flows over an explicit 5-year forecast period. The plans based on which the recoverable amounts were measured were approved by the Company's Board of Directors on 18 July 2017 and updated on 13 December 2017. The terminal value used to check the recoverable amount of the investments is consistent with that used in the impairment test for goodwill (for further details reference should be made to Note 1.1 of the Group's consolidated financial statements). For completeness it is reported that the directors, for the purposes of drafting the Separate Financial Statement, considered the call option on the residual 21% of the subsidiary's share capital, held by shareholders as minority shares in Pace held by the three founding directors to be exercised in the period 2020-2021, as a financial instrument recognised at fair value on the initial recognition date and with subsequent amendments to be recorded in the income statement. The fair value of the liabilities linked to the acquisition of the ownership interest in the residual 21% of the capital of Pace was determined in the Consolidated Financial Statements taking into account the valuation formula indicated in the contract; this formula is based on factors and multiples consistent with those used for fixing the initial price of the transaction for purchasing the majority shareholding and the corresponding additional payments. For considerations on the valuation at 31 December 2017, please refer to the section "Fair value hierarchy".

Discount rate

The discount rate used in discounting cash flows represents the estimated rate of return on the market.

A specific Free Risk rate was used for the country of the holding in Pace GmbH (Germany).

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%.

Since at 31 December 2017 TXT had no net financial debt, but the entire invested capital was covered by equity, the cost of capital consists entirely of the cost of own capital.

The discount rate for Germany is based on the yield on 10-year local government bonds of 0.43%. The WACC discount rate used for the impairment test is therefore equal to **5.93%**.

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 (from 5.93% and 7.93%).
2. 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 2018-2022 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 company Pace GmbH was calculated firstly for the entire capital, then scaled to 79%, equal to the stake currently held by TXT.

Amounts (€ thousand)	Margin (Baseline Case)	Post-sensitivity margin			
		WACC	g-rate	Revenue CAGR	EBITDA Margin TC
Pace GmbH (79%)	11,126	5,492	9,634	8,144	6,674

In all scenarios the difference between the recoverable value and the net book value remains very positive.

Other Companies

The only investment in other companies is in "Innovazione Più SC" (14.29% stake).

The extraordinary shareholders' meeting of the cooperative Innovazione Più on 13 December 2011 resolved to place the company into liquidation. Since the last available financial statements the shareholders' equity is negative at 12,625.

It is not however expected that there will be any costs for the Company on conclusion of the liquidation, and consequently no value is recorded with reference to this investment (either in assets as an investment or in liabilities as a provision).

1.5. Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to € 10,602 as at 31 December 2017, down from €58,680 at 31 December 2016. The change is due to the assignment of security deposits with the business branch TXT Retail Italy.

1.6. Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities as at 31 December 2017, compared to the figures as at the end of 2016, is shown below:

	Deferred tax assets	Deferred tax liabilities	Net balance
Balance as at 31 December 2016	1,307,845	211,746	1,096,099
Used in the period	(1,103,680)	(211,746)	(891,934)
Provisions in the period	38,302	146	38,156
Balance as at 31 December 2017	242,467	146	242,321

The main change in the year, in addition to the reduction in deferred tax assets and liabilities attributable to the assignment of the TXT Retail Division, concerns the use of deferred tax assets on previous losses as a result of the significant profits for 2017.

As at 31 December 2017 there are no residual tax losses.

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 deferred tax provision as at 31 December 2016 mainly referred to recognition of deferred tax on the tax amortisation mismatch of goodwill. The amount is zero at the end of 2017 as a result of the assignment of goodwill in the context of the TXT Retail Division.

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 2016		31 December 2017	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Prepaid taxes on prior tax losses	4,375,092	1,050,022	0	0
Provisions for future risks and charges	288,905	69,337	213,905	51,337
Provision for bad debts	293,918	70,540	293,918	70,540
Write-down on treasury shares	244,664	58,719	244,664	58,719
Costs deductible in future years	241,902	59,226	257,793	61,870
Total	5,444,481	1,307,845	1,010,280	242,467

Deferred tax liabilities	31 December 2016		31 December 2017	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Goodwill mismatch	666,663	179,499	0	0
Exchange differences	134,361	32,247	613	146
Total	801,024	211,746	613	146

The total net changes of € 242,321 is the result of various movements: a) transfer of part of the financial balances to the purchaser of the TXT Retail Division; b) the use with impact on profit/loss

of discontinued operations (in particular the use of prepaid taxes on capital gains), see chapter 5; c) and for the rest, the use with effect on taxes of continued operations, see chapter 2.7 "Income taxes".

Please note, furthermore, that at 31 December 2017 TXT has no previous tax losses brought forward.

1.7. Period-end inventories

Period-end inventories amounted to € 2,459,524 at 31 December 2017, down € 417,802 compared to the end of 2016, due to the reduction in activities carried out but not yet billed to customers on current orders.

