TXT e-solutions Group

Annual report

as at 31 December 2016

TXT e-solutions S.p.A.

Registered office, management, and administration:

Via Frigia, 27 – 20126 Milan - Italy

Share capital:

€ 6,503,125 fully paid-in

Tax code and Milan Business Register number: 09768170152

Corporate bodies

BOARD OF DIRECTORS

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

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

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

(2) Powers assigned: ordinary administration.

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

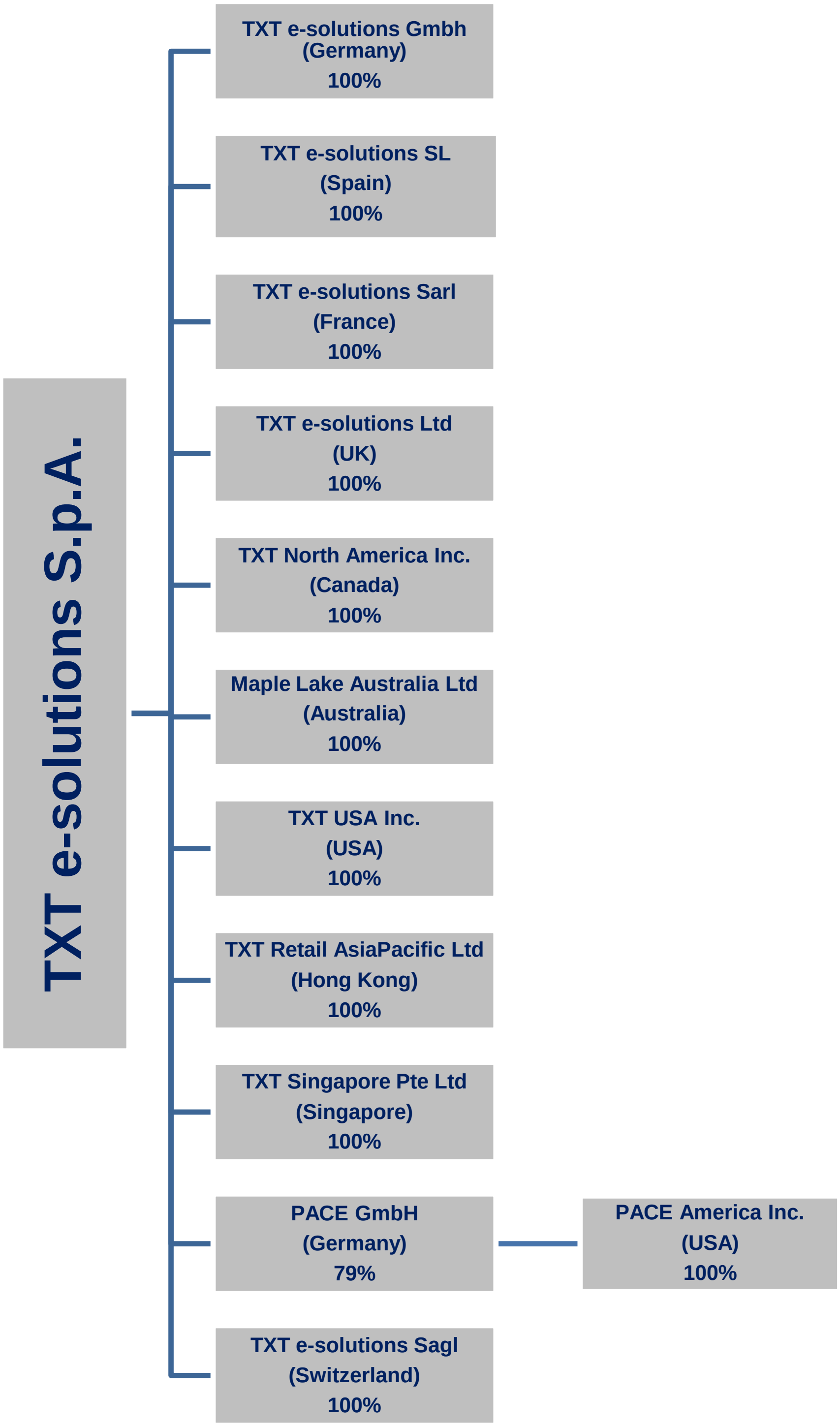
(4) Co-opted by the Board of Directors on 05/05/2015. In office until the next Shareholders' Meeting.

BOARD OF STATUTORY AUDITORS

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

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

Organisational structure and scope of consolidation



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

TXT e-solutions Group – Key data

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

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

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

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

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

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

Notes on Alternative Performance Measures

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

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

The reclassified consolidated Balance Sheet was prepared based on the items recognised as assets or liabilities in the official consolidated Balance Sheet, and it introduces the following terms:
• **FIXED ASSETS**, the sum of property, plant and equipment, intangible assets, goodwill, deferred tax assets and liabilities, and other non-current assets.
• **NET WORKING CAPITAL**, the sum of inventories, trade receivables/payables, current provisions, tax receivables/payables, and other current assets/liabilities and sundry receivables/payables.
• **CAPITAL EMPLOYED**, the algebraic sum of Fixed Assets, Net Working Capital, post-employment benefits, and other non-current liabilities.

These APMs, in line with the data presented in the consolidated income statement and balance sheet in accordance with the recommendations outlined above, were deemed to be significant as they represent parameters that succinctly and clearly depict the company’s equity, financial and economic performance, also through an analysis of comparative data.

Directors' report on operations for the year 2016

Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REVENUES AND GROSS MARGINS

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

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

TXT Retail Division

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TXT Next Division

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

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

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

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

Established in 1995, Pace serves a growing number of aerospace companies and airline operators throughout the world, providing them with software and innovative services to design, configure, acquire and operate their airlines and fleets in an economically optimal manner. The main application areas are the preliminary design of airplanes and technical systems, the configuration of airplanes and cabins, economic management of fleets, and the analysis of flying routes and innovative instruments - such as "Electronic Flight Bags" - to improve operating efficiency during flight.

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

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

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

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

TXT GROUP'S REVENUES

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

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

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

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

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

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

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

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

CAPITAL EMPLOYED

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

The table below shows the details:

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

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

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

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

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

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

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

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

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

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

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

Pursuant to Consob communication dated 28 July 2006 and in conformity with the structure envisaged by the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on prospectuses", it is noted that the TXT e-solutions Group's net financial position at 31 December 2016 is as follows:

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

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

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

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

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

Q4 2016 ANALYSIS

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

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

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

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

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

EMPLOYEES

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

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

TXT SHARE PERFORMANCE AND TREASURY SHARES

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

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

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

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

The Shareholders' Meeting held on 22 April 2016 renewed the authorisation to purchase treasury shares for a period of 18 months up to 20% of the share capital. According to the plan, the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00.

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

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

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

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES AND RISK MANAGEMENT

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

On a half-yearly basis, directors and managers with strategic responsibilities declare any transactions with the Parent Company and with subsidiaries, including through third parties, in accordance with the provisions of IAS 24.

Amounts of transactions with related parties for trading, financial or other purposes are highlighted in Note 5 of the "Notes to the consolidated financial statements". Identification, approval and execution of transactions with related parties by TXT are governed by the "Procedure governing transactions with related parties" approved on 8 November 2010 and published on the web site: www.txtgroup.com/it/governance.
With regard to the description of risks, reference should be made to the relevant "Financial Risk Management" section of the Notes.

CORPORATE GOVERNANCE AND REMUNERATION REPORT

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

ADDITIONAL INFORMATION

TXT e-solutions S.p.A. controls, directly or indirectly, a number of companies based in countries outside of the European Community (Non-EU Companies) of significant importance pursuant to Art. 36 of Consob Regulation 16191/2007 concerning the regulation of markets ("Market Regulation"). The Company has practices and procedures in place to ensure respect of the provisions pursuant to the aforementioned Consob regulation.

In accordance with the provisions of Art. 2428 paragraph four of the Italian Civil Code, as at the reporting date, TXT e-solutions S.p.A.'s secondary headquarters are in Orbassano (TO) at Via Torino 43/45, Genoa at Via Gropallo 4/16, Vicenza at Via della Meccanica 1/R, Valenzano (BA) at Strada provinciale per Casamassima 3, and Pomigliano d'Arco (NA), Via ex-aeroporto consorzio Il sole.

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

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

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

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

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

Milan, 8 March 2017

TXT e-solutions S.p.A.

2016 REPORT ON CORPORATE GOVERNANCE

AND SHAREHOLDING STRUCTURE

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

Contents

GLOSSARY

2014 Corporate Governance Code: the Corporate Governance Code of listed companies approved in July 2014 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: the Italian Civil Code.

Board: the Issuer's Board of Directors.

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

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

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

Consob Regulation on Markets: Consob Regulation 16191/2007 (and subsequent amendments) concerning markets.

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

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

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

1. ISSUER'S PROFILE

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

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

Corporate bodies are listed below:

- Shareholders' Meeting
- Board of Directors
- Remuneration Committee
- Risks and Internal Controls Committee
- Board of Statutory Auditors.

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

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

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

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

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

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

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

2. INFORMATION ON THE SHAREHOLDING STRUCTURE (Article 123-bis, paragraph 1 of the Consolidated Law on Finance) at 31 December 2014

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

The Company's share capital is fully made up of ordinary shares. At 31 December 2016, the subscribed and paid-in share capital was equal to € 6,503,125.00, broken down into 13,006,250 shares with a par value of € 0.50 each.

In addition, the Shareholders' Meeting of 22 April 2016 approved a stock option plan providing for the allocation of a maximum of 1,200,000 shares to the Company's top managers, dependent on achieving specific performance goals, which may be assigned by the Board of Directors in three-year tranches, with the Plan ending by 30 December 2022.

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

There are no share transfer restrictions.

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

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

This information is based on the information contained in the Shareholders' Register and in communications by shareholders pursuant to Article 120 of the Consolidated Law on Finance, as at 31 December 2016.

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

No shares with special controlling interests have been issued.

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

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

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

There are no restrictions on voting rights.

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

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

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

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

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

At 31 December 2016, no such agreement was entered into.

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

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

At 31 December 2016, there were no provisions different from the applicable legal or regulatory provisions.

Disclosures pursuant to Article 123-bis, paragraph 1, letter l) are provided in the Board of Directors' Report (Section 4.1).

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

At 31 December 2016, there were no delegated powers to increase share capital.

On 22 April 2016, the Company's Shareholders' Meeting revoked the previous authorisation to purchase treasury shares and empowered the Board of Directors to proceed, also through delegated parties, pursuant to Article 2357 of the Italian Civil Code, with the purchase, in one or more tranches, for a period of 18 months since the resolution, of TXT e-solutions S.p.A. ordinary shares up to the legal maximum amount of 20% of the share capital. The minimum payment for the purchase must not be lower than the par value of TXT e-solutions S.p.A. shares, and the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00 (twenty-five/00).

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

a) To conduct operations such as the sale and exchange of treasury shares for the acquisition of shareholdings, or as part of any strategic agreements within the realm of the Company's investment policy;
b) To establish the necessary funding to carry out stock option plans approved by the Shareholders' Meeting;
c) To carry out investments and divestments of treasury shares if the trend in prices or the amount of available liquidity make such a transaction feasible at the economic level;
d) To support the liquidity of shares on the market, in order to encourage regular trading and avoid price shifts that are not in line with the market, strengthening - in accordance with the applicable legal and regulatory provisions - price stability during the more delicate phases of negotiations.

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

At the end of the reporting period, 1,354,133 treasury shares are recognised in the Company's financial statements (1,345,700 at 31 December 2015), equal to 10.41% of the share capital, for a total par value of € 3,298,519 (€ 2.44 per share) and a market value of € 10,155,998 (share price at 31 December 2016 equal to € 7.50). This purchase is possible by using the share premium reserve for an amount equal to the value of the treasury shares purchased. During 2016, a total of 110,952 treasury shares were purchased on the market and 102,519 treasury shares were awarded to employees upon achievement of the objectives of the 2015 Stock Grant plan (this plan ended at the beginning of 2016 with exercising of all of the rights that were subject to exercise as at 31 December 2015).

Management and coordination activities (Article 2497 et seq. of the Italian Civil Code)

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

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

The Company adopted the Corporate Governance Code for listed companies of March 2006 (and subsequent amendments). Approved by the Corporate Governance Committee, this Code is available to the public on the Committee's website at http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf.

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

4. BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

The appointment of directors is as follows:

- in the event that more than one list is submitted:

a) four fifths of Board members are selected from the list that received the highest number of votes, based on the list's progressive order and rounding to the lower unit, in case of decimals;

b) the other Board members are selected from the list ranking second, based on the list's progressive order, as long as said list is not directly or indirectly connected with the shareholders who submitted or voted for the list receiving the highest number of votes; in the event that several lists obtained the same number of votes, a run-off will be held between said lists and all the shareholders participating in the Shareholders' Meeting will cast their vote. The candidates belonging to the two lists receiving the majority of votes are elected;

- if only one list is submitted, directors are selected from that list, based on the list's progressive order until the number of directors provided for by the Shareholders' Meeting is reached;

- if no list is submitted or the number of elected candidates is not sufficient with respect to the number of directors required by the Shareholders' Meeting, directors are appointed by the Shareholders' Meeting through a resolution passed by the type of majority required by the law.

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

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

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

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

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

At its meeting of 10 May 2012 the Board of Directors decided not to adopt a succession plan for executive directors (Criterion 5.C.2.), since the identification of parties to be assigned such role or the adoption of relevant selection criteria cannot be performed before the replacement becomes necessary. The appointment of a new executive director shall be assessed on a case by case basis.

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

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

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

All members of the Board of Directors have been appointed by the Shareholders’ Meeting held on 16 April 2014 and shall remain in office up until approval of the Financial Statements at 31 December 2016.

Following the resignation of director Franco Cattaneo, the Board of Directors, at its meeting of 5 May 2015, co-opted Ms Fabienne Dejean Schwalbe until the first Shareholders’ Meeting, in the absence of other candidates in the majority list submitted to the Shareholders’ Meeting of 16 April 2014 and in compliance with the provisions of Article 15 of the By-Laws and Article 2386 of the Italian Civil Code and subject to the Board of Statutory Auditors’ agreement.

The Shareholders' Meeting of 22 April 2016 appointed Ms Fabienne Dejean Schwalbe as a member of the Board of Directors of the Company, and she shall remain in office up until approval of the Financial Statements at 31 December 2016, like all of the other directors. The list voting mechanism did not apply for this appointment, given the absence of candidates not appointed in the Shareholders’ Meeting that appointed the Board of Directors on 16 April 2014.

During the Shareholders' Meeting held on 16 April 2014, two lists were submitted. The majority list was submitted by E-business consulting SA with the names of Franco Cattaneo (independent board member) and Teresa Cristiana Naddeo (independent board member) (both elected). The minority list was submitted by Alvise Braga Illa, with the following names: Alvise Braga Illa, Paolo Enrico Colombo, Marco Edoardo Guida, Stefania Saviolo (independent board member) and Andrea Cencini (all elected). The shareholders declared that there are no connections between the lists. The majority list received 54.42% of votes; the minority list 45.58%.

On 8 May 2014, the Board of Directors appointed Mr Alvise Braga Illa as Chairman and Mr Marco Edoardo Guida as Chief Executive Officer.

Directors Alvise Braga Illa, Marco Edoardo Guida, Franco Cattaneo, Paolo Enrico Colombo, Andrea Cencini and Teresa Cristiana Naddeo, elected by the Shareholders' Meeting held on 16 April 2014, had already been serving as directors.

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

Alvise Braga Illa

Born in Segovia (Spain) on 12 December 1939.

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

Marco Guida

Born in Milan on 12 September 1961.

After graduating in Electronic Engineering, Mr Guida was in charge of a Computer Integrated Manufacturing team at Pirelli Informatica until 1994, when he joined TXT e-solutions. From 2000 onwards Mr Guida has been appointed as Vice Chairman and subsequently as Manager of International Operations, effectively converting TXT from an Italian company to an international group, by managing the acquisition and integration of two foreign companies (based in UK and Germany, respectively). In 2006 he was appointed as General Manager of TXT e-solutions and in January 2009 he was appointed as CEO of the TXT Group.

Andrea Cencini

Born in Tolmezzo (UD) on 7 June 1963.

After graduating in IT, he was assigned the task of designing and developing network monitoring systems at a leading IT company. He joined TXT e-solutions in 1989 holding increasingly high-profile positions, managing the CRM and e-business business units. He is Executive Vice President and currently also holds the role of Chief Operating Officer of the TXT Retail division.

Paolo Enrico Colombo

Born in Milan on 29 February 1956.

After graduating with an Electronic Engineering degree from Politecnico di Milano in 1980, Mr Colombo was a Researcher for several years at Olivetti in Ivrea, CNR and major Software companies. In the TXT Group since 1984, he personally headed the launch and development of various business sectors for the company, covering a number of managerial roles. He has been a member of the Board of Directors of TXT e-solutions since its inception, Executive Vice President and currently Managing Director of the TXT NEXT Division.

Teresa Cristiana Naddeo

Born in Turin on 22 May 1958.

After graduating in Economics and Commerce from the Turin University, she acquired long-term experience on the Italian and international financial markets. In recent years, Ms Naddeo has worked in the Zenit Group's brokerage and asset management companies, with significant operating and managerial responsibilities and as a Director. Previously, Ms Naddeo had joined Arthur Andersen, reaching senior levels; she performed the audit and certification of financial statements of large Groups in the banking, financial, television and media industries. Ms Naddeo is active in numerous professional and civic associations and foundations, and is registered in the Roll of Chartered Accountants and Auditors of Milan. She is director of Gardena Capital Ltd, auditor at Salini Impregilo SpA, chairman of the Board of Statutory Auditors of Ligestra Quattro Srl, M-Three Satcom Srl and alternate auditor at Poste Vita Spa.

Stefania Saviolo

Born in Milan on 14 March 1965.

Ms Saviolo graduated with a degree in Business Economics from Milan's Bocconi University, where she also earned her PhD in International Business. She achieved her Chartered Accountant qualification in Milan in 1994.

In 1992-1993, she was Visiting Scholar at the Stern School of Business - New York University, where she also followed the International Teacher Program. She has been contract Professor at the Political Economics Department of Bocconi University. Since 1994, she has been a Lecturer of Fashion and Luxury Management at Bocconi University and Senior Professor at SDA Bocconi School of Management, where she teaches undergraduate, graduate and executive courses. At SDA Bocconi, she was the founder and director the Master's Degree in Fashion, Experience & Design Management. Since 2013, she has held the role of Manager at SDA Bocconi's Luxury & Fashion Knowledge Center. Ms Saviolo also provides management consulting services for leading companies in the fashion and luxury sector, in the areas of brand management, product marketing and globalisation strategies, and has published a number of papers in the area of strategy and brand management for fashion, luxury and lifestyle companies.

Fabienne Dejean Schwalbe (in office since 5 May 2015)

Born in Dakar (Senegal) on 5 May 1964.

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

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

Maximum number of positions held in other companies

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

Induction Programme

Subsequent to their appointment and during their term of office, the Chairman has made it possible for directors to participate in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, the principles of correct management of risks, as well as the relevant regulatory framework of reference (Criterion 2.C.2.). Application of this principle is fulfilled for the independent directors (3 individuals) through discussions and meetings with management and participation in operational events and initiatives. In fact, during the two-year period 2015-2016, a number of independent directors participated in the specialised fair in New York for the TXT Retail division, and a visit by directors and auditors at the headquarters of a major client of the TXT Next division was organised. Specific meetings were also organised with operational managers to illustrate various themes of the TXT Planning offer for the fashion market, and joint participation in a number of seminars and academic presentations was organised. The other directors (4 individuals) are directors and managers of the company.

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

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

No other change has occurred since the end of the 2016 reporting period to date.

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

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

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

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

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

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

During the 2016 financial year, the Board of Directors held 9 meetings with an average duration of 2 hours and 40 minutes. Directors had an average attendance of 95%, while that of the Statutory Auditors was 85%.