The table below provides the breakdown of inventories:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Inventories of work-in-progress	2,457,044	2,875,529	(418,485)
Inventories of consumables	2,480	1,797	683
Total	2,459,524	2,877,326	(417,802)

1.8. Trade receivables

Trade receivables at 31 December 2017, net of the provision for bad debts, amounted to € 12,590,636 as shown in detail below:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Receivables due from customers	12,320,715	14,904,552	(2,583,838)
Receivables to be collected	6,600	129,449	(122,849)
Receivables due from customers for invoices to be issued	451,818	376,113	75,706
Provision for bad debts	(378,824)	(787,198)	408,374
Receivables due from intercompany customers	93,430	4,026,152	(3,932,723)
Receivables due from intercompany customers for invoices to be issued	96,897	465,075	(368,178)
Total	12,590,636	19,114,143	(6,523,508)

Trade receivables as at 31 December 2017 decreased to € 6,523,508 compared with the end of 2016, mainly as a consequence of the assignment of TXT Retail.

The provision for bad debts of € 378,824 changed in the year as follows:

(Amount in Euro)	31 Dec. 2016	Assignment	Uses	31 Dec. 2017
Provision for bad debts	787,198	(69,258)	(339,116)	378,824

The provision went down as a result of both the assignment to Thinking Retail Srl and the closure of customer balances for the business branch TXT Retail Italy that are no longer recoverable and not transferred with the assignment.

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 € 93,430, down € 3,932,723 from the previous year because they concerned essentially relations within the TXT Retail Division. 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 at 31 December 2017

compared with the situation at 31 December 2016.

(Amount in Euro)	Trade receivables	Performing	0-90 days	91-180 days	181-360 days	More than 360 days	Non-performing
Trade receivables	12,969,460	8,875,607	3,141,399	304,157	317,045	331,252	4,093,853
Provision for bad debts	(378,824)	0	0	0	(47,572)	(331,252)	(378,824)
Balance as at 31.12.2017	12,590,636	8,875,607	3,141,399	304,157	269,473	0	3,715,029

(Amount in Euro)	Trade receivables	Performing	0-90 days	91-180 days	181-360 days	More than 360 days	Non-performing
Trade receivables	19,901,341	12,183,716	5,671,873	1,483,053	157,678	405,021	7,717,625
Provision for bad debts	(787,198)	0	0	(224,499)	(157,678)	(405,021)	(787,198)
Balance as at 31.12.2016	19,114,143	12,183,716	5,671,873	1,258,554	0	0	6,930,427

1.9. Sundry receivables and other current assets

The item “Sundry receivables and other current assets” includes receivables for research grants, tax and other receivables, as well as accrued income and prepaid expenses. The balance amounts to € 1,836,757 at 31 December 2017, substantially in line with the balance of € 1,933,756 at 31 December 2016.

The breakdown is shown below:

	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Receivables due from EU	813,278	962,314	(149,037)
Tax receivables	812,284	792,160	20,124
Other receivables	171,800	100,576	71,224
Accrued income and prepaid expenses	39,395	78,706	(39,311)
Total	1,836,757	1,933,756	(96,999)

The item “Receivables due from EU” included receivables for research grants from the European Union 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 €812,284 represent the receivables due from taxation authorities as shown below in detail:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
IRES receivable for IRAP deductibility on personnel costs	405,147	405,147	0
Interest income withholding	2,730	862	1,868
Tax advances	285,386	285,431	(45)
VAT to be reimbursed	0	19,880	(19,880)
Other withholding taxes paid	119,020	80,841	38,179
Total	812,284	792,160	20,123

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 item “Tax advances” refers to the difference between the excess IRAP tax advances paid compared to the amounts owing for the year. The amount is substantially in line with the previous year.

The item “VAT to be reimbursed” referred to the receivable refund application submitted by the subsidiary Tecno Team Srl liquidated in 2011 and transferred to TXT e-solutions S.p.A. at the beginning

of the liquidation process, and reimbursed in the second half of 2017.

Other receivables amount to € 171,800 and mainly include receivables due from employees for travel advances and meal vouchers (approximately € 57,000) and other trade receivables.

Prepaid expenses, amounting to € 39,395, consisted of reversals of prepaid expenses that did not relate to the period. The decrease compared to 2016 is mainly due to release of the relative amounts invoiced in advance the prior year by the company's suppliers.

1.10. Other financial receivables

The item "Other financial receivables" amounted to € 3,255,387 at 31 December 2017 compared to € 3,949,307 at 31 December 2016.

This item includes the receivable of € 3,156,172 relating to the working capital adjustment for the TXT Retail division assigned to Aptos Inc. This amount was collected on 12 February 2018.

The residue of € 99,215 represents the receivables for cash-pooling due to TXT e-solutions Spa from its subsidiary TXT e-solutions Sagl in Switzerland.

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Cash pooling TXT North America Inc.	0	3,170,818	(3,170,818)
Cash pooling TXT USA Inc.	0	265,629	(265,629)
Cash pooling TXT AsiaPacific Ltd	0	18,683	(18,683)
Cash pooling TXT Singapore Pte Ltd	0	174,034	(174,034)
Cash pooling TXT e-solutions Sagl	99,215	65,319	33,896
Receivable from PACE sellers	0	252,143	(252,143)
Receivable for price adjustment relating to assignment of the division	3,156,172	0	3,156,172
Currency forward sales	0	2,680	(2,680)
Total	3,255,387	3,949,306	(693,919)

The reduction in cash-pooling receivables is attributable to the assignment of the TXT Retail Division.

The balance of receivables from Pace sellers relating to the contractual escrow was defined and collected over the course of 2017.

At 31 December 2017, the Company did not have any currency forward contracts in existence.

1.11. Cash and cash equivalents

Cash equivalents are up € 80,978,402 from 31 December 2016, mainly as a result of the collection of the closing price for the assignment of TXT Retail. The breakdown is as follows:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Cash	2,909	1,663	1,246
Bank deposits	85,418,710	4,441,554	80,977,156
Total	85,421,619	4,443,217	80,978,402

The balance consists of cash and cash equivalents in Italian current accounts held at leading bank institutions.

Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability.

Please refer to the statement of cash flows for further details about cash flow generation in the period.

1.12. Shareholders' equity

The company's share capital as at 31 December 2017 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 share premium reserve (€ 12,136,607), the legal reserve (€ 1,005,000), the stock option/stock grant reserve (€ 1,164,184), the merger surplus reserve (€ 1,911,444), the reserve for retained earnings (€ 1,271,554) and the reserve for actuarial differences on post-employment benefits and other pension funds (€ 913,844).

The stock option reserve is used to recognise the value of share-based payments due to employees, including the benefits for key management personnel settled with equity instruments, which form part of their remuneration.

This reserve amounts to € 1,164,184 (€ 921,297 at 31 December 2016) and refers to the 2017-2019 stock option plan.

For additional details on the calculation methods for the unit value, see the paragraph "Employee benefits expense".

The disclosures required by IFRS 2 with regard to the stock option plan are reported below:

STOCK OPTION PLAN DISCLOSURES - IFRS 2

2017-2019 STOCK OPTION PLAN		2017
Options		
(i)	Outstanding at the beginning of the period	0
(ii)	Granted during the period	635,000
(iii)	Forfeited during the period	(476,250)
(iv)	Exercised during the period	(118,512)
(v)	Expired during the period	0
(vi)	Outstanding at the end of the period	40,238
(vii)	Exercisable at the end of period	40,238

For further details and information, reference should be made to the Directors' report on operations.

Here below is the table regarding the amounts of the reserves:

Description	Free	Required	Established by Shareholders' Meetings	TOTAL
(In Euro)		by Law		
Share premium reserve	12,136,607	0	0	12,136,607
Legal reserve	0	1,005,000	0	1,005,000
Stock option reserve	0	0	1,164,184	1,164,184
Merger surplus	1,911,444	0	0	1,911,444
IRS fair value reserve	0	0	0	0
Reserve for retained earnings	0	0	1,271,553	1,271,553
Reserve for actuarial differences on post-employment benefits	0	0	(913,845)	(913,845)
Total	14,048,051	1,005,000	1,521,893	16,574,944

Incentive plans

The Shareholders' Meeting held on 22 April 2016 approved a stock option plan for the Group's executive directors and senior managers, involving up to 1,200,000 shares subject to the achievement of specific performance objectives, such as performance of revenues, profit or specific individual performance objectives.

On 22 December 2016, the Board of Directors, upon favourable opinion by the Remuneration Committee, assigned 635,000 options for the purchase of an equal number of shares of the company to 33 individuals, comprising executive directors, managers with strategic responsibilities and other directors and managers of the Group, for the period 2017-2019, at the exercise price of € 5.50.

As a result of the assignment of the TXT Retail Division, the Board of Directors has decided on the early partial maturation of the option rights and the cancellation of the remaining options not only for employees transferred to Aptos, as established in the Plan, but also for employees remaining at TXT, in order to ensure uniform treatment of all beneficiaries and to take account of the transformative effect of the assignment of the TXT Retail Division, which will require targets to be redefined. Therefore 25% of options (158,750) have matured, while the remaining 75% have been cancelled (475,250). At 31 December 2017 118,512 options had been exercised with 40,238 not yet exercised. On the date of drafting this report all options had been exercised.

Over the course of the fourth quarter, 118,512 were exercised for a collection of € 651,816.

For further details, see the Directors' report on operations.

Treasury shares

At 31 December 2017, the Company held 1,268,321 treasury shares (1,354,133 at 31 December 2016), equal to 9.75% of shares outstanding, amounting to € 2,715,604 (€ 3,298,518 at 31 December 2016), for a total par value of € 634,160 (€ 677,066 at 31 December 2016) and a market value of € 12,226,614. The price of TXT stock as at 31 December 2017 was € 9.64 (€ 10,155,997 as at 31 December 2016, stock price € 7.50). Shares outstanding (issued) at 31 December 2017 numbered 13,006,250.

The purchase of treasury shares was authorised again by the Shareholders' Meeting of 21 April 2017. The plan provides for a maximum number of shares so as not to exceed the legal maximum number at the maximum price not exceeding the average of the official stock market prices in the three sessions prior to the purchase transaction, plus 10%, and in any case not more than € 25.00.

In order to maintain the necessary operational flexibility over a suitable time horizon, and considering that said authorisation expires on 21 October 2017, the Shareholders' Meeting renewed for an additional 18 months the authorisation to purchase and dispose of treasury shares through subsidiaries as well, simultaneously revoking the analogous authorisation of 21 April 2016 for the portion not yet executed.

During 2017, the Company purchased 32,700 treasury shares at an average price per share of € 9.53, for a total amount of € 311,613.54 (in 2016, the Company purchased 110,952 treasury shares at an average price per share of € 7.46, for a total value of € 827,756).

1.13. Employee benefits expense

The item "Employee benefits expense" at 31 December 2017 amounted to € 2,589,776, for both defined contribution plans and defined benefit plans.