5 meetings have been scheduled for the financial year 2017, none of which have been held yet. As envisaged by the regulatory provisions in effect, the Company has disclosed, in its press release issued on 14 November 2016, the following dates of the Board of Directors' meetings scheduled for 2017, for examination of the financial data:

- 8 March 2017: draft financial statements for the year ending 31/12/2016
- 21 April 2017: Meeting for the 2016 financial statements (single call)
- 11 May 2017: interim report on operations as at 31/3/2017
- 3 August 2017: half-yearly report as at 30/6/2017
- 7 November 2017: interim report on operations as at 30/9/2017

The Chairman organises all the Board activities, ensuring that directors are promptly provided with all documentation and information necessary to make any decision. In order to ensure that all the directors make informed decisions and that a proper and complete assessment of the agenda items is performed, all documentation and information – and in particular draft interim reports – shall be made available to the Board members an average of 5 days before the meeting (Criterion 1.C.5.). During 2016, 40% of the items on the agenda of the Board meetings did not require the submission of any preliminary documentation, considering the nature of the topics discussed. The Board meetings may also be held via audio and video conferencing. In certain circumstances, depending on the type of decisions to be made, on confidentiality requirements or on critical timing, some restrictions to prior disclosure could apply.

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

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

Company managers, in charge of relevant functions, the Company’s auditors and occasionally other external members may join any Board meeting with the aim of providing in-depth analysis of the issues on the agenda (Criterion 1.C.6.). In 2016, Mr Paolo Matarazzo, Chief Financial Officer, regularly attended meetings of the Board and was called upon to act as secretary. Based on the items on the agenda, Mr Simone Pozzi, CEO of the TXT Retail division, attended six meetings. Regular updates were provided by the two executive directors, Mr Andrea Cencini and Mr Paolo Colombo, respectively managers of the TXT Retail and TXT Next divisions.

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

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

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

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

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

On 13 May 2016, the Board assessed the size, composition and functioning of the board itself and of its committees (Criterion 1.C.1., letter g).

Each director received a questionnaire asking for their opinion on the size, composition, functioning, meetings, efficacy and responsibilities of the Board and its committees, with the option of making suggestions or intervention proposals. The completed questionnaires were collected by the secretary of the Board of Directors, who compiled a summary of the opinions and recommendations made and submitted it to the Board of Directors.

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

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

With the intention of ensuring correct management of company information, the Company adopted a procedure for internal handling and disclosure to third parties of documents and information concerning the Company, notably price sensitive information (Criterion 1.C.1., letter j), effective from 1 April 2006.

4.4. Delegated bodies

Chief Executive Officer

At the Board of Directors' meeting of 8 May 2014, Mr Marco Edoardo Guida was confirmed as Chief Executive Officer, a position which he has held since 1 January 2009. During this meeting the powers already conferred during the Board of Directors' meeting of 20 April 2011 were also confirmed. He is entitled to exercise, with sole signature, the following powers as part of the

Company’s ordinary management, in any case reporting to the Board of Directors according to legal provisions:

1. sign in the name and on behalf of the Company, sale and purchase agreements and lease agreements, including financial leases concerning movables, even those registered in public registers, tenders, creditors’ agreements; act as a principal or agent in agency or sub-agency agreements and appoint agents;
2. participate in bids, tenders, public and private auctions to the end of providing works and services of all types; sign supply and service contracts; take part in the related tenders, with regard to any public administrations;
3. sign quotations and accept purchase orders on behalf of the Company;
4. to open and close bank accounts, apply for loans and credit lines with ordinary credit institutions of any amount and nature, on a medium-to-long term basis, and sign all the documents requested by the aforementioned credit institutions for completing said applications; to accept the related contract clauses;
5. collect payments and values due to the Company for any reason by any entity as well as by Administrations belonging to the State, Regions, Provinces and Municipalities; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction concerning the use of loans provided by banks and in particular arrange for any commercial bills to be discounted and collected and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, Cassa Depositi e Prestiti, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising investment and divestment;
6. represent the Company before any Administrative Authority, sign and submit petitions, appeals, and minutes concerning any subject; file administrative and court cases in relation to bankruptcy proceedings, creditors’ agreements and moratoria; sign tax declarations and certifications;
7. appoint, employ, promote, suspend and dismiss staff, including managers;
8. sign contracts aimed at forming Associations, temporary business associations, and consortia for participating in tenders promoted by both private and public bodies;
9. to appoint attorneys-in-fact and representatives to whom to transfer, in whole or in part, said functions;
10. sign on behalf of the Company, by virtue of his signatory powers, all deeds concerning the above-mentioned issues, by adding the corporate name before the signature.

In his capacity as Chief Executive Officer, Mr Marco Guida is responsible for the Company's management.

The case of interlocking directorate does not apply since TXT's Chief Executive Officer does not serve as a director in other issuers (not belonging to the same Group) where a TXT director serves as Chief Executive Officer (Criterion 2.C.5.).

Chairman

The Chairman of the Board has been entrusted with special tasks on corporate strategy and communication and institutional relations, as well as all the powers regarding the Company's ordinary and extraordinary management, except for the purchase and sale of real estate property.

The Chairman reports to the Board of Directors on the activities performed by providing, from time to time, adequate disclosure to update the Board of Directors on atypical or unusual transactions or on transactions with related parties whose examination and approval are not reserved to the Board of Directors.

The Chairman is not the controlling shareholder of the Issuer.

At the meeting of the Board of Directors of 8 May 2014 the following powers were conferred on the Chairman, Mr Braga Illa, which had already been conferred at the Board of Directors' meeting of 20 April 2011:

1. to perform, in the name and on behalf of the Company, all the ordinary and extraordinary operations, except for purchase and sale of real estate property; in particular, for example, but not limited to:
2. to release grants, securities and guarantees in general, in the name of the Company;
3. to sign, in the name and on behalf of the Company, sale and purchase agreements and lease agreements, including financial leases concerning movables, even those registered in public registers, tenders, free loans, lease agreements concerning real estate property; acting as a principal or agent in agency or sub-agency agreements and appoint agents;
4. to participate in bids, tenders, public and private auctions to the end of providing works and services of all types;
5. to open and close bank accounts, apply for loans and credit lines with ordinary credit institutions of any amount and nature, on a medium-to-long term basis, and sign all the documents requested by the aforementioned credit institutions for completing said applications; to accept the related contract clauses;
6. collect payments and values due to the Company for any reason by any entity as well as by Administrations belonging to the State, Regions, Provinces and Municipalities; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction concerning the use of loans provided by banks and in particular arrange for any commercial bills to be discounted and collected and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, Cassa Depositi e Prestiti, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising investment and divestment;
7. to represent the Company before any ordinary, special, national, regional and administrative Authority; sign and submit petitions, appeals, minutes concerning any issue, file administrative and court cases; take part in creditors' agreements and bankruptcy procedures; appoint lawyers and enter into any retainer agreements, in relation to any court proceedings, including with enforcing powers, in any stage and instance; settle disputes

through arbitration, with awards enforceable as a court ruling (arbitrato rituale) or with decisions counting as a contract (arbitrato irrituale), and acting as amiable compositeur; appoint arbitrators; sign tax declarations and certifications;
8. to represent the Company in any import or export transaction, customs formality, before the Bank of Italy or the Ministry of Foreign Trade;
9. to appoint, employ, promote, suspend and dismiss staff of any level;
10. to sign contracts aimed at forming Associations, temporary business associations, and consortia for participating in tenders promoted by both private and public bodies; to subscribe or purchase stocks or shares of companies of any nature;
11. to appoint attorneys-in-fact and representatives to whom to transfer, in whole or in part, said functions;
12. to apply for patents for inventions or trademarks; to sign the relevant licence contracts, waiving or withdrawing patent applications;
13. to sign interest-bearing or non-interest-bearing financing contracts with subsidiaries or associated companies; to represent the Company during both ordinary and extraordinary Shareholders' Meetings;
14. to sign on behalf of the Company all deeds concerning the above-mentioned issues, and all the ordinary and extraordinary deeds, for which a non-exhaustive list has been compiled for example purposes, by adding the corporate name before the signature.

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

No Executive Committee has been created.

Disclosure to the Board of Directors

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

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

4.5. Other executive directors

The Board of Directors comprises two additional members (Mr Andrea Cencini, Chief Operating Officer TXT Retail Division, and Mr Paolo Colombo, Manager of the TXT Next Division) who shall be deemed executive directors by virtue of the managing responsibilities held with the Issuer and its strategically significant subsidiaries (Criterion 2.C.1.).

Initiatives aimed at increasing knowledge of the corporate situation and trends are implemented upon each director's request (Criterion 2.C.2.).

4.6. Independent directors

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

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

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

As of 31 December 2016, the three non-executive directors were qualified as independent: Teresa Cristiana Naddeo, Stefania Saviolo and Fabienne Dejean Schwalbe.

In compliance with the provisions of Article 3.P.1. of the Code, Independent Directors:

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

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

On 8 March 2016, the Board adopted a Procedure to Assess the Independence Requirements, with a number of additional requirements with respect to those envisaged by the code. The Board states that a director is not generally considered independent if they have or had during the prior year business, financial or professional dealings with the Company, with one of its subsidiaries or with any of the relative significant parties, or whit a party that controls the Issuer, or with the relative significant parties, if the total value of said dealings exceeds:
i) 10% of the turnover of the legal person, organisation or professional firm in which the director has control or is a significant member or partner, or
ii) 10% of the annual income of the director as natural person or of the annual turnover generated directly by the director as part of the activities carried out for the legal person, organisation or professional firm in which the director has control or is a significant member or partner, or

iii) 100% of the remuneration received as member of the Board of Directors and Committees. (Criterion 3.C.4.).

The Board of Directors assessed the independence of non-executive directors by considering, among other things, the principle of substance over form (Criterion 3.C.1. and 3.C.2.), and making use not only of information provided by those concerned, but also of all information available to the Company; it therefore confirmed Ms Teresa Cristiana Naddeo, Ms Stefania Saviolo and Ms Fabienne Dejean Schwalbe as independent directors.

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

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

The independent directors met without the other directors and in the presence of the Board of Statutory Auditors on 16 February 2016 (Criterion 3.C.6), in order to discuss the governance process of the Board and of the Committees. This meeting is to be considered separate and different from that of the Board committees.

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

4.7. Lead Independent Director

The role of Chairman of the Board of Directors is separate from the role of Chief Executive Officer, and the Chairman is not the individual who controls the company; nevertheless, a Lead Independent Director was appointed, with this role was taken on by Ms Teresa Cristiana Naddeo on 31 December 2016 (Criterion 2.C.3.).

The Lead Independent Director (Criterion 2.C.4.):

a) represents a point of reference and coordination for the requests and contributions of non-executive directors, particularly independent ones;

b) collaborates with the chairman of the Board of Directors in order to ensure that directors receive complete and prompt information.

The powers of the Lead Independent Director include the power to convene, autonomously or upon request by the other directors, specific reunions of only independent directors in order to discuss issues deemed of interest for functioning of the Board of Directors or management of the company.

5. PROCESSING COMPANY INFORMATION

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

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

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

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

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

Code of Conduct on Internal Dealing.

Starting from 1 April 2006, the Company adopted a code of conduct on Internal Dealing, concerning the transactions performed by "relevant persons" in relation to its listed financial instruments. This procedure includes the regulations on the evaluation of confidential and price sensitive information, the selective disclosure conditions for confidential information, and the methods and internal disclosure processes (Criterion 1.C.1, letter j).

The Board has established, pursuant to Article 115-bis of Legislative Decree 58/98, the register of persons with access to price sensitive information, known as the Register of Insiders. The methods of compiling and updating the Register of Insiders envisage inclusion in this register either on a permanent or occasional basis.

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

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

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

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

7. NOMINATION COMMITTEE

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

8. REMUNERATION COMMITTEE

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

The Board of Directors has formed a Remuneration Committee (Committee for the definition of emoluments) from within its members through a resolution dated 8 June 2000. It includes three members, all independent, non-executive directors (Principle 6.P.3.).

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

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

During the year 2016, the Committee held five meetings (on 2 March, 9 May, 29 September, 25 November and 13 December) of an average duration of one hour and 20 minutes. The members of the Board of Statutory Auditors are also required to take part in the Committee’s meetings. The directors participated in all committee meetings held during their effective term of office. The Statutory Auditors had an average attendance of 80%. Each director’s participation is shown in Table 2 attached to this Report. Three meetings have been scheduled for 2017. The first meeting of the Remuneration Committee for 2017 was held on 7 March 2017.

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

Other non-members have been invited to join the meetings of the Remuneration Committee (Criterion 4.C.1., letter f). In 2016, Mr Paolo Matarazzo, Chief Financial Officer, regularly attended the committee meetings and was called upon to act as secretary. Based on the items on the agenda, Mr Francesco Cusaro, human resources director, also attended, in addition to the CEO, Mr Marco Guida.

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

Functions of the Remuneration Committee

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

The Remuneration Committee submits to the Board its proposals for definition of the general remuneration policy for executive directors, other directors who cover particular offices and managers with strategic responsibilities (Principle 6.P.4). The Remuneration Committee submits to the Board its proposals on the remuneration of the Chief Executive Officer and directors holding particular positions, monitoring the application of the decisions adopted by the Board (Criterion 6.C.5.).

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

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

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

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

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

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

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

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

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

- submitted proposals to the Board with regard to the remuneration of executive directors and managers with strategic responsibilities, with respect to both the fixed and variable portion of remuneration;
- examined information on the Group's remuneration policy, including it in the remuneration report;
- assessed the short-term incentive (bonus) criteria linked to objectives (MBO);
- examined the remuneration policies for managers;
- made proposals to the Board with regard to the new Stock Option plan, the Regulation for Implementation of the Stock Option Plan, the quantities, beneficiaries and objectives.

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

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

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

9. REMUNERATION OF DIRECTORS

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

General Remuneration Policy

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

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

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

a. the fixed and the variable component are properly balanced according to the Company's strategic objectives and risk management policy;
b. the variable components are capped at a certain amount;
c. the fixed component is sufficient to reward the director should the variable component not be paid because of the failure to achieve the performance objectives specified by the Board

of Directors;

d. performance objective are predetermined, measurable, and linked to the creation of value for shareholders in the medium-to-long term;
e. the payment of a portion of the medium-to-long term variable compensation is deferred by a reasonable period with reference to its accrual; measurement of this portion and duration of the postponement are consistent with the characteristics of the business activity carried out and with the associated risk profiles;
f. contractual agreements are in place whereby the company may request the restitution, in whole or in part, of variable portions of the remuneration paid (or withhold amounts that have been deferred), determined based on data that subsequently proved to be clearly inaccurate;
g. no compensation is provided following directors' early end of term of office or for failure to be reappointed.

Share-based compensation plans

Stock Option plans are set in favour of executive directors and managers with strategic responsibilities, except for the Chairman.

In preparing share-based compensation plans, the Board of Directors has ensured that:

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

Remuneration of executive directors

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

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

Remuneration of managers with strategic responsibilities

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

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

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

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

Remuneration of non-executive directors

Non-executive directors' remuneration is not connected to the economic results achieved by the Issuer; it is based on a fixed amount decided by the Shareholders' Meeting (Criterion 6.C.4.). Non-executive directors who are also independent directors at TXT are not involved in stock options incentive plans (Criterion 6.C.4.).

The Shareholders' Meeting held on 22 April 2016 approved the Directors' Remuneration Report prepared by the Board of Directors.

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

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

An end-of-term severance package equal to 25% of the fee for particular offices resolved upon and accrued each year was confirmed by the Shareholders' Meeting held on 16 April 2014 in favour of the Chairman of the Board of Directors. It shall be paid when the term of office as Member of the Board of Directors ends.

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

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

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

a) adequate information on the severance package and/or other benefits, including the relative amount, timing of the disbursement - distinguishing the part disbursed immediately from the part subject to deferral, as well as the components assigned for the role of director from those regarding any employment relationships - and any restitution clauses, with particular regard to:
    1) severance package for end of term of office or employment termination, specifying the case in which said amounts accrue (for example, expiry of office, dismissal from office

or compromise agreement);
2) maintenance of the rights connected to any monetary incentive plans or incentive plans based on financial instruments;
3) monetary or non-monetary benefits subsequent to withdrawal from office;
4) non-compete agreements, describing the main contents;
5) any other compensation assigned for any reason and in any form;

b) information on the compliance or non-compliance of the severance package and/or other benefits with the guidelines contained in the remuneration policy, and in the event of even partial deviations with regard to the guidelines in said policy, information on the resolution procedures followed in application of the Consob regulations on transactions with related parties;

c) information on the application or non-application of mechanisms that place limitations on or adjust payment of the severance package in the event in which termination is due to the achievement of objectively inadequate results, and any formulation of requests for restitution of amounts already paid;
d) information on the fact that replacement of the withdrawing executive director or general manager is governed by a specific plan adopted by the company and, in any case, information on the procedures that have been or will be implemented in replacing the director or manager.

The Stock Option Plan envisages for all beneficiaries, including directors and managers with strategic responsibilities, that in the case of a Takeover Bid or in any case upon occurrence of an event that could affect the rights of beneficiaries or the possibility to exercise the options (such as mergers, de-mergers, revocation of the listing of the Shares, promotion of takeover bids or other events that could impact exercisability of the Options), the options shall become immediately exercisable in proportion to the period of time elapsed from the beginning of the vesting period until the date of the event, with respect to the regular vesting period. The remaining Options are cancelled.

10. RISKS AND INTERNAL CONTROLS COMMITTEE

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

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

The Risks and Internal Controls Committee comprises three independent non-executive directors (Teresa Cristiana Naddeo, Stefania Saviolo and Fabienne Dejean Schwalbe) (Principle 7.P.4.) Criterion 4.C.1., letter a). Ms Teresa Cristiana Naddeo is the Chair of the Committee. Minutes of the Risks and Internal Controls Committee meetings have been duly taken (Criterion 4.C.1., letter d) and the Chairman of the committee has informed and updated the Board on the activities carried out and decisions made during the next relevant meetings.

The Committee held four meetings in 2016, coordinated by the Chairman, on 2 March, 11 April, 10 August and 29 September. The directors had an average attendance of 92%. Each director's participation is shown in Table 2 attached to this Report. At least 4 meetings have been scheduled for 2017. The first meetings of the Risks and Internal Controls Committee for 2017 were held on 23 February and 7 March 2017.

At least one member of the Risks and Internal Controls Committee has experience in accounting and finance issues deemed to be suitable by the Board upon appointment (Principle 7.P.4.), namely Ms Teresa Cristiana Naddeo, chartered accountant and auditor.

The Chairman and the other members of the Board of Statutory Auditors have taken part in the Risks and Internal Controls Committee meetings (Criterion 4.C.1., letter f). The Statutory Auditors had an average attendance of 92%.

Under invitation by the Committee, non-members have taken part in the Risks and Internal Controls Committee's Meetings (Criterion 4.C.1., letter f). In 2016, Mr Paolo Matarazzo, Chief Financial Officer and Manager responsible for preparing corporate accounting documents, regularly attended meetings of the committee and was called upon to act as secretary. Marco Guida, CEO and Executive Director in charge of overseeing the internal control and risk management system, and Luigi Piccinno, Internal Auditor, also attended. Based on the items on the agenda, Mr Marco Masante, Chairman of the Supervisory Body, and the partner and senior manager of the auditing firm EY Spa, attended meetings, along with Eugenio Forcinito, administrative director for Italy, and Stefano Montagnoli, manager of the consolidated financial statements.