The breakdown of and changes in this item over the period are presented below:

(Amount in Euro)	As at 31 Dec. 2016	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	Total	As at 31 Dec. 2017
Post-employment benefits	2,536,130	1,228,525	(2,239,857)	(61,453)	21,714	(1,051,071)	1,485,059
Provision for severance for end of term of office	1,027,217	77,500	0	0	0	77,500	1,104,717
Total non-current provisions relating to employees	3,563,347	1,306,025	(2,239,857)	(61,453)	21,714	(973,571)	2,589,776

Post-employment benefits for personnel of € 1,485,059 at 31 December 2017 (€ 2,536,130 at 31 December 2016) were measured as a defined benefit provision. The portion allocated to the provision amounted to € 1,228,525. In addition to these payments the item uses/payments includes advance payments to personnel still in service of € 30,614, settlements of € 85,722 and the portion transferred in the assignment of TXT Retail Italy of € 974,128.

Below is the reconciliation of the provision for post-employment benefits based on statutory regulations and IAS – IFRS carrying amount:

	2017	2016
Provision for post-employment benefits	1,353,715	2,324,748
Current cost	(40,299)	(34,890)
Financial charges	21,714	35,562
Actuarial differences	(61,453)	64,314
Retained earnings	211,381	146,395
Total	1,485,059	2,536,130

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 5% staff turnover rate was calculated.
- As for the probability of requests for advance payment of benefits, 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 0.5101% per year, i.e. the rate on Bonds issued by AA-rated European Companies at 31 December 2017 with maturities of between 7 and 10 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 € 1,485,059):

Sensitivity analysis as at 31 December 2017	% Change in liabilities (DBO)			
	Decrease	Increase	Decrease	Increase
Type of change for the specific assumption	Decrease	Increase	Decrease	Increase
Decrease or increase of 50% of company's staff turnover	1.36%	-1.23%	1,505,255	1,466,792
Decrease or increase of 50% in frequency of advanced payments	0.18%	-0.18%	1,487,732	1,482,385
Decrease or increase of inflation by one percentage point	-3.84%	3.62%	1,428,032	1,538,818
Decrease or increase of discount rate by one percentage point	1.49%	-1.45%	1,507,186	1,463,525

The end-of-term severance debt refers to the fee for the Chairman 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.

1.14. Provisions for future risks and charges

The item “Provisions for future risks and charges” amounted to € 718,905 at 31 December 2017 (€ 288,905 at 31 December 2016).

The change during the year is due mainly to the provision for contingent liabilities of a contractual nature relating to the assignment of the TXT Retail Division.

1.15. Current financial liabilities

The item current financial assets amounts to €1,196,404, down from €10,130,101 at 31 December 2016, mainly as a result of the collection of the assignment of intercompany payables as part of the sale of the TXT Retail Division. The item includes short-term cash-pooling loans received from subsidiaries and payables to partners on research projects funded by the European Union.

(Amount in Euro)	31 December 2017	31 December 2016	Change
Cash Pooling from subsidiaries	600,000	9,288,955	(8,688,955)
Advances to partners on funded projects	588,309	706,824	(118,515)
Receivables subject to collection	8,095	129,980	(121,885)
Fair value of forward sales	0	4,342	(4,342)
Total	1,196,404	10,130,101	(8,933,697)

The loans granted by subsidiaries to the Parent Company through cash-pooling contracts amount to €600,000 (€9,288,955 at 31 December 2016). Interest expense of €5,163 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 2016:

(Amount in Euro)	31 December 2017	31 December 2016	Change
Cash Pooling TXT e-solutions SL	0	1,114,867	(1,114,867)
Cash Pooling TXT e-solutions GmbH	0	4,154,877	(4,154,877)
Cash Pooling TXT e-solutions Sarl	0	3,542,689	(3,542,689)
Cash Pooling TXT e-solutions Ltd	0	373,753	(373,753)
Cash Pooling Maple Lake Australia Pty Ltd	0	102,768	(102,768)
Cash Pooling Pace GmbH	600,000	0	600,000
Total	600,000	9,288,955	(8,688,955)

The changes are due mainly to the assignment of the TXT Retail Division and the cash generation of the subsidiary Pace GmbH, net of the relevant net changes in working capital, which generated a cash surplus accredited on the Cash-pooling accounts.

The payable of € 588,309 for advances on research projects funded by the European Union (€ 706,824 at 31 December 2016) and received by TXT e-solutions S.p.A. as lead manager, to be reimbursed to the project partners. This payable will be paid off in 2018.

Payables due to banks for advances on receivables to be collected amount to € 8,095.

Presented below are the changing is financial liabilities linked to financing activities in accordance with IAS 7.

	Note no.	1 January 2017	Decision on distribution of dividends	Cash flows	Reclassification as assets held for sale	31 December 2017
Liabilities for subsidiaries' cash-pooling	1.15	9,288,955	0	(4,241,966)	(4,446,989)	600,000
Dividend payables	1.12	0	2,931,493	(2,931,493)	0	0
Other current liabilities	1.15	836,803	0	(240,399)	0	596,404
Other derivatives		4,342	0	(4,342)	0	0
Total liabilities deriving from financial assets		10,130,100	2,931,493	(7,418,200)	(4,446,989)	1,196,404

	Note no.	1 January 2016	Decision on distribution of dividends	Cash flows	31 December 2016
Liabilities for subsidiaries' cash-pooling	1.15	2,839,269	0	6,449,686	9,288,955
Dividend payables	1.12	0	3,495,634	(3,495,634)	0
Other current liabilities	1.15	42,345	0	794,458	836,803
Other derivatives	1.15	(14,937)	0	19,279	4,342
Total liabilities deriving from financial assets		2,866,677	3,495,634	3,767,789	10,130,100

1.16. Trade payables

Trade payables amounted to €3,197,885 at 31 December 2017 (€4,769,361 at 31 December 2016). 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.

The change is attributable mainly to the assignment of the TXT Retail Division.

1.17. Tax payables

The Company had IRES tax payables of € 224,555 and IRAP of € 140,359 at 31 December 2017, net of the advances paid during the year.

The Company had IRES tax payables of € 90,904 at 31 December 2016, net of the advances paid during the year.

1.18. Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to €7,475,298 as at 31 December 2017, compared to €9,475,185 as at 31 December 2016, as shown in the table below:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Payables due to social security institutions	940,062	1,328,772	(388,710)
Payables due to employees and external staff	3,246,510	4,699,809	(1,453,299)
Tax payables other than income taxes	703,082	1,079,454	(376,371)
Accrued expenses and deferred income	2,567,644	2,367,151	200,493
Total	7,457,298	9,475,185	(2,017,887)

The item payables due to employees and external staff includes:

- variable remuneration (bonuses) of € 1.3 million (€2.1 million at 31 December 2016) that will be paid during 2018 based on the achievement of corporate and personal performance targets;
- provisions for deferred remuneration (predominantly the thirteenth month bonus, leaves and holiday pay).

VAT payables of € 253,508 (€ 416,263 at 31 December 2016) and payables for withholding taxes for employees, external staff and professionals of € 449,574 (€ 663,191 at 31 December 2016) are classified under the item "tax payables other than income taxes".

The item accrued expenses and deferred income refers mainly to the allocation of costs for the current year relating to the assignment of the TXT Retail Division and classified as accrued expenses for the amount of € 1.6 million, revenues for the subsequent year invoiced in advance to customers for € 0.5 million and other costs for the current year for the remaining part.

The variations are attributable mainly to the assignment of the TXT Retail Division.

2. Income statement - Continued Operations

2.1. Total revenues and other income

Revenues and other income for 2017 amounted to € 27,029,866, up 2.91% compared with the previous year.

	31 Dec. 2017	31 Dec. 2016	Change	% change
Revenues and other income	27,029,866	26,243,212	786,654	2.99%
Total	27,029,866	26,243,212	786,654	2.99%

The increase in revenues over the prior year is in line with the increase in Group revenues. The item relates mainly to the sale of professional services.

Other income includes the portion of grants received from the European Union accrued during the financial year amounting to € 290,108 (€ 459,006 at 31 December 2016).

For additional information on the analysis of revenues and other income, as well as the breakdown by line of revenue, of see the Directors' report on operations.

2.2. Purchase of materials and external services

Purchases of materials and external services amount to € 5,781,381, down from 2016, when they totalled € 5,901,663.

The item is detailed below:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Consumables and resale items	108,731	233,103	(124,372)
Technical consulting	703,897	952,223	(248,327)
Intercompany charges	147,998	61,404	86,594
Travel expenses	1,546,719	1,402,941	143,778
Utilities	211,073	155,199	55,875
Media & marketing services	468,690	304,643	164,048
Canteen and ticket services	476,416	434,763	41,654
General, administrative and legal services	1,448,635	1,688,374	(239,741)
Costs for Directors and Statutory Auditors	669,222	669,012	209
Total	5,781,381	5,901,663	(120,282)

As a percentage of revenues, costs for purchasing materials and services were down from the prior year, at 21% (22% in 2016).

Consumables and resale items, amounting to € 108,731, were down from 2016 as a result of the acquisition of a retail licence that was a feature of the previous year.

Technical consulting of € 703,897 was down from 2016 as a result of various software development activities, previously provided by outside consultants, being brought in house.

Travel expenses of € 1,546,719 were up from 2016 as a result of the increase in commercial and operational activities with international customers.

Media & marketing expenses of € 486,690 were up from 2016 as a result of the promotional activities for the new TXT Sense initiative and in particular an agreement signed with La Triennale di Milano.

Costs for general, administrative and legal services of € 1,448,635 were down from 2016, mainly as a result of certain non-recurring expenses linked to the acquisition of Pace that were a feature of the previous year.

Costs for Directors and Statutory Auditors are essentially in line with the prior year.

2.3. Personnel costs

Personnel costs for 2017 amounted to € 18,701,716, up by € 902,132 (+5.1%) compared to 2016.

This increase is mainly attributable to the increase in the average number of staff over the course of the year due to the increase in business volume and the recruitment of highly specialist personnel.

Personnel costs	31 Dec. 2017	31 Dec. 2016	Change
Wages and salaries	14,496,660	13,805,440	691,220
Social security costs	3,216,520	3,008,651	207,869
Post-employment benefits	804,446	844,940	(40,493)
Other personnel costs	184,089	140,552	43,537
Total personnel costs	18,701,716	17,799,583	902,132

The item “Other personnel costs” includes costs sustained for the stock option plan (€ 69,887) and the amounts paid following out-of-court settlements.