Functions of the Risks and Internal Controls Committee

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

a) to assist the Board of Directors in identifying the guidelines of the internal control and risk management system and verify that such system is suitable and effective from time to time, in order to ensure that the main corporate risks are adequately identified and managed (Criterion 7.C.1.);
b) to assess, together with the Manager responsible for preparing corporate accounting documents, having heard the External Auditors and the Board of Auditors, the proper implementation of the accounting standards and their consistency for the purposes of the consolidated financial statements (Criterion 7.C.2., letter a);
c) to express opinions on specific issues concerning identification of the company's main risks (Criterion 7.C.2., letter b);
d) to examine periodic reports on assessment of the internal control and risk management system and specific reports by internal audit (Criterion 7.C.2, letter c);
e) to monitor the autonomy, adequacy, effectiveness, and efficiency of the internal audit function (Criterion 7.C.3., letter d);
f) to request the internal audit function – if necessary – to conduct inspections on specific operational areas, promptly informing the Chairman of the Board of Statutory Auditors

(Criterion 7.C.2., letter e);

g) to report to the Board of Directors, at least every six months, on the occasion of the approval of the year-end financial statements and the half-yearly report, on the adequacy of the internal control and risk management system (Criterion 7.C.2., letter f);

h) to assess the position and ensure the effective independence of the Director in charge of the Internal Control and Risk Management System, based on the provisions of Legislative Decree no. 231/2001 on the corporate administrative liability;

i) to assess, with the assistance of the Director in charge of the Internal Control and Risk Management System the manager of administrative functions and the manager responsible for internal audit, the proposals submitted by the External Auditors applying for the audit position, advising the Board on the issue which shall be submitted to the Shareholders' Meeting by the latter;

j) to support, with adequate information-gathering activity, the assessments and decisions of the Board of Directors with regard to the management of risks arising from prejudicial facts of which the Board of Directors has become aware (Criterion 7.C.2., letter g).

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

During said meetings, the Committee also examined:

- the 2015 consolidated financial statements, the 2016 half-yearly report and the results on the auditing process, as well as the interim reports;
- assessments of the impairment test;
- assessments of the adequacy of the accounting standards used and their consistency;
- transactions with related parties;
- reports by the Supervisory Board on Law 231 and updates of the Organisation Model;
- the report on Corporate Governance and shareholding structure;
- the report by Internal Audit and the measures carried out;
- the Group's risk assessment activities;
- the risk assessment with respect to acquisition of German company Pace GmbH;
- the risk assessment of the 2016-2018 Business Plan;
- assessment of the company's new IT system;
- updates on the certifications and operation of the Quality System and Security System;
- proposals to the Board with regard to adoption of a Procedure to Assess the Independence Requirements.

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

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

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 8 March 2010 the Board of Directors appointed CEO Marco Guida as the Executive Director in charge of the internal control system (Principle 7.P.3., letter a) no. (i)).

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

- together with the Supervisory Board, he was in charge of identifying the main corporate risks, taking into account the features of the business carried out by the Company and its subsidiaries. His findings were submitted to the Risks and Internal Controls Committee and to the Board of Directors (Criterion 7.C.4., letter a);
- he implemented the guidelines adopted by the Board, managing the drafting, implementation and management of the internal control and risk management system, verifying its general adequacy, efficacy and effectiveness (Criterion 7.C.4., letter b);
- he aligned the system with the operating activities and with the current regulatory framework (Criterion 7.C.4., letter c);
- he has the power to request the internal audit function to conduct inspections on specific operational areas and on the compliance with the rules and internal procedures in performing company activities, promptly informing the Chairman of the Board, the Chairman of the Risks and Internal Controls Committee and the Chairman of the Board of Statutory Auditors (Criterion 7.C.4., letter d);
- during the Board of Director's meeting of 12 May 2011, he proposed the appointment of Luigi Piccinno as Manager responsible for internal audit (Principle 7.P.3., letter c).

11.2. Manager responsible for Internal Audit

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

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

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

The Manager responsible for internal audit:

a. is in charge of the company quality system, and is a member of the Supervisory Board pursuant to Legislative Decree no. 231. He reports directly to the Executive Director in charge of the Internal Control and Risk Management System. The Board of Directors, after consulting with the Risks and Internal Controls Committee and with the Executive Director in charge of the internal control and risk management system, deemed this solution adequate and balanced, in view of the relatively small size of the Group and its streamlined operating structure (Criterion 7.C.5., letter b);

b. verifies, both on an ongoing basis and in relation to specific needs and in compliance with international standards, the operations and suitability of the internal control and risk management system, by means of an audit plan, approved by the Board of Directors based on structured analyses and priorities (Criterion 7.C.5., letter a);
c. had direct access to useful information for carrying out his duties (Criterion 7.C.5., letter c);
d. prepared a report containing adequate information on his activity, on the method with which risk management is conducted as well as on the compliance with the plans defined for their management, in addition to an assessment on the adequacy of the internal control and risk management system (Criterion 7.C.5., letter d) and submitted it to the Chairman of the Board of Statutory Auditors, the Chairman of the Risks and Internal Controls Committee and the Chairman of the Board of Directors as well as to the Director in charge of the internal control and risk management system (Criterion 7.C.5., letter f);
e. reported to the Risks and Internal Controls Committee and to the Board of Statutory Auditors on the activities performed (Criterion 8.C.6., letter e). Additionally, he reported to the Executive Director in charge of the internal control and risk management system (Criterion 7.C.5., letter f);
f. Verified, within the audit plan, the reliability of the information systems including accounting systems (Criterion 7.C.5., letter g).

The Manager responsible for internal audit, in carrying out its functions, is supported by an external consultant, Mr Marco Masante (Criterion 7.C.6.).

11.3. Organisation model pursuant to Legislative Decree no. 231/2001

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

To define the organisation, management and control model, TXT adopted a planning approach that allows to use and integrate in such model the existing rules as well as to integrate any new offences defined by the law. The TXT model structure aims at making controls and procedures within the Group as efficient and consistent as possible.

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

The TXT model is composed of:

a) the General Part;
b) the Code of Ethics and the organisation procedures that are already in force within TXT and pertain to the control of conducts, events or acts relevant to Legislative Decree no. 231/2001. The Code of Ethics and the procedures in force, even if they have not been explicitly issued

pursuant to Legislative Decree no. 231/2001, aims at monitoring that the conduct of TXT representatives or employees is correct, accurate and compliant with the law, and therefore, they contribute to ensure crime prevention according to Legislative Decree no. 231/2001;

c) the Special Part, concerning the specific offence categories that are relevant for TXT and the applicable provisions.

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

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

The Board has updated the risk report, with "as is" and gap analysis, the Code of Ethics, the Supervisory Board's regulations, the "Organization and Management Model 231", and it confirmed Mr Marco Edoardo Guida as the Executive Director in charge of the Internal Control and Risk Management System, with the power to modify the operating tools, including those of the Organization Model, as well as any operating procedure and/or company control protocol that shall be adopted in order to monitor new activities or new aspects of previously existing activities. He was also granted the power to approve any changes that may be implemented to the operating procedures and/or existing company control protocols, in order to meet the organization and updating requirements, as requested by the various relevant bodies and by the Supervisory Board as well.

The Organisation Model was updated on 30 July 2015, particularly following the reform on corporate crime, the new crime of money laundering, the reform on corruption and the new environmental crimes.

On 13 May 2016, the Board of Directors confirmed the 12-month office of the Supervisory Board pursuant to the 231 Model: Mr Marco Masante (Chairman) and Mr Luigi Piccinno (Internal Audit). The Supervisory Board is responsible for overseeing functioning and compliance of the Model, as well as handling its update, submitting proposals to the Board for any updates and amendments to the Model adopted. The Supervisory Board reports to the Board of Directors on a half-yearly basis with regard to the Model's application and effectiveness.

On 1 October 2014, the company adopted a Policy for the prevention of corruption (available online at http://www.txtgroup.com/it/governance/Pagine/codeofethics.aspx) and disseminated a specific procedure to all employees of Group companies.

The Organisation Model is available on the Company's website at the following address:

http://www.txtgroup.com/it/governance/Pagine/organizationalmodel231.aspx

11.4. External Auditors

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

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

11.5. Manager responsible for preparing corporate accounting documents

On 14 February 2008, the Board of Directors, with a favourable opinion of the Board of Statutory Auditors, appointed Mr Paolo Matarazzo as Manager responsible for preparing corporate accounting documents. Mr Paolo Matarazzo is also the Group's Chief Financial Officer (Principle 7.P.3., letter c).

The Manager responsible for preparing corporate accounting documents arranges appropriate administrative and accounting procedures to prepare of the consolidated and statutory financial statements, as well as all other financial documents. The delegated bodies and the Manager responsible for preparing corporate accounting documents certify the equity, income and financial disclosure pursuant to legal requirements.

The Board of Directors oversees that the Manager responsible for preparing corporate accounting documents can access suitable instruments to perform his tasks and that administrative and accounting procedures are effectively complied with.

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

The various Company parties involved in the internal control and risk management system (the Board of Directors, the Director in charge of the internal control and risk management system, the Risks and Internal Controls Committee, the Manager responsible for internal audit, the Manager responsible for preparing corporate accounting documents and other company roles and functions with specific duties of internal control and risk management, and the board of statutory auditors) shall coordinate their own activities and exchange relevant information during periodic meetings and, if necessary, during specially convened meetings (Principle 7.P.3.). In particular, during 2016, the parties involved in the internal control system met and exchanged information in two meetings: 2 March and 10 August (Criterion 7.C.1., letter d.).

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

- are executed at market conditions or at the same conditions applied to parties other than the related parties;

- are typical or usual – i.e. they fall under the Company's ordinary operations as for their subject, nature and degree of risk, as well as execution period.

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

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

"Significant Transactions with Related Parties" refer to:

i) Transactions exceeding the lower of € 500,000 or 5% of any of the following relevance ratios, to be applied according to the specific transaction:

- Amount relevance ratio: the ratio between the transaction amount and the net equity resulting from the latest published TXT consolidated balance sheet or, if greater, the TXT capitalisation at the end of the last trading day included in the period covered by the latest periodic report (annual, half-yearly or interim reports) published. Should the economic conditions of the transaction be determined, the transaction amount shall be:

  a. for cash components, the amount paid by or to the other party;
  b. for financial instrument components, the fair value determined at the date of the transaction, in accordance with international accounting standards adopted by Regulation (EC) no. 1606/2002;
  c. for funding or guarantees, the maximum amount payable.

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

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

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

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

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

  b. in the case of disposal, the amount of the sold asset.

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

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

  b. in the case of disposal, the carrying amount of the asset.

- Liabilities relevance ratio: the ratio between the total liabilities of the entity acquired and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet, if drawn up. Where possible, similar data should be used for determining the total liabilities of the company or business branch acquired.

ii) Transactions with the listed parent company or any entities related to the latter which are in turn related to TXT, where at least one of the above-mentioned relevance ratios exceeds 2.5%;

iii) and transactions with related parties that may have consequences on the management independence of the Company (including those concerning intangible assets), exceeding the relevance thresholds of 5.0% as stated in (i) or 2.5% if conditions pursuant to point (ii) apply.

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

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

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

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

The Board of Directors and the Board of Statutory Auditors shall receive exhaustive disclosure on Transactions at least every three months.

The decision of the Board of Directors may be taken despite advice to the contrary from the Independent non-Related Directors' Committee.

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

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

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

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

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

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

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

This procedure is available on the Company's website at the following address:
http://www.txtgroup.com/it/governance/Pagine/otherinformation.aspx

13. APPOINTMENT OF STATUTORY AUDITORS

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

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

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

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

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

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

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

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

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

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

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

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

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

Two standing auditors and two alternate auditors are drawn from the list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which they were listed. The Chairman of the Board of Statutory Auditors and the other alternate auditor are drawn from the second list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which they were listed. In the event that several lists obtained the same number of votes, a run-off takes place between said lists and all the shareholders participating in the Shareholders' Meeting shall cast their vote. Candidates from the list that obtain a simple majority of votes are deemed elected.

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

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

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

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

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

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

Outgoing auditors may be re-elected.

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

The current Board of Statutory Auditors was elected, in compliance with the procedures described above, by the Shareholders' Meeting held on 16 April 2014, and it shall hold office until approval of the financial statements for the year ending 31 December 2016. On 21 March 2014, two lists of candidates for appointment to the company's Board of Statutory Auditors were deposited at the registered office. The majority list was submitted by E-business consulting SA and included Fabio Maria Palmieri, Luisa Cameretti, Pietro Antonio Grignani and Laura Grimi (two standing auditors and two alternate auditors, as respectively appointed). The minority list was submitted by Alvise Braga Illa and included Raffaele Valletta, Angelo Faccioli and Patrizia Rossi (from which the Chairman of the Board of Statutory Auditors and one alternate auditor were elected). Alvise Braga Illa, Paolo Enrico Colombo, Marco Edoardo Guida, Stefania Saviolo (independent board member) and Andrea Cencini (all elected). The shareholders declared that there are no connections between the lists. The majority list received 54.42% of votes; the minority list 45.58%.

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

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

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

Raffaele Valletta

Born in Milan on 10 October 1939.

Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1963. Enrolled in the register of Statutory Auditors since 1995 under no. 59655. Founding member of Studio Commercialisti Associati Valletta-Belloni-Cattaneo-Polli-Todescato in Milan. On several occasions Mr Valletta was appointed as assistant to the judge by the Milan Court and Court of appeal and as Receiver by the Ministry of Labour and Welfare.

Fabio Maria Palmieri

Born in Erba (province of Como) on 16 July 1962.

Graduated in Economics and Commerce from Università Cattolica di S. Cuore in Milan in 1988. Enrolled in the register of Chartered Accountants and bookkeepers of Como under number 457 and in the Register of Statutory Auditors under number 69384. Partner of Studio Legale Tributario Bruni-Galasso-Palmieri based in Como, which involves the cooperation of around fifteen consultants. He is currently a consultant of two groups, a board member in 5 companies, and a standing auditor of around 20 companies, including a listed company.

Luisa Cameretti

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

Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1990. Enrolled in the register of Chartered Accountants and bookkeepers of Milan since 1996 and in the Register of Statutory Auditors under number 91224. Associated with the firms "Studio Tributario e Societario Borioli e Colombo" and "Studio Sciumé e Associati". She founded the firm Zazzeron e Cameretti Associati Studio Tributario e Societario, which works in corporate and tax consulting for companies, cooperatives, associations and foundations.

During the 2016 financial year, the Board of Statutory Auditors held 7 meetings, with an average duration of 2 hours and 10 minutes. Five meetings have been scheduled for 2017, the first of which was held on 23 February 2017.

The Board of Statutory Auditors assessed the independence of its members (Criterion 8.C.1.). In performing the above-mentioned assessment, the Board considered, since they are compatible and significant, the criteria provided for by the Code concerning directors' independence (Criterion 8.C.1.) and determined the recommendation (non-mandatory) envisaged under Criterion 3.C.1., namely exceeding of the term of office for over 9 years, to be irrelevant for TXT, given the necessity to give preference to professionals who have acquired in-depth knowledge of the company's business characteristics over time, therefore enhancing the control activity, in the strategic interests of the company and all of its shareholders.

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

Remuneration of the Statutory Auditors is commensurate with the required commitment, the relevance of the role held and the size and sector characteristics of the company (Criterion 8.C.3.).

According to corporate policies, in the event that an auditor who, on his own behalf or on behalf of third parties, has an interest in a specific corporate transaction, he or she shall promptly and exhaustively report to the other auditors and to the Chairman about nature, terms, origin and scope of his/her interest (Criterion 8.C.3.).

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

While performing its activities, the Board of Statutory Auditors coordinated with the internal audit function and the Risks and Internal Controls Committee (Criterion 8.C.4. and 8.C.5.), meeting with internal audit and regularly attending the committee meetings.

15. RELATIONSHIP WITH SHAREHOLDERS

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

Furthermore, communications are provided to shareholders through the Company's website (www.txtgroup.com), where income and financial information (i.e. annual, half-yearly and quarterly reports), price sensitive and other press releases issued by the Company in the last 3 years are available, along with the list of corporate events and meetings on the Group's operational, financial and corporate development.

The Chief Financial Officer Paolo Matarazzo was appointed as Investor Relations Manager. Considering the relatively limited size of TXT and the characteristics of its shareholding structure, a specific corporate structure was not deemed necessary (Criterion 9.C.1.).

During the year, the Company took part in the "Star Conference" event organised by Borsa Italiana in Milan, on 15 March 2016, as well as in London on 6 October 2016. The company also organised a presentation for investors and analysts during the Shareholders' Meeting of 22 April 2016, as well as various meetings with investors in Milan, Paris, London, Frankfurt and New York.

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

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

The one share one vote principle applies.

The Shareholders' Meeting is convened by public notice published in a national newspaper and on the Company's website within the deadlines and by the means provided for by the law; the notice indicates the date, time and place of the meeting and the agenda. The Shareholders' Meeting cannot pass resolutions on issues which are not on the agenda. As an exception to Article 135-undecies, paragraph 1 of the Consolidated Law on Finance (Italian Legislative Decree no. 58/1998), the Company did not select a representative appointed to receive from the shareholders the proxies and voting indications. The Ordinary Shareholders' Meeting held to approve the financial statements shall be convened by the Board within 120 days from the end of the relevant reporting period.

The right to participate in the Shareholders' Meeting is held by those entitled with voting rights at the record date, i.e. 7 trading days before the date fixed for the Shareholders' Meeting and who have provided the Company with the related communication made by an authorised intermediary. Shareholders holding shares only subsequent to the record date shall not have the right to take part in and vote at the Shareholders' Meeting. No voting procedures by post or electronic means are allowed.

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

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

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

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

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

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

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

The recommendation included in the Corporate Governance Code considering the Shareholders' Meetings as an opportunity for developing a constructive dialogue between the Board of Directors and shareholders has been carefully analysed and fully shared by the Company. Six out of seven directors and two out of three standing auditors attended the Shareholders' Meeting of 22 April 2016. During the course of the Meeting, the Board of Directors, through the Chairman and CEO, reported on the activities carried out and planned, providing shareholders with adequate information in order to make informed decisions pertaining to the Shareholders' Meeting, as well as the documentation prepared with regard to the individual topics on the agenda. In order to encourage maximum attendance by shareholders, it has become common practice over the last few years to convene the Shareholders' Meeting at the Borsa Italiana headquarters in Milan and, subsequently, to organise a presentation meeting for shareholders and investors (Criterion 9.C.3.).

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

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

At 31 December 2016, the Company's market capitalisation was € 87.4 million, compared to € 94.8 million at 31 December 2015. The shareholding structure was essentially unchanged. In this respect, it was not deemed necessary to submit to the Shareholders' Meeting amendments to the By-Laws on the percentages established for exercising shares and the measures aimed at protecting minorities and in said case report on the results of said amendments (Criterion 9.C.4.).

During 2016, only one ordinary Shareholders' Meeting was convened.

The Ordinary Shareholders' Meeting of 22 April 2016 resolved the appointment of one director, confirming Fabienne Dejean Schwalbe as independent director, already co-opted by the Board in 2015; it also approved the 2015 financial statements, the dividend distribution, the Remuneration Report, and renewal of the treasury share purchase plan. The Meeting also approved a Stock Option Plan for the Group's executive directors and senior managers, up to a maximum of 1,200,000 ordinary shares.

In reference to Article 7 of the Corporate Governance Code relating to the remuneration of directors and managers with strategic responsibilities, the Shareholders' Meeting of 22 April 2016 approved the remuneration policy document prepared by the Remuneration Committee and the Board of Directors.

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

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

18. CHANGES AFTER THE END OF THE REPORTING PERIOD

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

TABLE 1: Shareholding structure

Shareholder	Direct shareholder	No. of shares owned	As a % of ordinary capital	As a % of voting capital
4CV PTE Ltd (via E-Business Consulting S.A.)	NO	3,332,011	25.62	28.60
Alvise Braga Illa	YES	1,822,954	14.02	15.64
Kabouter Management LLC	YES	932,667	7.17	8.00
Treasury shares (with suspended voting right)	YES	1,354,133	10.41	-
Market	YES	5,564,485	42.78	47.76
Total shares		13,006,250	100.00	100.00

TABLE 2: Composition of the Board of Directors and Committees

Board of Directors													Risks and Internal Controls Committee		Remuneration Committee	
Office	Name	Year of birth	Date of first appointment	In office since	In office until	List	Exec.	Non-exec.	Indep. pursuant to code	Indep. pursuant to Consolidated Law on Finance	No. of other offices (1)	Investment (3)	Office	Investment (3)	Office	Investment (3)
Chairman	Alvise Braga Illa	1939	3 July 1989	1 Jan. 2016	31 Dec. 2016	Minority	x				-	9/9				
CEO	Marco Edoardo Guida	1961	23 Apr. 2008	1 Jan. 2016	31 Dec. 2016	Minority	x				-	9/9				
Director	Andrea Cencini	1963	20 Apr. 2011	1 Jan. 2016	31 Dec. 2016	Minority	x				-	8/9				
Director	Paolo Enrico Colombo	1956	28 June 1999	1 Jan. 2016	31 Dec. 2016	Minority	x				-	9/9				
Director	Teresa Cristiana Naddeo	1958	10 May 2012	1 Jan. 2016	31 Dec. 2016	Majority		x	x	x	2	8/9	Chairman	4/4	x	5/5
Director	Stefania Saviolo	1965	17 Apr. 2014	1 Jan. 2016	31 Dec. 2016	Minority		x	x	x	-	8/9	x	3/4	Chairman	5/5
Director	Fabienne Dejean Schwalbe (2)	1964	05 May 2015	1 Jan. 2016	31 Dec. 2016	-		x	x	x	-	9/9	x	4/4	x	5/5
WITHDRAWING DIRECTORS DURING THE YEAR IN QUESTION																
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
No. of meetings held during 2016:				BoD: 9	ICC: 4	RC: 5										
Quorum required to submit lists by minorities to elect one or more members (pursuant to Art. 147-ter of the Consolidated Law on Finance): 4.5%																

(1) This column shows if Board members serve as a Director or Statutory Auditor in other companies listed on Italian regulated markets.
Such other offices are detailed in the Report on Corporate Governance.
A full disclosure of all offices held is provided in the Board of Statutory Auditors' Report to the Financial Statements.

(2) Director co-opted by the Board on 05/05/2015 and appointed by the Shareholders' Meeting on 22/04/2016.

(3) This column indicates attendance by directors in the meetings of the Board of Directors and committees (no. of presences/no. of meetings held during the interested party's effective term of office).

TABLE 3: Composition of the Board of Statutory Auditors

Office	Name	Year of birth	Date of first appointment	In office since	In office until	List	Indep. pursuant to code	Investment (3)	No. of other offices (1)
Chairman	Raffaele Valletta	1939	3 July 1989	1 Jan. 2016	31 Dec. 2016	Minority	x	7/7	-
Standing Auditor	Fabio Maria Palmieri	1962	28 June 1999	1 Jan. 2016	31 Dec. 2016	Majority	x	6/7	-
Standing Auditor	Luisa Cameretti	1965	17 Apr. 2014	1 Jan. 2016	31 Dec. 2016	Majority	x	6/7	-
Alternate Auditor	Pietro Antonio Grignani	1964	29 Apr. 2002	1 Jan. 2016	31 Dec. 2016	Majority			
Alternate Auditor	Laura Grimi	1975	17 Apr. 2014	1 Jan. 2016	31 Dec. 2016	Majority			
Alternate Auditor	Angelo Faccioli	1949	23 Apr. 2008	1 Jan. 2016	31 Dec. 2016	Minority			
WITHDRAWING AUDITORS DURING THE YEAR IN QUESTION									
-	-	-	-	-	-	-	-	-	-
No. of meetings held during the year: 7									
Quorum required to submit lists by minorities to elect one or more members (pursuant to Art. 148-ter of the Consolidated Law on Finance): 2%									

(1) This column shows if Board members serve as a Director or Statutory Auditor in other companies listed on Italian regulated markets. Such other offices are detailed in the Report on Corporate Governance.
A full disclosure of all offices held is provided in the Board of Statutory Auditors' Report to the Financial Statements.

(2) This column indicates attendance by Statutory Auditors in meetings of the Board of Statutory Auditors (no. of presences/no. of meetings carried out in the year).

TXT e-solutions S.p.A.

REMUNERATION REPORT

2016

Milan, 8 March 2017
Available on the website: www.txtgroup.com

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

On 8 March 2017, the Company's Board of Directors, at the instruction of the Remuneration Committee, adopted the "2016 Remuneration Policy", to be subject to a non-binding vote by the Shareholders' Meeting of 21 April 2017.

The remuneration report is divided into two sections:

1. The "General Remuneration Policy", setting out the guidelines for determining the remuneration of executive directors and management in general;

2. The "Remuneration Report for the Financial Year 2016", illustrating the policy implemented by the TXT e-solutions Group during the 2016 financial year and providing a summary of compensation based on the different types of beneficiaries.

PART 1 – GENERAL REMUNERATION POLICY

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

1. Principles

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

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

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

Any deviations from the criteria for determining the remuneration:
- of directors who cover particular offices, General Managers and Managers with strategic responsibilities are examined and approved in advance by the Remuneration Committee and the Board of Directors;
- of managers and senior managers are approved in advance by the Company's Chief Executive Officer.

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

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

2. Remuneration Committee

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

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

The Remuneration Committee is composed of three directors, all independent: Ms Stefania Saviolo, Ms Teresa Cristiana Naddeo and Ms Fabienne Dejean Schwalbe. Ms Stefania Saviolo is the Chairman of the Committee.

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

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

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

For a more detailed description of how the Remuneration Committee operates and the activities it carried out during the 2016 financial year, please refer to the 2016 Report on Corporate Governance and Shareholding Structure.

3. Procedure for defining and approving the policy

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

The 2015 Remuneration Policy was approved by the Shareholders' Meeting of 22 April 2016. The 2016 Remuneration Policy was approved by the Remuneration Committee in its meeting of 7 March 2017 and by the Board of Directors' meeting of 8 March 2017, and it will be submitted to the scrutiny of and a non-binding vote by the Shareholders' Meeting on 21 April 2017.

4. Remuneration of directors

Within the Board of Directors, there is a distinction between:
(i) executive directors;
(ii) non-executive and independent directors.

At 31 December 2016, the two groups were composed as follows:

- Executive directors:
  - Alvise Braga Illa (Chairman)
  - Marco Edoardo Guida (Chief Executive Officer)
  - Paolo Enrico Colombo
  - Andrea Cencini
- Non-executive and independent directors:
  - Teresa Cristiana Naddeo
  - Stefania Saviolo
  - Fabienne Anne Dejean Schwalbe

The TXT Shareholders' Meeting of 22 April 2016 set the annual compensation of each director at € 15,000, plus an additional annual compensation of € 5,000 for the participation of each director in the Risks and Internal Controls Committee and another € 5,000 for the participation of each director in the Remuneration Committee. The total maximum fixed and variable compensation amounts assignable to directors who cover particular offices was set at € 600,000 for 2016, including any benefits following the end of term of office, in addition to the contributions and legally-required withholdings borne by the company, and authorisation was granted to the Board for determination of the compensation for particular offices, within the aforementioned limits.

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

In line with best practices, there is a Directors & Officers Liability Insurance policy in place, covering civil liability towards third parties incurred by corporate bodies, managers and auditors in the performance of their duties, intended to relieve the Group from any related damages, as a result of the relevant provisions set out by the applicable national collective labour agreement and the rules governing mandates, excluding cases of wilful misconduct and gross negligence.

5. Remuneration of executive directors and managers with strategic responsibilities

At the first meeting following their appointment, the Remuneration Committee proposes to the Board of Directors the remuneration due to directors who cover particular offices.

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

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

a. the fixed component may represent 40% to 60% of total remuneration. Total remuneration is understood to mean the sum of (i) the gross fixed annual component of the remuneration, (ii) the variable annual component which the beneficiary would receive if the target objectives are achieved; (iii) annualisation of the variable medium/long-term component which the beneficiary would receive if the medium/long-term target objectives are achieved;
b. the (annual) MBO incentive for each beneficiary is capped at a maximum amount per person, and is actually paid out in proportion to the achievement of specific objectives and considering the company's incentive policy. It may represent 20% to 50% of total remuneration. The benchmark parameters are accounting indicators, typically EBITDA;
c. The annualised target variable medium/long-term component may represent 10% to 20% of total remuneration. The benchmark parameters are accounting indicators, typically Revenues and EBITDA.

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

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

On 5 November 2009, the Remuneration Committee resolved that the bonuses granted to executive directors and managers with strategic responsibilities be returned if the financial results on the basis of which they were disbursed were adjusted in the subsequent 12 months ("Clawback Clause"), as also envisaged by Article 6.C.1.f of the Corporate Governance Code (July 2015 update).

If Managers with strategic responsibilities have sales objectives, part of the variable compensation amount may be based on the quarterly sales of software licences.

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

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

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

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

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

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

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

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

6. Managers and senior managers

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

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

a. the fixed component generally represents 40% to 100% of total remuneration;
b. an (annual) MBO incentive up to a set maximum amount per person, conditional on the achievement of objectives. Some managers and senior managers in the sales department may have a short-term incentive scheme tied to the volume of licence sales. The MBO generally represents 0% to 40% of total remuneration;

c. in some cases, a variable medium/long-term component representing 0% to 20% of total remuneration on an annualised target basis is awarded.

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

7. MBO and long-term incentive plan

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

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

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

Vesting of the variable annual component is conditional on the fulfilment of an access condition (known as on/off) and is proportional to a quantitative annual performance indicator (in 2016 Gross operating profit - EBITDA). The Group sets a maximum "cap" for the bonus payable.

The Shareholders' Meeting of 22 April 2016 approved a Stock Option Plan with the aim of linking the remuneration of Beneficiaries to the creation of value for the company's shareholders, emphasising factors of strategic interest. In addition, it seeks to promote loyalty, encourage employees to stay with the company or its subsidiaries, and maintain competitiveness in the market for the remuneration of Beneficiaries.

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

The Plan envisages the assignment to recipients of a maximum of 1,200,000 shares, subject to achievement of specific performance objectives such as performance of revenues, profits or other specific individual objectives, to be more specifically established by the Board of Directors during implementation of the plan, upon proposal by the Remuneration Committee.

The Board has the right to assign specific Performance Objectives that are different from those listed above, in order to effectively align the individual performance guidelines to the Group’s profit and growth objectives.

The Board of Directors shall determine the exercise price of the Options within the range of “Market value” (arithmetic mean of the prices of shares of the Company measured during the period between the Board’s Grant Date and the same day of the prior calendar month) and Market value less 30%. The difference between exercise price and market price is attributable to the Plan’s objective to provide an incentive to a significant number of Beneficiaries, to encourage them to stay with the company or its subsidiaries, and maintain competitiveness in the remuneration market.

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

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

If the conditions envisaged by Art. 106 of Legislative Decree 58/1998 (TUF) (Mandatory takeover bid) occur between the Grant Date and the Minimum Vesting Date and in any case upon occurrence of an event that could affect the rights of Beneficiaries or the possibility to exercise the Options (such as mergers, demergers, revocation of the listing of the Shares, promotion of takeover bids or other events that could impact exercisability of the Options), the Options shall become immediately exercisable in proportion to the period of time elapsed from the beginning of the vesting period until the date of the event, with respect to the regular vesting period of 36 months ("Partial vesting"). The remaining Options are cancelled. Upon transfer to third parties of investments and company branches, the Options assigned to the Beneficiaries transferred shall become immediately exercisable in proportion to the period of time from the beginning of the vesting period until the date of the event, with respect to the regular vesting period of 36 months ("Partial vesting"). The remaining Options are cancelled. For all other Beneficiaries, the Board of Directors will make the amendments and additions to the Regulation that it deems necessary or appropriate in order to maintain the essential contents of the Plan and the benefits for its beneficiaries as unchanged as possible.

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

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

It is TXT Group's policy not to enter into agreements with directors and managers governing, on an ex-ante basis, the financial aspects relating to early termination of the relationship by the Company or the individual (known as "parachutes"). At 31 December 2016, there were no such agreements with directors or managers.

With regard to the Chairman, who is not in managerial employment, the Company will pay him a severance package equal to 25% of compensation paid, as resolved by the Shareholders' Meeting of 16 April 2014. There is no severance package for the other directors.

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

9. Non-compete agreements

The Group may enter into non-compete agreements with its own directors, managers and senior managers, as well as key professionals, providing for the payment of financial compensation proportional to annual remuneration based on the duration and extent of the obligation arising from the agreement.
The obligation refers to the Group's reference industry and geographical area. The scope varies in relation to the employee's role at the time the agreement is finalised and may extend to all the Countries in which the Group operates.

PART 2 – 2016 REMUNERATION REPORT

Compensation paid to directors and auditors

Emoluments paid during 2016 are reported in the annexed Table 1:

Table 1 - Compensation paid to members of administration and control bodies and managers with strategic responsibilities

Name	Office	Term in office	In office until	Fixed compensation	Compensation for attendance at committee meetings	Variable compensation (Bonuses and other incentives)	Non-monetary benefits	Other compensation	Total	Fair value of equity-based compensation	Severance package for end of term of office or employment termination
Directors											
Alvise Braga Illa	Chairman	01.01-31.12	04.2017*	260,000	-	65,000	1,900	-	326,900	-	77,500
Marco Edoardo Guida	CEO	01.01-31.12	04.2017*	232,230	-	75,000	224	-	307,454	-	18,684
Andrea Cencini	Director	01.01-31.12	04.2017*	168,615	-	25,000	2,078	-	195,693	-	13,231
Paolo Enrico Colombo	Director	01.01-31.12	04.2017*	160,000	-	45,000	2,474	-	207,474	-	14,074
Teresa Cristiana Naddeo	Ind. Director	01.01-31.12	04.2017*	15,000	10,000	-	-	-	25,000	-	-
Stefania Saviolo	Ind. Director	01.01-31.12	04.2017*	15,000	10,000	-	-	-	25,000	-	-
Fabienne Dejean Schwalbe	Ind. Director	01.01-31.12	04.2017*	15,000	10,000	-	-	-	25,000	-	-
Managers with strategic responsibilities		-	-	311,250	-	207,118	2,593	-	520,961	-	38,398
Board of Statutory Auditors											
Raffaele Valletta	Chairman	01.01-31.12	04.2017*	26,000	-	-	-	-	26,000	-	-
Fabio Maria Palmieri	Standing auditor	01.01-31.12	04.2017*	21,000	-	-	-	-	21,000	-	-
Luisa Cameretti	Standing auditor	01.01-31.12	04.2017*	21,000	-	-	-	-	21,000	-	-
Angelo Faccioli	Alternate auditor	01.01-31.12	04.2017*	-	-	-	-	-	-	-	-
Pietro Antonio Grignani	Alternate auditor	01.01-31.12	04.2017*	-	-	-	-	-	-	-	-
Laura Grimi	Alternate auditor	01.01-31.12	04.2017*	-	-	-	-	-	-	-	-
TOTAL				1,245,095	30,000	417,118	9,269	-	1,701,482	-	161,886

* The term of office expires with the Shareholders' Meeting that approves the Financial Statements as at 31 December 2016.
** Fabienne Dejean Schwalbe was co-opted by the Board on 5 May 2015 and the appointment was confirmed by the Shareholders' Meeting of 22 April 2016.

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

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

Fixed compensation is detailed as follows:

Name	Emoluments as resolved by the Shareholders' Meeting	Compensation for the office	Fixed salary	Fixed compensation
Directors				
Alvise Braga Illa	15,000	245,000	-	260,000
Marco Edoardo Guida	15,000	40,000	177,230	232,230
Andrea Cencini	15,000	-	153,615	168,615
Paolo Enrico Colombo	15,000	-	145,000	160,000
Teresa Cristiana Naddeo	15,000	-	-	15,000
Stefania Saviolo	15,000	-	-	15,000
Fabienne Dejean Schwalbe	15,000	-	-	15,000
Managers with strategic responsibilities	-	-	311,250	311,250

On the basis of the organisational structure of the TXT Group in 2016, Mr Marco Guida is the Chief Executive Officer; Mr Andrea Cencini is COO of the TXT Retail Division and Mr Paolo Colombo is the TXT Next Division Manager; all three are also directors. The Managers with strategic responsibilities are Paolo Matarazzo, Chief Financial Officer and Manager responsible for preparing corporate accounting documents, and Simone Pozzi, CEO of the TXT Retail division.

The Shareholders' Meeting of 22 April 2016 resolved to set the compensation of each director at € 15,000 for the financial year 2016.

The column "Compensation for attendance at committee meetings" shows the compensation received by Ms Teresa Cristina Naddeo, Ms Stefania Saviolo and Ms Fabienne Dejean Schwalbe for attending meetings of the Risks and Internal Controls Committee and of the Remuneration Committee. The Shareholders' Meeting of 22 April 2016 resolved an additional annual compensation amount of € 5,000 for each director for attending the Risks and Internal Controls Committee and an additional € 5,000 for each director for attending the Remuneration Committee.

The column "Bonuses and other incentives" includes portions of compensation vested and not yet paid, according to the corporate Management by Objectives - MBO plan for the financial year 2016, and the variable quarterly compensation based on licence sales for Mr Simone Pozzi. TXT has no "Profit-sharing" plans in place. The listed bonuses relate to the 2016 financial year, vested following the achievement of performance targets during the financial year, and are fully payable because they are not subject to any further conditions. No part of the bonus is deferred.

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

The column "Fair value of equity-based compensation" shows the fair value of the compensation for the year at grant date as part of the incentive plans based on financial instruments, estimated according to international accounting standards. On 22 December 2016, the Board assigned Stock Options to 33 people comprising directors and managers of the Group, with vesting over the three-year period 2017-2018-2019. No amount is therefore indicated as accrued for the year 2016.

The column "Severance package for end of term of office or employment termination" shows severance pay accrued and not yet paid to the Chairman as Termination Benefits accrued on fixed and variable compensation. With regard to the Chairman, who is not in managerial employment, the Company will pay him a severance package equal to 25% of compensation paid, as resolved by the Shareholders' Meeting of 16 April 2014. There is no severance package for the other directors. For other beneficiaries, the amounts shown refer to their Post-Employment Benefits as employees, accrued on the fixed salary and variable bonuses. There is no financial compensation for non-compete agreements.

The Shareholders' Meeting of 22 April 2016 resolved the maximum fixed and variable compensation amounts assigned to directors who cover particular offices for the year 2016 at € 600,000, including any benefits following the end of term of office. These amounts do not include the fixed compensation for the office of director and the compensation for attendance at committees, resolved directly by the Shareholders' Meeting, and they do not include fixed and variable compensation received by the CEO as employee of the company.

The fixed and variable compensation for 2016 amounted to € 427,500 as detailed in the table below.

Name	Office	Fixed compensation for offices	Variable compensation for offices	Severance for end of term of office	Total
Alvise Braga Illa	Chairman	245,000	65,000	77,500	387,500
Marco Edoardo Guida	CEO	40,000	-	-	40,000
TOTAL		285,000	65,000	77,500	427,500
Max. compensation for 2016 authorised by Shareholders' Meeting of 22 April 2014					600,000

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

The auditors and independent directors do not participate in any stock option incentive plans. Chairman Alvise Braga Illa is not a beneficiary of the Stock Option Plan, since he is a major shareholder (14.0% of capital) and it is therefore in his interest to create value over the medium-to-long term as executive director and substantial personal investment.

On 22 April 2016, the Shareholders' Meeting approved a Stock Option Plan for up to a maximum of 1,200,000 ordinary shares.

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 (3 individuals), managers with strategic responsibilities (2 individuals) and other directors and managers of the Group (28 individuals).

Exercising of the rights is subject to the achievement of predetermined revenue and EBITDA growth objectives cumulatively in the three-year period 2017-2019.

The following table shows the subdivision of the Stock Options resolved by the Shareholders' Meeting, assigned by the Board of Directors and reserved for executive directors and managers with strategic responsibilities:

	Total	of which Directors and Managers with strategic responsibilities
Stock Options awarded, not yet vested during 2016	635,000	250,000
Stock Options not awarded	565,000	
Total Plan approved by the Shareholders' Meeting	1,200,000	

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

TABLE 2 - Stock options assigned to members of the administration body and to managers with strategic responsibilities

Full name	Office	Plan	Options held at the beginning of 2016			Options awarded during 2016					Options exercised during 2016			Options expired in 2016	Options held at the end of 2016	Options for 2016
			Number of options	Exercise price	Possible exercise period	Number of options	Exercise price, Euro	Possible exercise period	Awarding date	Market price upon awarding	Number of options	Exercise price, Euro	Market price of shares at exercise date	Number of options	Number of options	Fair Value (€)
Directors																
Marco Guida	CEO	Stock Option 22.4.2016	-	-	-	50,000	5.50	1.1.20-31.12.21	22.12.2016	7.60	-	-	-	-	50,000	-
Andrea Cencini	Director	Stock Option 22.4.2016	-	-	-	50,000	5.50	1.1.20-31.12.21	22.12.2016	7.60	-	-	-	-	50,000	-
Paolo Colombo	Director	Stock Option 22.4.2016	-	-	-	50,000	5.50	1.1.20-31.12.21	22.12.2016	7.60	-	-	-	-	50,000	-
Managers with strategic responsibilities		Stock Option 22.4.2016	-	-	-	100,000	5.50	1.1.20-31.12.21	22.12.2016	7.60	-	-	-	-	100,000	-
TOTAL			-	-	-	250,000					-	-	-	-	250,000	-

At the beginning of 2016, none of the Company's directors or managers had Stock Options, as the Plan was approved by the Meeting on 22 April 2016 and the prior plans were all terminated.