The employees of TXT e-solutions, excluding directors and external consultants, numbered 388 at 31 December 2017 (394 at 31 December 2016).

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 and managers	Total
31 Dec. 2016	354	25	11	394
31 Dec. 2017	350	27	11	388

2.4. Other operating costs

The item “other operating costs” amounted to € 831,131, up € 110,205 from 2016.

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Rental expense for premises	412,826	378,270	34,556
Rental expense for motor vehicles	321,888	272,604	49,284
Contingent liabilities	33,134	18,112	15,022
Sundry operating costs	63,284	51,940	11,343
Total	831,131	720,927	110,205

The item rental expense for premises includes the main operational site and the secondary sites currently in use.

The item rental expense for motor vehicles includes both the rental expense for motor vehicles in the long term and occasional rentals for business trips. The costs incurred for cars assigned to managers and other personnel depend on the business role and service requirements for business trips. The amount of € 321,888 was up from 2016 as a result of new cars assigned to employees for personal and business use and the increase in international travel and business trips.

Donations, deductible taxes, and other costs of a low amount are also included under the item sundry operating costs.

2.5. Depreciation, amortisation and impairment

Depreciation and amortisation amounted to € 230,551 at 31 December 2017 (€ 258,010 at 31 December 2016) and remains substantially unchanged from the previous year.

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.

The item impairment had included in the previous year a € 94,501 provision for bad debts.

2.6. Financial income (charges)

The balance between financial income and charges at 31 December 2017 is negative by € 16,320.

Financial income is detailed as follows:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Bank interest income	6,612	3,316	3,296
Exchange rate gains	20,084	0	20,084
Interest income on intercompany loans	533	0	533
Total	27,230	3,316	23,914

Financial charges are detailed as follows:

(Amount in Euro)	as at 31 Dec. 2017	as at 31 Dec. 2016	Change
Interest expense for post-employment benefit discounting	12,885	21,571	(8,685)
Bank interest expense	0	1,190	(1,190)
Interest expense on intercompany loans	5,163	1,873	3,290
Exchange rate losses	2,606	0	2,606
Bank expenses	22,615	37,966	(15,351)
Other	280	838	(552)
Total	43,550	63,438	(19,881)

2.7. Income taxes

Income taxes amounted to € 702,546, compared to € 186,244 in 2016, and are broken down as follows:

	2017	2016	Change
Current taxes	507,529	166,299	341,230
Deferred tax assets	234,986	12,914	222,072
Rebates on previous years' taxes	(7,868)	0	(7,868)
Deferred tax liabilities	(32,100)	10,390	(42,490)
Deferred taxes of previous years	0	(3,359)	3,359
Total	702,546	186,244	516,302

€ 140,359 of current taxes can be attributed to IRAP and € 367,170 to corporate income tax (IRES).

With regard to the deferred tax assets/(liabilities), reference should be made to the notes to the Balance Sheet.

Effective/theoretical IRES rate reconciliation		
Description	Amount	Taxes
Earnings before taxes	77,135,428	
Theoretical tax expense (24%)		18,512,503
Differences that will not be carried forward in future years:	(71,243,355)	(17,098,405)
Taxes expensed in the year		1,414,098
Temporary differences taxable in future years:	(613)	(147)
Temporary differences deductible in future years:	229,205	55,009
Reversal of temporary differences from previous years	(216,217)	(51,892)
IRES tax base for the year	5,904,448	
Current theoretical IRES for the year		1,417,068
Use of previous years' losses	(4,374,574)	
Current effective IRES for the year		367,170

Effective/theoretical IRAP rate reconciliation		
Description	Amount	Taxes
Difference between production value and costs	2,334,815	
Non-significant costs for IRAP purposes:	1,232,927	
Tax base	3,567,742	
Theoretical tax expense (3.90%)		139,142
Differences that will not be carried forward in future years:	31,897	
Tax		1,244
Tax expensed in the year		147,419
Temporary differences deductible in future years:	19,317	
Temporary differences from previous years:	(20,000)	
IRAP tax base for the year	3,598,956	
Current IRAP for the year		140,359

Net earnings per share

Basic net earnings per share

The basic net earnings per share for 2017 is calculated by dividing net profit of € 75,594,621 (€ 3,085,708 at 31 December 2016) by the average number of ordinary shares outstanding in 2017, equal to 11,665,375. This amounts to €6.48 (€0.26 in 2016).

Basic earnings per share on:

- discontinued activities for 2017 amounted to €6.41
- continued activities for 2017 amounted to €0.07

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.

At 31 December 2017, the weighted average number of ordinary shares outstanding in 2017 was 11,705,613 as a result of the dilution deriving from the 2016 stock option plan and the diluted earnings per share amounted to €6.46 (€0.48 in 2016).