The assignment by the Board of Directors on 22 December 2016 envisages a vesting period from 1 January 2017 to 31 December 2019 (3 years). The possible exercise period goes from 1 January 2020 to 31 December 2021.

The Board has determined for all beneficiaries an option exercise price of € 5.50, compared to the market price of the shares as at the grant date of € 7.60, within the maximum discount of 30% as indicated by the Meeting.

The Options have a three-year vesting period starting from 1 January 2017. No option accrued in 2016.

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

The auditors, independent directors and the chairman did not participate in any stock grant incentive plans.

The Stock Grant plan resolved in 2012 has ended. Some 74,837 shares that accrued in 2015 were delivered in 2016, and there are no residual options as at 31 December 2016.

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

Pursuant to Article 79 of the Consob Regulation approved by resolution no. 11971 of 14 May 1999, here below is a list of the holdings in the company TXT e-solutions S.p.A. by directors and managers with strategic responsibilities, as well as by their spouses who are not legally separated or their minor children, directly or through subsidiaries, trust companies or a third party, resulting as at 31 December 2016 from the shareholders' register, communications received and other information acquired.

The auditors have no holdings in the company.

Holdings of members of administration and control bodies and managers with strategic responsibilities

FULL NAME	OFFICE	INVESTEE COMPANY	NO. SHARES HELD AT 31/12/2015	NO. SHARES PURCHASED/ SUBSCRIBED	NO. SHARES SOLD	NO. SHARES HELD AT 31/12/2016
Directors						
Alvise Braga Illa	Chairman	TXT	1,801,954	21,000	-	1,822,954
Marco Edoardo Guida	CEO	TXT	277,200	15,947	8,147	285,000
Paolo Colombo	Director	TXT	161,040	11,618	5,800	166,858
Andrea Cencini	Director	TXT	62,788	15,947	5,336	73,399
Stefania Saviolo	Indep. Dir.	TXT	825	-	-	825
Managers with strategic responsibilities			89,448	31,325	7,000	113,773
TOTAL			2,386,255	95,837	26,283	2,462,809

TXT e-solutions Group

Consolidated financial statements

as at 31 December 2016

TXT e-solutions S.p.A.

Registered office, management, and administration:

Via Frigia, 27 – 20126 Milan - Italy

Share capital:

€ 6,503,125 fully paid-in

Tax code and Milan Business Register number: 09768170152

Corporate bodies

BOARD OF DIRECTORS

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

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

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

(2) Powers assigned: ordinary administration.

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

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

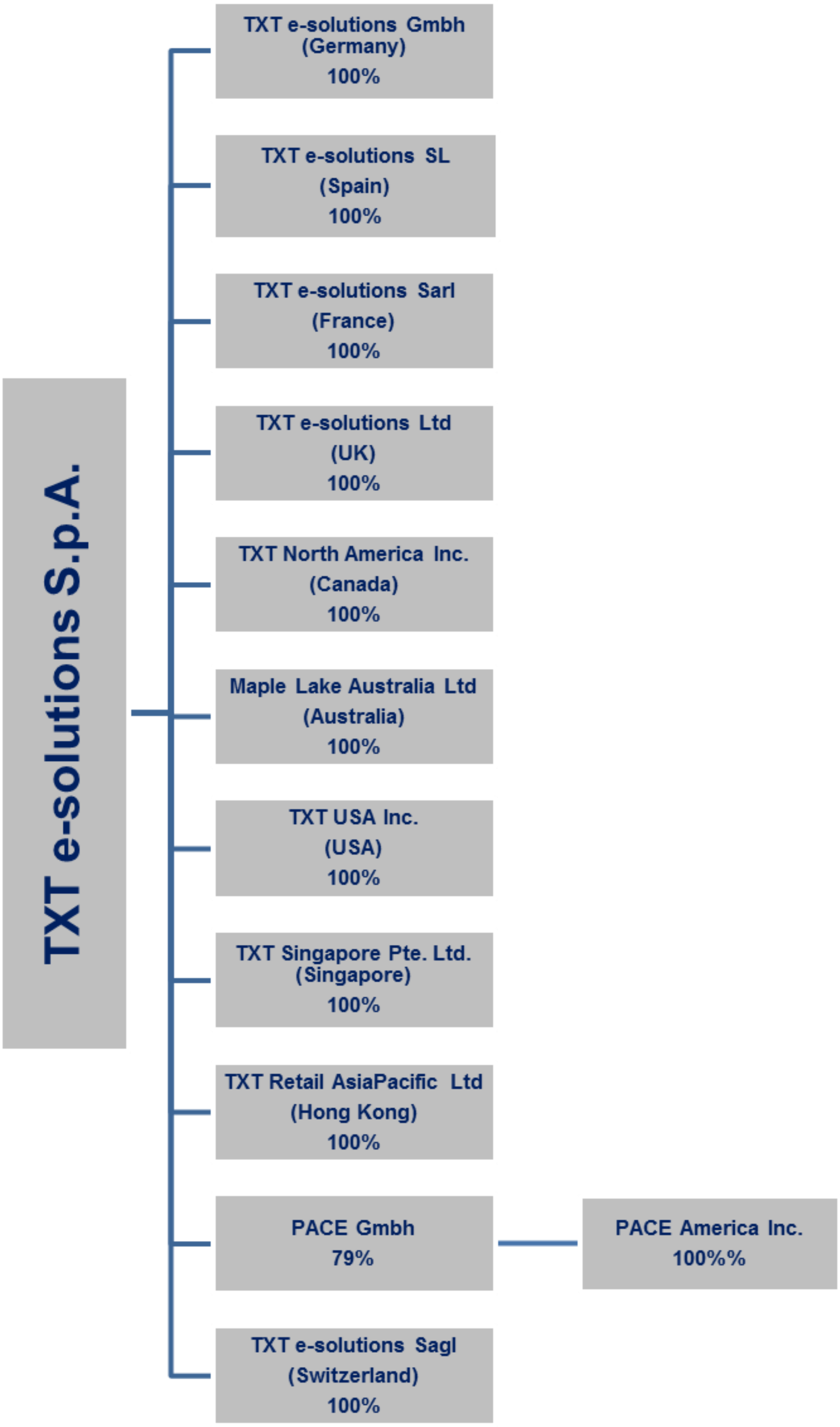
BOARD OF STATUTORY AUDITORS

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

Raffaele Valletta	Chairman
Luisa Cameretti	Standing auditor
Fabio Maria Palmieri	Standing auditor
Angelo Faccioli	Alternate auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate auditor

EXTERNAL AUDITORS	EY S.p.A.
INVESTOR RELATIONS	E-mail: infofinance@txtgroup.com
	Telephone: +39 02 25771.1

Organisational structure and scope of consolidation



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Consolidated financial statements as at 31 December 2016

Consolidated Balance Sheet

ASSETS	Notes	31 Dec. 2016	Of which due to related parties	31 Dec. 2015	Of which due to related parties
NON-CURRENT ASSETS					
Goodwill	7.1	17,830,693		13,160,091	
Intangible assets with a finite useful life	7.2	3,465,058		1,531,601	
Intangible assets		**21,295,751**	**-**	**14,691,692**	**-**
Property, plant and equipment	7.3	1,598,260		1,361,299	
Property, plant and equipment		**1,598,260**	**-**	**1,361,299**	**-**
Sundry receivables and other non-current assets	7.4	160,498		141,671	
Deferred tax assets	7.5	2,373,623		1,936,976	
Other non-current assets		**2,534,121**	**-**	**2,078,647**	**-**
TOTAL NON-CURRENT ASSETS		**25,428,132**	**-**	**18,131,638**	**-**
CURRENT ASSETS					
Inventories	7.6	3,146,362		2,074,935	
Trade receivables	7.7	23,739,800		25,031,799	
Sundry receivables and other current assets	7.8	2,629,183		2,759,371	
Cash and cash equivalents	7.9	7,570,479		9,079,975	
TOTAL CURRENT ASSETS		**37,085,825**	**-**	**38,946,080**	**-**
TOTAL ASSETS		**62,513,957**	**-**	**57,077,718**	**-**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 Dec. 2016	Of which due to related parties	31 Dec. 2015	Of which due to related parties
SHAREHOLDERS' EQUITY					
Share capital		6,503,125		6,503,125	
Reserves		14,091,119		15,826,568	
Retained earnings (accumulated losses)		8,133,150		7,412,155	
Profit (loss) for the year		5,555,363		3,882,489	
TOTAL SHAREHOLDERS' EQUITY	7.10	**34,282,757**	**-**	**33,624,337**	**-**
NON-CURRENT LIABILITIES					
Non-current financial liabilities	7.11	1,391,140		-	
Employee benefits expense	7.12	3,945,640		3,830,292	
Deferred tax provision	7.5	1,843,436		1,274,631	
TOTAL NON-CURRENT LIABILITIES		**7,180,216**	**-**	**5,104,923**	**-**
CURRENT LIABILITIES					
Current financial liabilities	7.13	808,225		820,586	
Trade payables	7.14	1,625,740		1,422,360	
Tax payables	7.15	688,428		15,544	
Sundry payables and other current liabilities	7.16	17,928,590	1,645,654	16,089,968	1,634,979
TOTAL CURRENT LIABILITIES		**21,050,983**	**1,645,654**	**18,348,458**	**1,634,979**
TOTAL LIABILITIES		**28,231,199**	**1,645,654**	**23,453,381**	**1,634,979**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**62,513,957**	**1,645,654**	**57,077,718**	**1,634,979**

Consolidated Income Statement

	Notes	2016	Of which due to related parties	2015	Of which due to related parties
Revenues and other income		69,152,215		61,539,525	
TOTAL REVENUES AND OTHER INCOME	**8.1**	**69,152,215**		**61,539,525**	
Purchase of materials and external services	**8.2**	(13,273,389)	(595,332)	(11,775,716)	(612,925)
Personnel costs	**8.3**	(45,660,700)	(1,137,406)	(41,844,280)	(1,137,559)
Other operating costs	**8.4**	(2,002,696)		(2,000,305)	
Depreciation and amortisation/Impairment	**8.5**	(1,309,174)		(1,124,000)	
OPERATING PROFIT (LOSS)		**6,906,256**	**(1,732,738)**	**4,795,224**	**(1,750,484)**
Financial income (charges)	**8.6**	104,851		(151,051)	
EARNINGS BEFORE TAXES		**7,011,107**	**(1,732,738)**	**4,644,173**	**(1,750,484)**
Income taxes	**8.7**	(1,455,744)		(761,684)	
NET PROFIT (LOSS) FOR THE YEAR		**5,555,363**	**(1,732,738)**	**3,882,489**	**(1,750,484)**
EARNINGS PER SHARE	**9**	0.48		0.33	
DILUTED EARNINGS PER SHARE	**9**	0.48		0.33	

Consolidated Statement of Comprehensive Income

	2016	2015
NET PROFIT (LOSS) FOR THE YEAR	**5,555,363**	**3,882,489**
Foreign currency translation differences - foreign operations	(1,045,424)	384,853
Net change in fair value of assets held for sale	-	-
Total items of other comprehensive income that will be subsequently reclassified to profit /(loss) for the year net of taxes	**(1,045,424)**	**384,853**
Defined benefit plans actuarial gains (losses)	(92,272)	109,366
Total items of other comprehensive income that will not be subsequently reclassified to profit /(loss) for the year net of taxes	**(92,272)**	**109,366**
Total profit/ (loss) of Comprehensive income net of taxes	**(1,137,696)**	**494,219**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,417,667**	**4,376,708**

Consolidated Statement of Cash Flows

	Notes	2016	2015
Net profit (loss) for the year		**5,555,363**	**3,882,489**
Non-monetary costs		10,564	878,394
Tax expense		(631,767)	(627,870)
Change in deferred taxes		66,027	(71,470)
Depreciation and amortisation, impairment and provisions		1,309,174	1,124,000
Cash flows from (used in) operating activities (before change in working capital)		**6,309,361**	**5,185,543**
(Increases)/decreases in trade receivables		1,868,207	(6,518,776)
(Increases)/decreases in inventories		(1,071,427)	(254,263)
Increases/(decreases) in trade payables		149,560	(117,747)
Increases/(decreases) in post-employment benefits		23,076	98,458
Increases/(decreases) in other assets and liabilities		1,479,935	2,408,320
Change in operating assets and liabilities		2,449,351	(4,384,008)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**8,758,712**	**801,535**
Of which due to related parties		**1,722,063**	**1,466,413**
Increases in property, plant and equipment		(715,044)	(734,138)
Increases in intangible assets		(23,406)	(29,037)
Net cash flow from PACE acquisition	**2**	(5,403,476)	-
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(6,141,926)**	**(763,175)**
Increases/(decreases) in financial payables		(240)	(3,018,074)
Distribution of dividends		(2,931,492)	(2,678,079)
Purchase of treasury shares		(827,756)	2,215,431
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(3,759,488)**	**(3,480,722)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,142,702)**	**(3,442,362)**
Effect of exchange rate changes on cash flows		(366,794)	218,207
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**7.9**	**9,079,975**	**12,304,130**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**7.9**	**7,570,479**	**9,079,975**

Consolidated Statement of Changes in Equity as at 31 December 2016

	Share capital	Legal reserve	Share premium reserve	Merger surplus	First time adoption	Stock options	Actuarial differences on post-employment benefits	Translation reserve	Retained earnings (accumulated losses)	Profit (loss) for the year	TOTAL SHAREHOLDERS' EQUITY
Balances at 31 December 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	33,624,337
Profit (loss) at 31 December 2015		230,000							3,652,487	(3,882,487)	-
Allocation to stock grant plan						-					-
Distribution of dividends									(2,931,492)		(2,931,492)
Free capital increase											-
Purchase/Sale of treasury shares			(827,756)								(827,756)
Post-employment benefits discounting											-
Exchange differences											-
Post-employment benefits discounting							(92,272)				(92,272)
Exchange differences								(1,045,424)			(1,045,424)
Profit (loss) at 31 December 2016										5,555,363	5,555,363
Total profit at 31 December 2016	-	-	-	-	-	-	(92,272)	(1,045,424)	-	5,555,363	4,417,667
Balances at 31 December 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	34,282,757

	Share capital	Legal reserve	Share premium reserve	Merger surplus	First time adoption	Stock options	Actuarial differences on post-employment benefits	Translation reserve	Retained earnings (accumulated losses)	Profit (loss) for the year	TOTAL SHAREHOLDERS' EQUITY
Balances at 31 December 2014	5,911,932	519,422	10,999,923	1,911,444	140,667	181,297	(1,014,033)	128,815	6,018,431	4,172,379	28,970,277
Profit (loss) at 31 December 2014		100,578							4,071,803	(4,172,381)	-
Allocation to stock grant plan						740,000					740,000
Distribution of dividends									(2,678,079)		(2,678,079)
Free capital increase	591,193		(591,193)								-
Purchase/Sale of treasury shares			2,215,431								2,215,431
Post-employment benefits discounting											-
Exchange differences								343,697			343,697
Post-employment benefits discounting							109,366				109,366
Exchange differences								41,156			41,156
Profit (loss) at 31 December 2015										3,882,489	3,882,489
Total profit at 31 December 2015	-	-	-	-	-	-	109,366	41,156	-	3,882,489	4,033,011
Balances at 31 December 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	33,624,337

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 2016:

Company name of the subsidiary	Currency	% of direct interest	Share capital
TXT e-solutions Ltd	GBP	100%	2,966,460
TXT e-solutions Sarl	EUR	100%	1,300,000
TXT e-solutions Gmbh	EUR	100%	1,300,000
TXT e-solutions SL	EUR	100%	600,000
Maple Lake Australia Pty Ltd	AUD	100%	112
TXT North America Inc.	CAD	100%	2,200,801
TXT USA Inc.	USD	100%	100,000
TXT Retail AsiaPacific Ltd	HKD	100%	100,000
TXT Singapore Pte Ltd	SGD	100%	10,000
PACE GmbH	EUR	79%	295,000
PACE America Inc.	USD	79%	10
TXT e-solutions Sagl	CHF	100%	40,000

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 TXT e-solutions Ltd, TXT North America Inc., Maple Lake Australia Pty Ltd, TXT USA Inc., TXT Retail AsiaPacific Ltd, TXT Singapore Pte Ltd, PACE America Inc. and TXT e-solutions Sagl into Euro:

- Income statement (average exchange rate)

Currency	31 Dec. 2016	31 Dec. 2015
British Pound Sterling (GBP)	0.8195	0.7260
Canadian Dollar (CAD)	1.4659	1.4110
Australian Dollar (AUD)	1.4883	1.4743
US Dollar (USD)	1.1069	1.1116
Hong Kong Dollar (HKD)	8.5922	8.6179
Singapore Dollar (SGD)	1.5275	1.5244
Swiss Franc (CHF)	1.0902	1.0676

- Balance sheet (exchange rate at 31 December 2016 and 31 December 2015)

Currency	31 Dec. 2016	31 Dec. 2015
British Pound Sterling (GBP)	0.8562	0.7340
Canadian Dollar (CAD)	1.4188	1.5116
Australian Dollar (AUD)	1.4596	1.4897
US Dollar (USD)	1.0541	1.0887
Hong Kong Dollar (HKD)	8.1751	8.4376
Singapore Dollar (SGD)	1.5234	1.5417
Swiss Franc (CHF)	1.0739	1.0835

2. Extraordinary transactions

As illustrated in the Consolidated Financial Statements section of the Annual Report as at 31 December 2015 under note 11 “Subsequent events”, on 29 February 2016 the Company signed a preliminary agreement for the acquisition of PACE Aerospace Engineering and Information Technology Gmbh, with headquarters in Berlin (hereinafter “PACE”). The definitive agreement was subsequently signed and became effective starting from 1 April 2016.

The acquisition is aimed at expanding the TXT NEXT division into the international aeronautics market, optimising on the skills and proprietary software of PACE and on the vast and high-quality customer portfolio.

The consideration for acquisition of 79% of the shares of PACE is broken down as follows:

- € 5.6 million upon stipulation of the definitive agreement;
- variable supplementary payments, as these are dependent on the operating results of PACE, to be carried out in 2016 and 2017 and estimated at approximately € 1.8 million.

TXT also subscribed a combined put/call option for the remaining 21% of PACE shares held by the three founding directors, to be exercised during the period 2020-2021.

Overall, upon initial recognition of the business combination, the total estimated consideration is broken down as follows:

Component	Euro/000
Provisional price	5,649
Earn-Out 2015-2016	1,274
Other variable components	549
Total (79%)	7,472
Put/call option (21%)	1,625
Total (100%)	9,097

The provisional price component corresponds to the fixed price established in the contract. The Earn-Out amounts depend on the performance of variables such as revenues and EBITDA and on the application of multiples whose magnitude is linked to the same variables. A portion of the Earn-Out equal to around € 1 million had already been defined with certainty as at the purchase date (as it is based on 2015 results compared to 2014), while the residual Earn-Out amount has been calculated by using the PACE Business Plan approved by the Board of Directors as the base. Said Business Plan represents a reasonable estimate of the scenario considered most likely. The item “Other variable components” is linked to the higher liquidity of PACE available as at the date of acquisition with respect to the threshold indicated in the contract. For the purposes of drawing up the Consolidated Financial Statements, the directors also decided to consider subscription of the put/call option with the minority shareholders of PACE as the acquisition of a present ownership interest in the residual 21% of PACE's capital as well.

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.

The fair value of the liability linked to acquisition of the ownership interest in the remaining 21% of capital of PACE was determined by taking into account the valuation formula indicated in the contract; it is based on factors and multiples that are consistent with those used to set the initial price of the transaction to purchase the majority interest and the relative additional payments. The forecasted data at the basis of the calculation were taken from the aforementioned Business Plan. The price calculated was discounted at a rate of 1.3%, considered suitable to reasonably take into account the financial factor, in order to identify the fair value as at the initial recognition date. The price allocation process was carried out on a provisional basis, through identification and valuation of the net assets acquired and the residual recognition of goodwill, according to the table below:

Allocation as at acquisition date (Euro/000)		
Total price		9,097
Net assets and (liabilities) of PACE	(963)	
Net financial position of PACE	2,315	
Other intangible assets identified	2,462	
Deferred tax liabilities	(696)	
Deferred tax assets	610	
Goodwill	5,369	

Goodwill originating from the acquisition mainly stems from the business synergies that may be created through operational integration with TXT and in the additional opportunities for growth of the Group division, with subsequent increase in the capacity to generate benefits/cash flows. The value of Goodwill recognised in the financial statements is not recognised from a tax standpoint.

The other intangible assets identified refer to PACE's Intellectual Property and Customer Relationship, respectively for € 1,350,000 and € 1,112,000. These values represent their fair value as at initial recognition.

The Discounted Cash Flow Method (DCF) based on the Income Approach was used for the fair value assessment of Intellectual Property, while the Income Approach with Multi-Period Excess Earnings Method (MEEM) was used to determine the fair value of the Customer Relationship.

The main assumptions include:

- discount rate of 6.87%;
- useful life of 7 years (2016-2022);
- Business Plan database approved by the Board of Directors of TXT.

PACE's net financial position as at the acquisition date consists of cash and cash equivalents (€ 3.5 million) and short-term financial liabilities (€ 1.2 million).

The net liabilities balance as at the acquisition date mainly consists of deferred income from operations (€ 1.7 million) and short-term trade receivables (€ 0.7 million).

Compared to the provisional allocation presented in the half-yearly financial statements, deferred tax assets on prior losses of the acquired entity were identified (€ 0.6 million). As the decision was made following analyses, under both the operational and regulatory profile, on facts and circumstances already existent as at the acquisition date, they were recognised at said date, simultaneously reducing the amount of goodwill, as envisaged by IAS 12.68. Consequently, the change in goodwill linked to this transaction is as follows:

Goodwill as at allocation date (Euro/000)		
30 June 2016	Change	31 Dec. 2016
5,979	(630)	5,349

The above allocation is to be considered provisional, depending on the information and valuation elements that may arise within the measurement period, particularly with regard to determination of the variable price elements estimated as at the date of these financial statements.

For the purposes of the acquisition, a total of € 0.5 million in consulting and legal fees were sustained, of which € 0.2 million fully expensed during 2015 and € 0.3 million expensed in 2016.
In the 2016 income statement, gross of the aforementioned costs, revenues of approximately € 6.6 million regard the acquisition of PACE, along with a contribution of € 1.4 million to the profit for the year.

The statement of cash flows, under the item "Net cash flow from PACE acquisition", shows a net amount of € 5.4 million, consisting of the effective financial outlay sustained during 2016 (€ 7.5 million as per the above estimate, plus a residual provisional amount of € 0.2 million, pending the final price balance), net of PACE's Net Financial Position as at the acquisition date (€ 2.3 million).

3. Accounting standards and basis of consolidation

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 (also including the amortised cost criterion, particularly for receivables and payables) except for derivative financial instruments measured at fair value. 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 2016 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 8 March 2017.

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 2016.

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.

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 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 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

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

An item of 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
Plant and equipment	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.

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.

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 2016 and 2015.

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, since the turnover rate for these inventories is high, is a reasonable 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. 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 due to employees of the Parent Company and earned up to 31 December 2006, pursuant to Article 2120 of the Italian Civil Code, are included in defined benefit plans. Indeed, subsequent to the reform of supplementary pension schemes, since 1 January 2007 post-employment benefits earned are mandatorily paid into a supplementary pension fund, or into the special Treasury Fund set up at the National Social Security Institute (INPS) if the employee exercised the specific option. Therefore, the Group's defined benefit obligation to employees exclusively regards the provisions made up to 31 December 2006.

The accounting treatment adopted by TXT since 1 January 2007 reflects the prevailing interpretation of the new law and is consistent with the accounting approach defined by the relevant professional bodies. In particular:

- Post-employment benefits earned since 1 January 2007 are considered elements of a Defined Contribution Plan even if the employee exercised the option to allocate them to the Treasury Fund at INPS. These benefits, determined based on statutory provisions and not subject to any actuarial valuation, therefore represent negative income components recognised as labour costs.
- Post-employment benefits earned as at 31 December 2006 continue instead to represent the liability for the company's obligation under a Defined Benefit Plan. This liability will not be increased further in the future with additional provisions; therefore, unlike in the past, the component relating to future increases in salaries was excluded from the actuarial calculation made to determine the balance as at 31 December 2012.

External actuaries determine the present value of TXT's obligations using the Projected Unit Credit Method. With this method, the liability is projected into the future to determine the probable amount payable upon the end of employment and is then discounted to account for the time that will pass before the actual payment. The calculation takes into account the post-employment benefits earned for service in prior periods and is based on actuarial assumptions mainly regarding the interest rate, which reflects the market yields on high quality corporate bonds with a term consistent with the estimated term of the obligation and employee turnover.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of TXT's obligations at the end of the period, due to the change in the previously used actuarial parameters (described above), are recognised outside profit or loss (in comprehensive income) and directly in equity.

Stock option plans

TXT e-solutions S.p.A. may recognise additional benefits to particular categories of employees who work in the Company and its subsidiaries, deemed to be “key management personnel” in terms of authority and/or responsibility through stock option plans. Pursuant to IFRS 2 – Share-Based Payment – the overall amount of the present value of the stock options at grant date is recognised systematically on a monthly basis in profit or loss as a cost during the vesting period, with a specific reserve recognised in equity. This implicit cost is determined using specific income-equity models.

The fair value of the stock options is represented by the value of the option estimated by applying the “Black-Scholes” model which takes account of the exercise price of the option, the current price of the shares, the expected volatility, and the risk-free interest rate.

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 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, 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

Revenue is recognised when it is probable that the economic benefits will flow to the TXT e-solutions 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:

Sales of assets

Sales are recognised when ownership is transferred, i.e. all risks and rewards associated with the asset are transferred. Revenue is recognised net of returns, discounts, rebates and premiums, as well as of any directly related taxes.

Services

Revenues arising from the provision of development and maintenance services are measured on the basis of the considerations agreed by reference to the stage of completion determined using the cost-to-cost method. 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

Expenses are recognised in the financial statements when ownership of the assets to which they refer has been transferred or the services acquired have been provided, or when the relevant future benefits cannot be estimated.

Personnel costs include, consistently with their substantial nature, stock options granted to employees. For determination of these costs, refer to the paragraph “Employee benefits expense”.

Interest income and expense are recognised on an accrual basis based on interest accrued on the net value of the relevant financial assets and liabilities using the effective interest method.

Government grants

Government grants are recognised when there is reasonable assurance that they will be received and the entity will comply with the conditions attached to them. When grants are related to expenses, they are recognised as income; however, they are recognised on a systematic basis over the periods in which the entity recognises the expenses that the grants are intended to compensate. If a grant is related to an asset, the grant is recognised as income on a straight-line basis over the expected useful life of the relevant asset.

When the TXT e-solutions Group receives a non-monetary grant, the asset and the grant are recognised at their nominal amount in profit or loss on a straight-line basis over the expected useful life of the relevant asset. In case of loans or similar forms of assistance granted by government bodies or similar institutions at a below-market rate of interest, the benefit associated with the favourable interest rate is treated as an additional government grant.

INCOME TAXES

Current taxes

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the 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 2016.

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. 2016	Level 1	Level 2	Level 3
Financial assets at fair value				
- other non-current financial assets	-	-	-	-
- other current financial assets	254,823	-	252,143	-
Total financial assets	**254,823**	**-**	**252,143**	**-**
Financial liabilities at fair value				
- other non-current financial liabilities	-	-	-	-
- other current financial liabilities	841,146	-	836,804	-
Total financial liabilities	**841,146**	**-**	**836,804**	**-**

Amounts in Euro	31 Dec. 2015	Level 1	Level 2	Level 3
Financial assets at fair value				
- other non-current financial assets	-	-	-	-
- other current financial assets	-	-	-	-
Total financial assets	**-**	**-**	**-**	**-**
Financial liabilities at fair value				
- other non-current financial liabilities	-	-	-	-
- other current financial liabilities	813,737	-	794,459	-
Total financial liabilities	**813,737**	**-**	**794,459**	**-**

Current financial liabilities approximate market value. Non-current financial liabilities referred to loans signed by the Group and fully repaid in the year 2015.

Guarantees issued, obligations and other contingent liabilities

At 31 December 2016, 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.

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 2016 are consistent with those used in preparing the Group financial statements as at 31 December 2015, except for the adoption of the new standards, amendments and interpretations effective since 1 January 2016.
Several new standards and amendments became effective as of 2016. However, they did not have any impact on the consolidated financial statements of TXT e-solutions Group.
Contents and effects of each new standard/amendment are detailed below:

Annual Improvements to IFRS - 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current assets held for sale and discontinued operations

Assets (or discontinued operations) are generally disposed through sale or distribution to shareholders. The amendment clarifies that the change from one to another of these disposal methods should not be considered as a new disposal plan but, rather, as a continuation of the original plan. Therefore, there is no interruption in the application of the IFRS 5 requirements. This amendment must be applied prospectively. These consolidated financial statements do not contain non-current assets held for sale or discontinued operations

IFRS 7 Financial instruments: disclosures

(I) Servicing contracts

The amendment clarifies that a servicing contract that includes remuneration may entail the continuous use of a financial asset. An entity must define the nature of the remuneration and of the agreement based on the guidelines contained in IFRS 7 on the issue of continuous involvement, in order to evaluate if disclosure is required. Definition of which servicing contracts require continuous involvement must be done retrospectively. In any case, the required disclosure is not submitted for the years prior to the one of initial application of this amendment.

(II) Applicability of the IFRS 7 amendments to condensed interim financial statements

The amendment clarifies that the disclosure requirements on remuneration are not applicable to condensed interim financial statements, unless this disclosure provides a significant update of the information presented in the most recent annual financial statements. This amendment must be applied retrospectively.

IAS 19 Employee benefits

The amendment states that the active market of high-quality corporate bonds must be defined with respect to the currency of the bond, rather than the country in which the bond is located. If there is no active market for high-quality corporate bonds in that currency, the relative rates on government securities must be used. This amendment must be applied prospectively.

IAS 34 Interim financial reporting

The amendment states that the required disclosure may be presented in the interim financial statements as well as referred to in references between the interim financial statements and the section of the interim financial report (such as the Directors’ Report on Operations or the Report on Risks) in which they are presented.

Other information presented in the interim financial statements must be available for readers of the financial statements at the same conditions and deadlines as the interim financial statements themselves. This amendment must be applied retrospectively. This amendment had no impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify rather than significantly modifying a number of the already existent IAS 1 requirements. The amendments clarify:

- the requirement of materiality in IAS 1;
- the fact that specific lines in the statements of profit/(loss) for the year or of other items in the Statement of Comprehensive Income or in the Statement of Financial Position may be separated;

- that entities have flexibility with regard to the order in which the notes to the financial statements are presented;
- that the portion of other items of the Statement of Comprehensive Income regarding associates and joint ventures, accounted for using the equity method, must be presented on an aggregate basis on a single line, and classified among items that will not subsequently be reclassified to the income statement.

Moreover, the amendments clarify the requirements that are applied when sub-totals are included in the statements of profit/(loss) for the year or of other items in the Statement of Comprehensive Income or in the Statement of Financial Position. These amendments have no impact on the Group.

Investment Entities – application of the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)

The amendments deal with problems arising in the application of the exception with regard to investment entities envisaged by IFRS 10 - Consolidated financial statements. The amendments to IFRS 10 clarify that the exemption to presentation of the consolidated financial statements is applicable to the parent company that is a subsidiary of an investment entity if the investment entity measures all of its subsidiaries at fair value.
Moreover, the IFRS 10 amendments clarify that only one subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 - Investments in associates and joint ventures permit the investor to maintain, in applying the equity method, the fair value measurement applied by the associates or joint ventures of an investment entity in the measurement of its investments in subsidiaries.

These amendments must be applied retrospectively and have no impact on the Group, since the Group does not apply the consolidation exemption.

Annual Improvements to IFRS - 2010-2012 Cycle

Mandatory for companies starting from the start date of their first financial year, beginning on or after 1 February 2015.

IFRS 2 Share-based Payment

This amendment applies prospectively and clarifies a number of points regarding definition of the performance condition and service condition which are part of the vesting conditions. The clarifications are consistent with the methods used by the Group, in prior periods, to identify the performance and service conditions which are part of the vesting conditions. Consequently, these amendments did not have any impact on the Group's financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment applies prospectively and clarifies that all agreements with regard to contingent consideration classified as a liability (or asset) arising from a business combination must be subsequently measured at fair value, with offsetting entry in the income statement, whether or not it falls under the scope of IAS 39. This amendment had no impact on the Group's accounting policies.

IFRS 8 Operating segments

The amendment applies retrospectively and clarifies that:

- An entity must disclose the assessments made by management in applying the aggregation criteria pursuant to paragraph 12 of IFRS 8, including a brief description of the operating segments that were aggregated and the economic characteristics (for e.g., sales, gross margin) used to determine the segments are “similar”;
- A reconciliation of the segment's assets with total assets must be presented only if the reconciliation is presented at the highest decision-making level, as is required for liabilities of the segment.

The Group has not applied the aggregation criteria envisaged by IFRS 8.12. In prior periods, the Group presented the reconciliation of segment assets with total assets and continues to do so, as the reconciliation is provided to the highest decision-making level.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets: measurement

The amendment applies retrospectively and clarifies that in IAS 16 and IAS 38, as asset may be revalued based on observable data by adjusting the gross carrying amount of the asset to market value, as well as by determining the market value of the carrying amount and adjusting the gross carrying amount proportionally, so that the resulting carrying amount is equal to market value. Furthermore, the accumulated amortisation is the difference between the asset's gross carrying amount and the carrying amount. This amendment did not have any impact on the Group's financial statements or accounting policies.

IAS 24 Related party disclosures

The amendment applies retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to disclosure on transactions with related parties. Moreover, an entity that uses a management entity must disclose the expenses sustained for the management services. This amendment is not relevant for the Group, as it does not receive management services from other entities.

Amendments to IFRS 11 Accounting for acquisitions of interests in joint operations

The amendments to IFRS 11 require a joint operator that accounts for the acquisition of an interest in a joint operation in which the activity constitutes a business to apply the relevant principles of IFRS 3 Business Combinations with regard to accounting for business combinations. The amendments also clarify that, in the event of maintenance of joint control, the interest previously held in a joint operation is not subject to re-measurement upon acquisition of an additional interest in the same joint operation. Moreover, an exclusion from the scope of IFRS 11 was added in order to clarify that amendments are not applied when the parties sharing control, including the entity drawing up the financial statements, are under the common control of the same ultimate controlling party.

The amendments are applied to both the acquisition of an initial interest in a joint operation, as well as to the acquisition of each additional interest in the same joint operation and must be applied prospectively. These amendments have no impact on the Group as there were no acquisitions of interests in joint operations during the year.

Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation

The amendments clarify the principle contained in IAS 16 Property, plant and equipment and IAS 38 Intangible assets that revenues reflect a model of economic benefits generated by the operation of a business (of which the asset is a part), rather than the economic benefits that are consumed through use of the asset. Consequently, a revenue-based method cannot be used for depreciation of property, plant and equipment and may only be used under very limited circumstances for the amortisation of intangible assets. The amendments must be applied prospectively and have no impact on the Group, since the Group uses straight-line methods to depreciate/amortise its non-current assets.

Amendments to IAS 27 Equity method in separate financial statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities that are already applying the IFRS and decide to change the accounting criterion in their separate financial statements to the equity method must apply the change retrospectively. These amendments have no impact on the Group’s consolidated financial statements.

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 € 7,570,479, and a positive Net Financial Position of € 5,371,114, 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.

As at 31 December 2016, approximately 17% 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 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: the British Pound Sterling (8.5% of consolidated revenues at 31 December 2016), the Canadian Dollar (7% of consolidated revenues at 31 December 2016), the Australian Dollar (1% of consolidated revenues at 31 December 2016).

The impact of the seven subsidiaries outside of the Euro zone and 100% owned by the Parent Company (TXT UK Ltd, TXT North America Inc., Maple Lake Australia Pty Ltd, TXT USA Inc., TXT Retail AsiaPacific Ltd, TXT Singapore Pte Ltd and TXT e-solutions SagL) on profit (loss) for the year, deriving from an assumed appreciation/depreciation of such currencies against the Euro, with all other conditions being equal is shown below:

Canadian Dollar	Increase/Decrease	Effect on profit (loss)
2016	-5%	(64,573)
	-5%	71,370

Australian Dollar	Increase/Decrease	Effect on profit (loss)
2016	-5%	(14,832)
	-5%	16,393

US Dollar	Increase/Decrease	Effect on profit (loss)
2016	-5%	52,246
	-5%	(57,746)

British Pound Sterling	Increase/Decrease	Effect on profit (loss)
2016	-5%	(27,685)
	-5%	30,599

Singapore Dollar	Increase/Decrease	Effect on profit (loss)
2016	-5%	13,580
	-5%	(15,009)

Hong Kong Dollar	Increase/Decrease	Effect on profit (loss)
2016	-5%	254
	-5%	(281)

Swiss Franc (CHF)	Increase/Decrease	Effect on profit (loss)
2016	-5%	930
	-5%	(1,028)

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 Euro)	31 Dec. 2016	Interest rate change	Financial income/charges
Net financial position	5,371,114		
Fixed rate payables	-		
Financial exposure (floating rate)	5,371,114	-1%	53,711
		-1%	(53,711)

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	23,739,800	-
Receivables due from customers (Top 5)	9,692,428	40.83%
Receivables due from customers (Top 10)	11,959,833	50.38%

In general, trade receivables are mainly concentrated in Italy and in the European Union.

Receivables from an important Italian customer operating in the Aerospace & High Tech business account for 23.54% of the Group's total trade receivables. The first five and ten customers respectively account for 40.83% and 50.38% of the total trade receivables collectible.

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 2016.