Diluted earnings per share on:

- discontinued activities for 2017 amounted to €6.39
- continued activities for 2017 amounted to €0.07

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 2017	Receivables	Payables	Costs	Revenues
Pace GmbH	110,485	12,545	60,698	483,468
TXT e-solutions Sagl (CH)	79,842	1,643	1,676	79,317
TXT NEXT Ltd	0	85,124	85,624	0
Directors and key management personnel	0	1,460,276	2,799,506	0
Total as at 31 December 2017	190,327	1,559,589	2,947,504	562,785

As at 31 December 2016	Receivables	Payables	Costs	Revenues
TXT e-solutions Sarl (France)	821,166	201,911	0	0
TXT e-solutions GmbH (Germany)	602,358	123,287	0	0
TXT e-solutions SL (Spain)	44,226	105,965	0	0
TXT e-solutions Ltd (United Kingdom)	950,574	967,079	0	0
Maple Lake Australia Pty Ltd (Australia)	30,003	3,628	0	0
Maple Lake Ltd (Canada)	1,849,375	643,072	0	0
Pace GmbH	183,935	1,873	3,060	197,435
TXT USA Inc.	8,257	232,794	0	0
TXT Singapore Pte Ltd	2,651	51,208	0	0
TXT Retail AsiaPacific Ltd	357	0	0	0
TXT e-solutions Sagl (CH)	(1,673)	58,344	58,344	0
Directors and key management personnel	0	1,645,654	1,732,738	0
Total as at 31 December 2016	4,491,228	4,034,815	1,794,142	197,435

Financial transactions

As at 31 December 2017	Receivables	Payables	Charges	Income
Pace GmbH	0	600,000	5,163	0
TXT e-solutions Sagl (CH)	99,215	0	0	533
Total as at 31 December 2017	99,215	600,000	5,163	533

As at 31 December 2016	Receivables	Payables	Charges	Income
TXT e-solutions Sarl (France)	0	3,542,689	0	0
TXT e-solutions GmbH (Germany)	0	4,154,877	0	0
TXT e-solutions SL (Spain)	0	1,114,867	0	0
TXT e-solutions Ltd (United Kingdom)	0	373,753	0	0
Maple Lake Australia Pty Ltd (Australia)	0	102,768	0	0
Maple Lake Ltd (Canada)	3,170,818	0	0	0
Pace GmbH	0	0	1,873	0
TXT USA Inc.	265,629	0	0	0
TXT Retail AsiaPacific Ltd	18,683	0	0	0
TXT Singapore Pte Ltd	174,034	0	0	0
TXT e-solutions Sagl (CH)	65,319	0	0	0
Total as at 31 December 2016	3,694,483	9,288,955	1,873	0

Impact of positions or transactions with related parties on the balance sheet, income statement and cash flows

	Total	Related parties	Impact
Trade receivables	12,590,636	190,327	1.5%
Other financial receivables	3,255,387	99,215	3.0%
Employee benefits expense	2,589,776	1,171,526	45.2%
Current financial liabilities	1,196,404	600,000	50.2%
Trade payables	3,179,885	99,312	3.1%
Sundry payables and other current liabilities	7,457,298	288,750	3.9%
Total Revenues	27,029,866	562,785	2.1%
Purchase of materials and external services	5,781,381	147,998	2.6%
Personnel costs	18,701,716	2,799,506	15.0%
Depreciation and amortisation/Impairment/Provisions	230,551	0	NA
Financial income	27,230	533	2.0%
Financial charges	43,550	5,163	11.9%

	Total	Related parties	Impact
Net cash from operating activities	3,016,312	(559,045)	18.5%
Net cash used in investing activities	85,239,216	0	0.0%
Net cash used in financing activities	(7,277,124)	(4,241,966)	58.3%

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.

3. 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:

	<i>31 Dec. 2017</i>	<i>impact</i>	<i>31 Dec. 2016</i>	<i>impact</i>	<i>Change</i>
<i>Amounts in Euro</i>	<i>(a)</i>	<i>%</i>	<i>(b)</i>	<i>%</i>	<i>(a-b)</i>
Cash, bank assets, and securities	85,421,619	97.65%	4,443,217	>-100%	80,978,402
Short-term payables due to banks	(8,095)	-0.01%	(129,980)	7.48%	121,885
Intercompany receivables for cash-pooling	99,215	0.11%	3,694,483	>-100%	(3,595,268)
Intercompany payables for cash-pooling	(600,000)	-0.69%	(9,288,955)	>100%	8,688,955
Other short-term financial receivables	3,156,172	3.61%	254,824	14.67%	2,901,348
Other short-term financial payables	(588,309)	-0.67%	(711,166)	40.93%	122,857
Short-term financial position	87,480,602		(1,737,577)		89,218,179

For further details, reference should be made to the Directors' report on operations.

4. Subsequent events

The Company has received news that on 21 February 2018 a contract was concluded for the sale by E-Business Consulting S.A. to Laserline S.p.A., a company in which Enrico Magni directly holds a 60% stake, of its entire holding in TXT e-solutions S.p.A., representing 25.62% of its share capital.

The payment agreed between the parties was € 35 million, corresponding to a valuation of around € 10.50 per TXT share.

The transfer of the shares will occur on the closing date, scheduled for 30 March 2018 at the latest.

Enrico Magni has informed the Company in advance of his desire to play an active role, wherever possible, in the Board of Directors and in the Company, as well as his preference for the Company to maintain its current listed status with a multi-divisional structure.

In 2018, the Company expects positive growth in its core business. During first quarter 2018, 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.

For further details, reference should be made to the Directors' report on operations.

5. Extraordinary transactions

As mentioned in the Introduction, the activities linked to the TXT Retail business branch and to the operational investments belonging to the same segment have been identified as discontinued operations. The effects on the financial situation and flows are shown below.