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

At 31 December 2016	Receivables	Payables	Guarantees	Costs	Revenues
TXT e-solutions Sarl (France)	821,166	201,911	0	84,046	3,427,425
TXT e-solutions Gmbh (Germany)	602,358	123,287	0	375,241	1,937,906
TXT e-solutions SL (Spain)	44,226	105,965	0	122,815	106,543
TXT e-solutions Ltd (United Kingdom)	950,574	967,079	0	1,741,653	2,166,131
Maple Lake Australia Pty Ltd (Australia)	30,003	3,628	0	0	67,000
Maple Lake Ltd (Canada)	1,849,375	643,072	0	404,304	1,601,526
Pace GmbH	183,935	1,873	0	3,060	197,435
TXT USA Inc.	8,257	232,794	0	230,910	441
TXT Singapore Pte Ltd	2,651	51,208	0	225,863	1,200
TXT Retail AsiaPacific Ltd	357	0	0	0	0
TXT e-solutions Sagl (CH)	(1,673)	58,344		58,344	
Directors and key management personnel	0	1,645,654	0	1,732,738	0
Balance at 31 December 2016	**4,491,228**	**4,034,815**	**0**	**4,978,974**	**9,505,606**

At 31 December 2015	Receivables	Payables	Guarantees	Costs	Revenues
TXT e-solutions Sarl (France)	772,401	195,706	0	121,047	2,944,463
TXT e-solutions Gmbh (Germany)	0	40,429	0	536,722	1,234,179
TXT e-solutions SL (Spain)	(0)	36,193	0	114,878	146,490
TXT e-solutions Ltd (United Kingdom)	322,217	653,845	0	1,635,365	1,949,081
Maple Lake Australia Pty Ltd (Australia)	10,084	0	0	0	35,000
Maple Lake Ltd (Canada)	761,638	36,922	0	8,116	1,208,049
TXT USA Inc.	2,117	0	0	0	0
TXT Singapore Pte Ltd	198	17,380		17,494	
TXT Retail AsiaPacific Ltd	0	0	0	0	0
Directors and key management personnel	0	1,634,979	0	1,750,484	0
Balance at 31 December 2015	**1,868,655**	**2,615,453**	**0**	**4,724,294**	**7,517,262**

Financial transactions

At 31 December 2016	Receivables	Payables	Guarantees	Charges	Income
TXT e-solutions Sarl (France)	0	3,542,689	0	42,677	1,000,000
TXT e-solutions Gmbh (Germany)	0	4,154,877	0	31,067	0
TXT e-solutions SL (Spain)	0	1,114,867	0	11,943	0
TXT e-solutions Ltd (United Kingdom)	0	373,753	0	5,010	0
Maple Lake Australia Pty Ltd (Australia)	0	102,768	0	3,569	0
Maple Lake Ltd (Canada)	3,170,818	0	0	978,389	63,941
Pace GmbH	0	0	0	1,873	0
TXT USA Inc.	265,629	0	0	0	5,659
TXT Retail AsiaPacific Ltd	18,683	0	0	0	358
TXT Singapore Pte Ltd	174,034	0	0	0	4,551
TXT e-solutions Sagl (CH)	65,319				
Directors and key management personnel	0	0	0	0	0
Balance at 31 December 2016	**3,694,483**	**9,288,955**	**0**	**1,074,527**	**1,074,510**

At 31 December 2015	Receivables	Payables	Guarantees	Charges	Income
TXT e-solutions Sarl (France)	0	2,377,989	0	32,269	1,500,000
TXT e-solutions Gmbh (Germany)	0	2,524,877	0	30,664	0
TXT e-solutions SL (Spain)	0	1,138,074	0	13,503	0
TXT e-solutions Ltd (United Kingdom)	0	408,747	0	4,091	0
Maple Lake Australia Pty Ltd (Australia)	(0)	0	0	0	1,115
Maple Lake Ltd (Canada)	2,976,156	0	0	0	75,303
TXT USA Inc.	257,188	0	0	0	3,256
TXT Retail AsiaPacific Ltd	17,719	0	0	0	0
TXT Singapore Pte Ltd	68,959	0	0	0	198
Directors and key management personnel	0	0	0	0	0
Balance at 31 December 2015	**3,320,022**	**6,449,687**	**0**	**80,527**	**1,579,872**

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.

NOTES TO THE BALANCE SHEET AND INCOME STATEMENT AS AT 31 DECEMBER 2016

7. Balance sheet

7.1. Goodwill

Goodwill, referring entirely to the TXT Retail Cash-Generating Unit (CGU), except for the goodwill from the PACE acquisition, completed in April 2016 and referring to the TXT Next CGU, amounts to € 17,830,693 as at 31 December 2016, for an increase of € 4,670,602 compared to 31 December 2015. The difference in gross value as at 31 December 2016, compared to the end of 2015, is attributable to the PACE acquisition for € 5,369,231 and to exchange differences on goodwill amounts originally expressed in a currency other than Euro for the residual portion. A breakdown of the item at 31 December 2016 and the comparison with 31 December 2015 are shown below:

Goodwill	Amount at 31 December 2016	Amount at 31 December 2015
Program Acquisition	800,000	800,000
MSO Concept Acquisition	2,326,982	2,326,982
BGM Acquisition	1,603,540	1,870,589
Maple Lake Acquisition	7,730,940	8,162,520
PACE Acquisition	5,369,231	-
TOTAL GOODWILL	**17,830,693**	**13,160,091**

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 recoverable value is estimated by determining the value in use, which is the present value of future cash flows which are expected to be associated with each cash-generating unit based on the latest plans prepared by management for the 2017-2019 period and approved by the Board of Directors on 13 December 2016.

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 1.50%, based on a more prudent approach than the one used by the Group's analysts, which fluctuates between 2.00% and 2.50%.

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 of the TXT Retail CGU is 6.68%, based on the following assumptions:

- The risk-free interest rate related to the Euro zone should be the rate of return of government bonds of the country with the lower rates, implicitly identified as that with lower risk. In the current economic situation, characterised by high dispersion of returns of European government bonds, the lower rate is that of the 10-year German Bund (0.21% at 31 December 2016). In order to calculate TXT Group's cost of capital, a certain level of systemic risk deriving from operations in different countries with different spread profiles was thus included, and the base rate was considered to be the average yield of the ten-year government bonds of the countries in which the TXT Group operates. Therefore, the Countries are: Germany (EUR), France (EUR), Canada (CAD$), Spain (EUR), UK (Pound), Italy (EUR), United States (USD$) and Australia (AUD$). Hong Kong (HKD$) and Singapore (SDG$) were not considered, as these countries did not generate revenues in 2016. The calculated average rate is 1.18%, including 97 basis points of "systemic" risk compared to the German rate (0.21%), considering the average risk of the countries in which the TXT Group operates.
- 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: 1.18% + 5.50%*1.00 = 6.68%;

With regard to the TXT Next CGU, in order to identify any indicators of impairment, discounting of the cash flows took into account a cost of own capital of over: 1.42% + 5.50%*1.00 = 6.92%. The different calculation of the risk-free interest rate of 1.42% includes 121 basis points of "systematic" risk compared to the German rate, considering the average risk of the countries in which TXT Next predominantly operates and the various weights of the activities carried out in each of them.

Since at 31 December 2016 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 the two key variables were simulated.

- Discount rate: increased and decreased by 1 and 2 percentage points compared to the base discount rate used (for the TXT Retail CGU, therefore, in the ranges 4.68%-5.68%-6.68%-7.68%-8.68%).
- Revenue growth rate: for the years beyond the analytical forecast for the 2017 Budget, and therefore for the 2018-2019-2020-2021 period, the revenue growth/decrease rate was increased and decreased by 2 percentage points and the implicit growth rate g was simultaneously increased/decreased by 0.5% within the range (1.00%-1.50%-2.00%).

The sensitivity analysis, pursuant to paragraph 134 of IAS 36, regarding the CGUs for which no impairment was recorded, showed the following tolerance margins:

- Discount rate: the fair value measurement of the CGU is higher than the CGU's carrying amount, even simulating an increase in the discount rate up to a WACC of 31.16% for the TXT Retail CGU and 35.01% for the TXT Next CGU.

- EBITDA: the fair value measurement of goodwill is higher than the CGU's carrying amount even in the case of a reduction in each year of the projected period of the plan, up to -54% of the estimated EBITDA values for the TXT Retail CGU and up to -52% of the estimated EBITDA values for the TXT Next CGU.

Conclusions

Based on the analyses conducted, the Company's Directors deemed the carrying amount of goodwill in the consolidated financial statements at 31 December 2016 to be recoverable.

7.2. Intangible assets with a finite useful life

Net of amortisation, intangible assets with a finite useful life amounted to € 3,465,058 at 31 December 2016. The changes that occurred during the year are detailed below:

Intangible assets	Software licences	Intellectual Property	Customer Relationship	Other intangible assets	TOTAL
Balances at 31 December 2015	**18,564**	**517,704**	**995,156**	**177**	**1,531,601**
Acquisitions	52,792	1,350,000	1,112,000	-	2,514,792
Disposals	(10,566)	-	-	-	(10,566)
Amortisation	(21,415)	(282,694)	(266,570)	(90)	(570,769)
Impairment	-	-	-	-	-
Revaluations	-	-	-	-	-
Currency translation differences	-	-	-	-	-
Balances at 31 December 2016	**39,375**	**1,585,010**	**1,840,586**	**87**	**3,465,058**

The item is detailed as follows:

- Software licences: these included software licences acquired mainly by the Parent Company for operating in-house instruments and implementing TXT Retail's products. Investments in the period of € 52,792 referred to renewal of software licences.
- Intellectual Property and Customer Relationship: these intangible assets were acquired as part of the Maple Lake Group and PACE Group acquisitions. The directors allocated these assets with the help of an independent expert. Intellectual Property represents the intellectual property rights over the software developed and owned by Maple Lake and PACE. The Maple Lake Group and PACE Group companies' Customer Relationship was also considered in the allocation of the price paid.

The positive change compared to the end of the prior year (€ 1,933,457) is mainly attributable to allocation of the price paid for acquisition of the PACE Group and to amortisation for the year.

7.3. Property, plant and equipment

Net of depreciation, property, plant and equipment amounted to € 1,598,260 at 31 December 2016, up € 236,961 compared with 31 December 2015. 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 at 31 December 2015	**5,396**	**284,396**	**724,058**	**167,238**	**180,213**	**1,361,299**
Acquisitions	48,137	77,888	476,600	244,097	36,667	883,389
Disposals	-	(5,693)	(23,693)	-	-	(29,386)
Depreciation	(7,503)	(92,641)	(332,463)	(112,031)	(72,404)	(617,042)
Impairment	-	-	-	-		-
Revaluations	-	-	-	-		-
Balances at 31 December 2016	**46,030**	**263,950**	**844,502**	**299,304**	**144,476**	**1,598,260**

Investments in the category “vehicles” refer to the purchase of automobiles by the German subsidiary for its operational sales personnel.

Increases in the “furniture and fixtures” category refer to the acquired company PACE GmbH, consolidated from 1 April 2016.

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

7.4. Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to € 160,498 at 31 December 2016, compared with € 141,671 at 31 December 2015. The item included security deposits paid by the Group companies as part of their operations and relating to motor vehicle rentals and bids in public tenders. The increase over the prior year is mainly attributable to security deposits for the registered office of the new company TXT e-solutions Sagl.

7.5. Deferred tax assets / liabilities

The breakdown of deferred tax assets and liabilities at 31 December 2016, compared to the figures as at the end of 2015, is shown below:

	Balance at 31 December 2016	Balance at 31 December 2015	Change
Deferred tax assets	2,373,623	1,936,976	436,647
Deferred tax provision	(1,843,436)	(1,274,631)	(568,805)
Total	**530,187**	**662,345**	**(132,158)**

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

The decision to recognise deferred tax assets for previous tax losses was made also following the changes in legislation (Italian Decree Law no. 98/2011) on the use of each tax period's losses without limitation in time and due to the Group’s positive outlook, and the positive results recorded in recent years. 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 upcoming years, within a period of time considered to be reasonable.

The change with respect to 31 December 2015 is mainly due to the allocation of deferred tax assets on part of the previous tax losses of some of the Group companies.

The deferred tax provision referred to the recognition of deferred tax for the assets acquired during 2012 as part of the Maple Lake business combination and during 2016 as part of the PACE business combination (Customer List and Intellectual Property), as well as to the mismatch between tax value and carrying amount of certain goodwill amounts that arose following the prior acquisitions.

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 2015		Change	31 December 2016	
	Temporary differences	Tax effect	Temporary differences	Temporary differences	Tax effect
Prepaid taxes for recoverable losses	7,047,843	1,650,120	1,311,157	8,359,000	2,044,022
Provisions	105,000	28,875	183,905	288,905	69,337
Provision for bad debts	292,918	80,552	1,000	293,918	70,540
Write-down on treasury shares	244,664	67,283	0	244,664	58,719
Provision for TXT e-solutions Sarl pension fund	49,553	16,516	89,217	138,770	41,631
Provision for TXT e-solutions Gmbh pension fund	50,757	15,227	46,843	97,600	29,280
Costs allocated on an accrual basis and deductible on a cash basis	285,101	78,403	-43,199	241,902	60,094
Total	**8,075,836**	**1,936,976**	**1,588,923**	**9,664,759**	**2,373,623**

Deferred tax liabilities		31 December 2015		Change	31 December 2016	
		Temporary differences	Tax effect	Temporary differences	Temporary differences	Tax effect
Goodwill ITA	Goodwill mismatch	611,108	185,391	55,555	666,663	179,499
Goodwill UK BMG+PPA Maple	Goodwill mismatch	2,755,282	551,056	143,443	2,898,725	579,745
PPA Maple	IP & CR tax values	1,512,854	475,036	(285,494)	1,227,360	385,391
PPA PACE	Goodwill mismatch	0	0	2,044,347	2,198,216	613,304
Other minor		226,826	63,148	85,035	311,861	85,497
Total		**5,106,070**	**1,274,631**	**2,042,886**	**7,302,825**	**1,843,436**

Furthermore, it should be noted that the Group's overall tax losses at 31 December 2016 amounted to € 16.2 million, for which no deferred tax assets were recorded for € 7.8 million.

7.6. Inventories

Period-end inventories amounted to € 3,146,362 at 31 December 2016, up € 1,071,427 compared with the end of 2015.

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

Company	31 December 2016	31 December 2015	Change
TXT e-solutions S.p.A.	2,877,326	2,007,871	869,455
TXT e-solutions S.a.r.l.	269,036	67,064	201,972
TOTAL	**3,146,362**	**2,074,935**	**1,071,427**

Contract work in progress is recognised on the basis of the stage of completion, using the cost-to-cost method for each contract. It is mainly attributable to the Parent Company's TXT Next division. Revenue accrued based on the stage of completion is recognised in the income statement. The increase compared to the prior year is due to the increase in turnover.

7.7. Trade receivables

Trade receivables at 31 December 2016, net of the provision for bad debts, amounted to € 23,739,800, down € 1,291,999 compared with the end of 2015.

The item is detailed in the table below:

Trade receivables	31 December 2016	31 December 2015	Change
Gross value	24,571,865	25,801,550	(1,229,685)
Provision for bad debts	(832,065)	(769,751)	(62,314)
Net value	**23,739,800**	**25,031,799**	**(1,291,999)**

The decrease in trade receivables is due to the different payment times compared to the end of the prior year, when substantial payments were received subsequent to 31 December 2015 from a major customer of TXT e-solutions S.p.A. The provision for bad debts changed as follows during the year:

Provision for bad debts	31 December 2016
Opening amount	**(769,751)**
Allocation	(122,189)
Use	59,875
Closing amount	**(832,065)**

The breakdown of trade receivables into coming due and past due at 31 December 2016, compared to 31 December 2015, is shown below:

Due date	Total	Coming due	Past due	
			0-90 days	More than 90 days
31 December 2016	**23,739,800**	18,259,184	3,460,988	2,019,627
31 December 2015	**25,031,799**	14,959,185	8,296,198	1,776,416

Despite the decline in trade receivables, the increase in amounts due over 90 days is not related to any impairment of the receivables portfolio.

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 € 2,629,183 at 31 December 2016, compared to € 2,759,371 at 31 December 2015. The breakdown is shown below:

Sundry receivables and other current assets	31 December 2016	31 December 2015	Change
Receivables due from EU	962,314	1,036,359	(74,045)
Tax receivables	791,957	895,385	(103,428)
Other receivables	458,761	135,386	323,375
Accrued income and prepaid expenses	416,151	692,240	(276,089)
Total	**2,629,183**	**2,759,371**	**(130,187)**

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 essentially in line with the previous year.

Tax receivables, amounting to € 791,957, represent the receivables due from taxation authorities for withholding taxes paid on self-employment and employment income, bank interest income, and tax credits for post-employment benefits.

Other receivables amount to € 458,761 and show an increase of € 323,375, mainly due to a VAT receivable of the Parent Company.

Accrued income and prepaid expenses, amounting to € 416,151, 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 € 7,570,479, down € 1,509,496 compared with 31 December 2015. 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 € 4,313,236, as well as with foreign banks, totalling € 3,257,243. Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability in Italy.

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 (€ 850,000), the share premium reserve (€ 11,796,405), the merger surplus reserve (€ 1,911,444), the first-time adoption reserve (€ 140,667) the stock option/stock grant reserve (€ 921,297), the reserves for actuarial differences on post-employment benefits (negative to the tune of € 996,939), the reserves for retained earnings (€ 8,133,150), and the translation reserve (negative to the tune of € 531,756).

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 € 921,297 and relates to the stock grant plan approved by the Shareholders' Meeting of 23 April 2012. This stock grant plan has ended, and 74,837 shares that accrued in 2015 were delivered in 2016. There are no residual options at 31 December 2016.

The disclosures required by IFRS 2 on the 2012 stock grant plan are reported below:

STOCK OPTION PLAN DISCLOSURES - IFRS 2

2012-2016 STOCK GRANT PLAN						
	Options	2012	2013	2014	2015	2016
(I)	Outstanding at the beginning of the period	-	280,000	458,340	198,000	102,519
(II)	Granted during the period	280,000	378,000	-	-	-
(III)	Forfeited during the period	-	(143,660)	(248,000)	(95,481)	-
(IV)	Exercised during the period	-	(56,000)	(12,340)	-	(102,519)
(V)	Expired during the period	-	-	-	-	-
(VI)	Outstanding at the end of the period	280,000	458,340	198,000	102,519	-
(VII)	Exercisable at the end of period	-	12,340	198,000	102,519	-

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 by Law	Required by By-laws	Established by Shareholders' Meeting	TOTAL	Foreign	TOTAL
Share premium reserve	11,624,613	171,792	-	-	11,796,405	-	11,796,405
Legal reserve	-	850,000	-	-	850,000	-	850,000
Stock option reserve	-	-	-	921,297	921,297	-	921,297
Merger surplus	1,911,444	-	-	-	1,911,444	-	1,911,444
First-time adoption reserves	-	-	-	-	-	140,667	140,667
Reserve for retained earnings	-	-	-	1,836,481	1,836,481	6,296,669	8,133,150
Translation reserve	-	-	-	-	-	(531,756)	(531,756)
Reserve for actuarial differences on post-employment benefits	-	-	-	(975,298)	(975,298)	(21,641)	(996,939)
Total	**13,536,057**	**1,021,792**	**-**	**1,782,480**	**16,340,329**	**5,883,939**	**22,224,268**

<u>Incentive plans</u>

As at 31 December 2015, the last vesting period of the Stock Grant Plan approved by the Shareholders' Meeting of 23 April 2012 concluded. During 2016, all rights exercisable at the end of 2015 were exercised.

The Meeting of 22 April 2016 approved a Stock Option Plan for the Group's executive directors and senior managers, up to a maximum of 1,200,000 ordinary shares of TXT e-solutions S.p.A. The objective of the plan is to link remuneration of beneficiaries to the creation of value for the company's shareholders, emphasising factors of strategic interest and encouraging loyalty. The Plan envisages the assignment of options, subject to achievement of specific performance objectives of the Company, to be more specifically established by the Board of Directors, upon proposal by the Remuneration Committee. The Plan spans approximately 5 years, with three-year vesting periods.

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

Treasury shares

At 31 December 2016, the Company held 1,354,133 treasury shares (1,345,700 at 31 December 2015), equal to 10.41% of shares outstanding, amounting to € 3,298,518.59 (€ 3,253,840.24 at 31 December 2015), for a total par value of € 677,066.50 (€ 672,850 as at 31 December 2015) and a market value of € 10,155,997.50. The price of TXT stock as at 31 December 2016 was € 7.50 (€ 10,940,541 as at 31 December 2015, stock price € 7.17). Shares outstanding (issued) at 31 December 2016 numbered 13,006,250.

During 2016, the Company purchased 110,952 treasury shares at an average price per share of € 7.4605, for a total amount of € 827,756 (in 2015, the Company purchased 125,965 treasury shares at an average price per share of € 7.56, for a total value of € 952,238).

During the month of March, 102,519 treasury shares were assigned to employees following the achievement of the 2013 Stock Grant plan performance targets, all of which were exercised during 2016.

The carrying amount per share was € 7.6384, recorded by the Company for a total of € 783,081.

The purchase of treasury shares was authorised again by the Shareholders' Meeting of 22 April 2016. 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 2016, 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 22 April 2015 for the portion not yet executed (on this date, the Shareholders' Meeting resolved a free share capital increase with the assignment of one new share for every 10 shares held, carried out on 20 May 2015 with ex-dividend date of 18 May 2015).