The TXT Retail business branch included in TXT e-solutions S.p.A. which is the subject of disposal (via prior transfer at carrying amounts to the newco Thinking Retail S.r.l. and subsequent disposal, as mentioned in the introduction) had the following values (placed alongside those from the previous year for comparative purposes):

BALANCE SHEET: ASSETS			
Amounts in Euro	1 Oct. 2017	31 Dec. 2016	Change
NON-CURRENT ASSETS			
- Goodwill	800,000	800,000	0
- Intangible assets with a finite useful life	139	557	(418)
Intangible assets	800,139	800,557	(418)
- Electronic office machinery	333,858	370,412	(36,554)
- Furniture and fixtures	24,707	749	23,958
Property, plant and equipment	358,564	371,161	(12,596)
- Sundry receivables and other non-current assets	76,402	34,357	42,045
- Deferred tax assets	0	0	0
Other non-current assets	76,402	34,357	42,045
TOTAL NON-CURRENT ASSETS	1,235,106	1,206,075	29,030
CURRENT ASSETS			
Inventories	26,603	109,965	(83,362)
Trade receivables	7,293,519	7,644,123	(350,603)
Sundry receivables and other current assets	72,817	75,996	(3,179)
Other financial receivables	3,417,574	3,629,164	(211,590)
Cash and cash equivalents	0	0	0
TOTAL CURRENT ASSETS	10,810,513	11,459,248	(648,735)
TOTAL ASSETS	12,045,618	12,665,323	(619,705)

BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts in Euro	1 Oct. 2017	31 Dec. 2016	Change
SHAREHOLDERS' EQUITY			
Reserves	(79,550)	0	(79,550)
TOTAL SHAREHOLDERS' EQUITY	(79,550)	0	(79,550)
NON-CURRENT LIABILITIES			
Employee benefits expense	974,128	997,822	(23,695)
Deferred tax provision	179,500	0	179,500
TOTAL NON-CURRENT LIABILITIES	1,153,628	997,822	155,805
CURRENT LIABILITIES			
Current financial liabilities	4,379,659	9,288,955	(4,909,296)
Trade payables	1,394,945	2,275,832	(880,887)
Sundry payables and other current liabilities	3,433,806	1,600,166	1,833,641
TOTAL CURRENT LIABILITIES	9,208,410	13,164,952	(3,956,542)
TOTAL LIABILITIES	10,362,038	14,162,774	(3,800,736)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10,282,488	14,162,774	(3,880,286)
NET TRANSFER	(1,763,130)	0	0

The overall carrying amount of the investments disposed of (excluding Thinking Retail S.r.l.) was € 10,606,703. For the breakdown and variations see note 1.4.

Details of the overall net profit/loss from discontinued operations are given below.

	31 Dec. 2017	31 Dec. 2016
Revenues and other income	14,632,261	19,100,604
TOTAL REVENUES AND OTHER INCOME	14,632,261	19,100,604
Purchase of materials and external services	(6,268,357)	(5,928,066)
Personnel costs	(10,221,567)	(10,524,783)
Other operating costs	(285,175)	(377,116)
EBITDA	(2,142,839)	2,270,640
Depreciation and amortisation/Impairment	(108,567)	(1,058,665)
OPERATING PROFIT (LOSS)	(2,251,406)	1,211,975
Financial income (charges)	77,910,196	935,554
EARNINGS BEFORE TAXES	75,658,790	2,147,529
Income taxes	(830,392)	(285,443)
NET PROFIT (LOSS) FOR THE YEAR	74,828,398	1,862,086
Net profit from Discontinued Operations		
NET PROFIT (LOSS) FOR THE YEAR (group)	74,828,398	1,862,086

The capital gains included in the item “Financial Income (Charges)”, deriving from the assignment of Investments, amounts to € 75,736,668. The extraordinary costs for the transaction included in the operating profit (loss) amount to € 3.6 million and include among other things consultancy costs, provisions for personnel incentives and provisions for potential liabilities of a contractual nature relating to the transaction.

The item “Income taxes” includes Capital Gains taxes deriving from the assignment of the investments payable by the Parent Company and amounts to € 830,392.

Please note that no other “non-recurring events and transactions” have been identified (in accordance with Consob Resolution no. 15519 of 27 July 2006).

6. Proposal for allocation of profit or coverage of losses

We propose that the profit for the year of € 75,594,619.51 (rounded to € 75,594,620) be allocated as follows:

- € 295,625 to legal reserves;
- The residual amount of € 75,298,994.51 to the retained earnings reserve;

distribution of a dividend of € 1.00 (one point nought nought euros) for each outstanding ordinary share with par value of € 0.50, excluding treasury shares, at the ex-dividend date, using the retained earnings reserve; establishment that payment of the dividend takes place next 16 May 2018, with record date 15 May 2018 and ex-dividend date 14 May 2018, coupon no. 10. Acknowledgement that, solely for tax purposes, this dividend constitutes a distribution of profit reserves whose profits were achieved after financial year 2007.

7. 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 Alvisè Braga Illa as Chairman of the Board of Directors and Paolo Matarazzo 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 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 2017.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2016 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 2017:

- 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 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

Chairman of the Board of Directors

Paolo Matarazzo

Alvisè Braga Illa

Milan, 8 March 2018

8. External auditors' report