7.11. Non-current financial liabilities

The item "non-current financial liabilities" amounted to € 1,391,140 (€ 0 at 31 December 2015). The increase in non-current liabilities compared to the prior year is due to the recognition of debt for the acquisition of PACE, as an estimate of the additional outlays for:

- exercising of the put/call option in 2020-2021 to purchase the remaining 21% of the company's shares;
- recognition of the "Earn-Out 2016" to be recognised to sellers based on performance of revenues and profitability of the company acquired;
- other contractual terms.

7.12. Employee benefits expense

The item "Employee benefits expense" at 31 December 2016 amounted to € 3,945,640, of which € 3,563,347 relating to obligations to the employees of the Parent Company, and € 382,293 relating to the pension funds for management of the German and French subsidiaries. The breakdown of and changes in this item over the period are presented below:

Employee benefits expense	31 December 2015	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	31 December 2016
Post-employment benefits	2,558,433	1,393,009	(1,515,189)	64,314	35,563	2,536,130
Provision for severance for end of term of office	949,717	77,500	-	-	-	1,027,217
Pension fund for management	322,142	60,151	-	-	-	382,293
Total non-current provisions relating to employees	**3,830,292**	**1,530,660**	**(1,515,189)**	**64,314**	**35,563**	**3,945,640**

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 20%.
- The probability of removal due to total and permanent disability of the employee, such as becoming disabled and leaving the company, was estimated based on disability tables currently used in the reinsurance sector, 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.
- With regard to 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 0.8562% per year, i.e. the rate on Bonds issued by AA-rated European Companies at 31 December 2016 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 € 2,536,130):

Sensitivity analysis at 31 December 2016	% Change in liabilities (DBO)			
Type of change for the specific assumption	**Decrease**	**Increase**	**Decrease**	**Increase**
Decrease or increase of 50% of company's staff turnover	0.61%	-0.36%	2,551,600	2,527,000
Decrease or increase of 50% in frequency of advanced payments	0.17%	-0.14%	2,540,441	2,532,579
Decrease or increase of inflation by one percentage point	-8.62%	9.59%	2,317,516	2,779,345
Decrease or increase of discount rate by one percentage point	13.02%	-11.10%	2,866,334	2,254,620

7.13. Current financial liabilities

The item "current financial liabilities" amounted to € 808,225 (€ 820,586 at 31 December 2015) and includes:

- The payable regarding advances on research projects funded by the European Union received by TXT e-solutions S.p.A. as lead manager and to be reimbursed to the project partners, amounting to € 706,825 (€ 794,459 at 31 December 2015). This payable will be paid off during 2017;
- € 4,342 for the forward sale of CAD 4,500,000 with contract stipulated on 28 December 2016;
- Short-term loans obtained by the branch PACE Gmbh for € 97,058.

7.14. Trade payables

Trade payables amounted to € 1,625,740 at 31 December 2016 and increased by € 203,380 compared to 31 December 2015. 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 2016 totalled € 688,428 and refer to income taxes of the Parent Company and of the foreign subsidiaries. The increase compared to the end of the prior year is mainly due to the provisions for income taxes of the French subsidiary TXT e-solutions Sarl and of the Parent Company, net of advances paid during the year.

7.16. Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 17,928,590 at 31 December 2016, compared with € 16,089,968 at 31 December 2015, as detailed in the table below:

Sundry payables and other current liabilities	31 December 2016	31 December 2015	Change
Payables due to employees and external staff	5,947,162	5,311,539	635,622
Accrued expenses and deferred income	5,047,991	5,215,106	(167,115)
Other payables	3,005,792	2,323,217	682,575
Advance payments for multi-year orders	2,304,561	2,059,782	244,778
Payables due to social security institutions	1,623,084	1,180,324	442,760
Sundry payables and other current liabilities	**17,928,590**	**16,089,968**	**1,838,621**

The item "Payables due to employees and external staff" included payables due to employees for bonuses and unused annual leave.

The item "Accrued expenses and deferred income" mainly referred to deferred income from maintenance services and consulting services for the period.

"Other payables" mainly included the payables due to taxation authorities for withholding taxes on salaries of employees and external staff and grants received from the European Union to be redistributed to entities outside of the Group and which are involved in the projects.

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

8. Income Statement

8.1. Total revenues and other income

Consolidated revenues and other income amounted to € 69,152,215, up 12% compared with the previous year, as detailed below:

	31 December 2016	31 December 2015	Change	% change
Revenues and other income	69,152,215	61,539,525	7,612,690	12%
Total revenues and other income	**69,152,215**	**61,539,525**	**7,612,690**	**12%**

For additional information on the analysis of revenues and other income, see the Director's report on operations.

8.2. Purchase of materials and external services

Purchases of materials and external services amounted to € 13,273,389, up from 2015, when they totalled € 11,775,716.

The item is detailed below:

	31 December 2016	31 December 2015	Change
Travel expenses	3,082,409	1,961,003	1,121,406
Technical consulting	3,026,190	3,009,672	16,518
Others	2,271,404	2,104,920	166,484
Media & marketing services	899,818	975,425	(75,607)
Maintenance and repair	767,829	650,104	117,725
Utilities	720,920	638,184	82,736
Canteen and ticket services	616,513	554,318	62,195
Directors' fees	603,984	604,930	(946)
Administrative and legal services	575,315	485,911	89,404
Consumables and resale items	526,200	372,204	153,996
Subcontractors	182,806	419,045	(236,239)
Total	**13,273,389**	**11,775,716**	**1,497,673**

As a percentage of consolidated revenues, costs for purchasing materials and services were in line with 2015, going from 19.14% to 19.19%.

The total change of € 1,497,673 compared to the end of the prior year was mainly due to the increase in travel expenses, up by € 1,121,406, following the increase in business volume, also as a result of acquisition of PACE, which required additional resources dedicated to the new projects.

8.3. Personnel costs

Personnel costs for 2016 amounted to € 45,660,700, growing by € 3,816,420 (9.12%) compared to 31 December 2015.

This increase is mainly due to growth in staff, following the development of activities, and to personnel of the PACE Group acquired during the first half of 2016.

As at 31 December 2016, the TXT e-solutions Group had 790 employees, net of directors and external contractors, compared to 672 as at 31 December 2015, for an increase of 118 employees, essentially in the TXT Next Division following acquisition of the PACE Group (which employs 73 individuals).

	31 December 2016	31 December 2015	Change
Wages and salaries	33,921,032	33,215,400	705,632
Social security costs	6,724,643	5,858,690	865,953
Other personnel costs	3,475,132	1,222,493	2,252,639
Provision for post-employment benefits and other pension funds	1,539,893	1,547,697	(7,804)
Total	**45,660,700**	**41,844,280**	**3,816,420**

The item “Other personnel costs” mainly includes costs sustained for allocation to provisions for bonuses and sales commissions accrued during the year.

The employees of the TXT e-solutions Group numbered 790 at 31 December 2016 (672 at 31 December 2015), broken down as follows:

	White-collar staff	Middle managers	Executives and managers	Total
31 Dec. 2015	594	54	24	672
31 Dec. 2016	706	60	24	790

8.4. Other operating costs

The item “other operating costs” at the end of 2016 amounted to € 2,002,696, in line with the 2015 figure.

This item mainly included expenses for rents, car and other rentals, and sundry operating costs (including contingent liabilities and deductible taxes).

	31 December 2016	31 December 2015	Change
Rental expense for offices	1,065,624	1,091,777	(26,153)
Rental expense for motor vehicles	635,963	504,809	131,154
Other rental expense	91,106	18,650	72,455
Other tax (other than income tax)	58,509	89,925	(31,416)
Other expenses and extraordinary income adj.	45,818	45,822	(4)
Magazine and subscription expenses	36,863	14,985	21,878
Royalties	34,802	82,870	(48,068)
Contingent liabilities	21,273	57,156	(35,883)
Fines and penalties	12,739	8,474	4,265
Rental expense for servers	-	85,684	(85,684)
Charity	-	154	(154)
Total	**2,002,696**	**2,000,305**	**2,391**

8.5. Depreciation, amortisation and impairment

Depreciation, amortisation and impairment amounted to € 1,309,174 at 31 December 2016, up € 185,174 from the end of 2015.

They 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.

8.6. Financial income (charges)

At 31 December 2016, the company recognised financial income of € 104,851, compared to € 151,051 in financial charges at the end of 2015.

Financial income (charges) at 31 December 2016 is broken down as follows:

	31 December 2016	31 December 2015	Change
Bank interest income	3,746	49,790	(46,044)
Balance of unrealised exchange rate gains/losses	256,085	-	256,085
Total financial income	**259,831**	**49,790**	**210,041**
Bank interest expense	48,473	68,336	(19,863)
Balance of unrealised exchange rate gains/losses	-	1,238	(1,238)
Other financial charges	106,507	131,267	(24,760)
Total financial charges	**154,980**	**200,841**	**(45,861)**
Total	**104,851**	**(151,051)**	**255,902**

The positive difference of € 255,902 is mainly due to the exchange rate differences on transactions in currencies other than the Euro, predominantly the British pound and the US dollar.

8.7. Income taxes

Income taxes at 31 December 2016 were € 1,455,744 and are detailed as follows:

	31 December 2016	31 December 2015	Change
Total current taxes	1,409,717	833,154	576,563
Total prepaid taxes	173,353	380,673	(207,320)
Total deferred taxes	127,326	309,203	(181,877)
Total taxes	**1,455,744**	**761,684**	**694,060**

Prepaid and deferred taxes correspond to the change in the respective balance sheet items, except for the deferred tax provision regarding the PACE acquisition at the initial recognition date.

9. Net earnings per share

Basic net earnings per share

The basic net earnings per share for 2016 is calculated by dividing net profit of € 5,555,363 (€ 3,882,489 at 31 December 2015) by the average number of ordinary shares outstanding in 2016, equal to 11,686,276. The result is € 0.48.

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 2016, the weighted average number of ordinary shares outstanding in 2016 was 11,686,276, and the diluted earnings per share amounted to € 0.48.

10. Segment disclosures

For operating purposes, the Group is organised into two Business Units based on the end-use of the products and services provided; the heading "Unallocated" includes the Corporate operating and financial amounts. The main financial and operating data broken down by business segment were as follows:

BALANCE SHEET BY BUSINESS UNIT AS AT 31 DECEMBER 2016

(€ thousand)	TXT Retail	TXT Next	Unallocated	TOTAL TXT
Intangible assets	13,710	7,586	0	21,296
Property, plant and equipment	834	764	0	1,598
Other fixed assets	1,323	1,211		2,534
FIXED ASSETS	**15,866**	**9,562**	**0**	**25,428**
Inventories	380	2,766	0	3,146
Trade receivables	9,833	13,907	0	23,740
Sundry receivables and other short-term assets	1,372	1,257	0	2,629
Trade payables	(844)	(782)	0	(1,626)
Tax payables	(1,383)	(1,149)	0	(2,532)
Sundry payables and other short-term liabilities	(9,308)	(8,620)	0	(17,928)
NET WORKING CAPITAL	**50**	**7,379**	**0**	**7,429**
POST-EMPLOYMENT BENEFITS AND OTHER NON-CURRENT LIABILITIES	**(2,048)**	**(1,897)**	**0**	**(3,945)**
CAPITAL EMPLOYED	**13,868**	**15,044**	**0**	**28,912**
Shareholders' equity			34,283	34,283
Net financial debt			(5,371)	(5,371)
SOURCES OF FINANCING			**28,912**	**28,912**

BALANCE SHEET BY BUSINESS UNIT AS AT 31 DECEMBER 2015

(€ thousand)	TXT Perform	TXT Next	Unallocated	TOTAL TXT
Intangible assets	14,684	8	0	14,692
Property, plant and equipment	811	550	0	1,361
Other fixed assets	1,239	840		2,079
FIXED ASSETS	**16,734**	**1,398**	**0**	**18,132**
Inventories	95	1,980	0	2,075
Trade receivables	11,838	13,194	0	25,032
Sundry receivables and other short-term assets	1,644	1,115	0	2,759
Trade payables	(830)	(592)	0	(1,422)
Tax payables	(884)	(407)	0	(1,291)
Sundry payables and other short-term liabilities	(9,394)	(6,696)	0	(16,090)
NET WORKING CAPITAL	**2,469**	**8,594**	**0**	**11,063**
POST-EMPLOYMENT BENEFITS AND OTHER NON-CURRENT LIABILITIES	**(2,236)**	**(1,594)**	**0**	**(3,830)**
CAPITAL EMPLOYED	**16,967**	**8,398**	**0**	**25,365**
Shareholders' equity			33,624	33,624
Net financial debt			(8,259)	(8,259)
SOURCES OF FINANCING			**25,365**	**25,365**

INCOME STATEMENT BY BUSINESS UNIT AS AT 31 DECEMBER 2016

(€ thousand)	TXT Retail	TXT Next	Unallocated	TOTAL TXT
REVENUES	**36,092**	**33,060**	**0**	**69,152**
Software	15,499	3,325	0	18,824
Services	20,593	29,735	0	50,328
OPERATING COSTS:				
Direct costs	13,085	18,954	0	32,039
Research and development costs	4,464	2,086	0	6,550
Commercial costs	9,841	3,733	0	13,574
General and administrative costs	4,247	4,527	0	8,774
TOTAL OPERATING COSTS	**31,637**	**29,300**	**0**	**60,937**
EBITDA	**4,455**	**3,760**	**0**	**8,215**
% of Revenues	12.3%	11.4%		11.9%
Amortisation	296	275	0	571
Depreciation	322	295	0	617
Impairment	63	58	0	121
OPERATING PROFIT (LOSS) [EBIT]	**3,773**	**3,133**	**0**	**6,906**
Financial income (charges)	57	48	0	105
EARNINGS BEFORE TAXES	**3,830**	**3,181**	**0**	**7,011**
NET PROFIT (LOSS) FOR THE YEAR	**3,035**	**2,520**	**0**	**5,555**

INCOME STATEMENT BY BUSINESS UNIT AS AT 31 DECEMBER 2015

(€ thousand)	TXT Perform	TXT Next	Unallocated	TOTAL TXT
REVENUES	**36,673**	**24,867**	**0**	**61,540**
Licenses & maintenance	15,854	122	0	15,976
Services and other revenues	20,819	24,745	0	45,564
OPERATING COSTS:				
Direct costs	13,002	16,187	0	29,189
Research and development costs	3,944	1,174	0	5,118
Commercial costs	10,393	2,288	0	12,681
General and administrative costs	4,704	3,189	0	7,893
TOTAL OPERATING COSTS	**32,043**	**22,838**	**0**	**54,881**
EBITDA pre Stock Grant	**4,630**	**2,029**	**0**	**6,659**
Stock Grant	482	258		740
EBITDA	**4,148**	**1,771**	**0**	**5,919**
Amortisation	583	0	0	583
Depreciation and impairment	322	219	0	541
OPERATING PROFIT (LOSS) [EBIT]	**3,243**	**1,552**	**0**	**4,795**
Financial income (charges)	(102)	(49)	0	(151)
EARNINGS BEFORE TAXES	**3,141**	**1,503**	**0**	**4,644**
Taxes	**(515)**	**(247)**	**0**	(762)
NET PROFIT (LOSS) FOR THE YEAR	**2,626**	**1,256**	**0**	**3,882**

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 2016 is as follows:

(€ thousand)	31 Dec. 2016	31 Dec. 2015	Change
Cash and bank assets	7,570	9,080	(1,510)
Short-term financial payables	(808)	(821)	13
Short-term financial resources	**6,762**	**8,259**	**(1,497)**
Payables due to banks with maturity beyond 12 months	(1,391)	0	(1,391)
Net Available Financial Resources	**5,371**	**8,259**	**(2,888)**

12. Reconciliation profit/shareholders' equity Parent Company - Consolidated

	Shareholders' equity		Net profit (loss) for the year	
Euro/000	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016
TXT e-solutions S.p.A.	**26,667**	**25,929**	**4,524**	**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	2,225	775	1,078	3,080
Consolidation adjustments, net of tax effects, due to:				
- difference between purchase price and corresponding shareholders' equity amount	3,723	6,405		
- difference allocated to IP, CR and DTA with PPA	1,513	3,843	(286)	(743)
- deferred tax liabilities on difference allocated to IP and CR with PPA	(475)	(998)	90	172
- PACE put/call minority		(1,643)		(18)
- elimination of intragroup dividends	-	-	(1,500)	(1,000)
- reversal of impairment of interest in TXT North America Inc.	-	-	-	978
- other adjustments	(29)	(28)	(24)	-
Consolidated TXT	**33,624**	**34,283**	**3,882**	**5,555**

13. Subsequent events

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

The Company expects to achieve positive growth in revenues during the first quarter of 2017 in both Divisions, although the short-term profitability level will be penalised by substantial investments in research and development and strengthening of international business.

14. Significant non-recurring events and transactions

Based on Consob Resolution no. 15519 dated 27 July 2006, it should be noted that no “non-recurring events and transactions” took place in the period.

15. Remuneration of Directors, Statutory Auditors and Management

Transactions with directors and key management personnel refer exclusively to the fixed and variable components of their remuneration (composed of salaries as Company’s managers and compensation for offices held). The Remuneration Report details the amounts paid to each beneficiary and the underlying policy.

16. External Auditors' fees

Information pursuant to Article 149-duodecies of Consob Issuers' Regulation.

The statement, prepared pursuant to Article 149-duodecies of the Consob Issuers' Regulation (resolution no. 11971), shows the fees for the financial year 2016 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.	63
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	13.5
Auditing	Ernst & Young Network	Subsidiary TXT e-solutions Ltd	19
Auditing	Ernst & Young	Subsidiary TXT North America Inc.	12
Auditing	Ernst & Young	PACE GmbH	15.5
Tax services	Ernst & Young Network	Parent Company TXT e-solutions S.p.A.	41.5

17. Certification of the consolidated financial statements

pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented

The undersigned Alvise 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 2016.

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

- 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	Alvise Braga Illa

Milan, 8 March 2017

TXT e-solutions S.p.A.

Financial statements as at 31 December 2016

TXT e-solutions S.p.A.

Registered office, management, and administration:
Via Frigia, 27 – 20126 Milan - Italy
Share capital:
€ 6,503,125 fully paid-in
Tax code and
Milan Business Register number: 09768170152

Corporate bodies

BOARD OF DIRECTORS

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

(1) Powers assigned: ordinary and extraordinary administration, except for the purchase and sale of buildings.
(2) Member of the Remuneration Committee and the Risks and Internal Controls Committee.
(3) Powers assigned: ordinary administration.
(4) Independent director co-opted on 5 May 2015.

BOARD OF STATUTORY AUDITORS

Raffaele Valletta	Chairman
Luisa Cameretti	Standing auditor
Fabio Maria Palmieri	Standing auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate Auditor
Angelo Faccioli	Alternate Auditor

EXTERNAL AUDITORS EY S.p.A

INVESTOR RELATIONS E-mail: infofinance@txtgroup.com
Telephone: +39 02 25771.1

Contents

Balance Sheet

BALANCE SHEET: ASSETS					
Amounts in Euro	Notes	31 Dec. 2016	Of which due to related parties	31 Dec. 2015	Of which due to related parties
NON-CURRENT ASSETS					
- Goodwill	1.1	800,000		800,000	
- Intangible assets with a finite useful life	1.2	46,683		41,181	
Intangible assets		**846,683**	0	**841,181**	0
- Own property, plant and equipment		0		5,396	
- Other assets		918,585		837,934	
Property, plant and equipment	**1.3**	**918,585**	0	**843,329**	0
- Equity investments	1.4	19,009,167		12,478,284	
- Sundry receivables and other non-current assets	1.5	58,680	0	29,208	0
- Deferred tax assets	1.6	1,307,845		1,340,449	
Other non-current assets		**20,375,693**	0	**13,847,941**	0
TOTAL NON-CURRENT ASSETS	**(A)**	**22,140,961**	0	**15,532,452**	0
CURRENT ASSETS					
Inventories	1.7	2,877,326		2,007,871	
Trade receivables	1.8	19,114,143	4,491,228	18,844,466	1,868,655
Sundry receivables and other current assets	1.9	1,933,756		2,417,480	
Other financial receivables	1.10	3,949,307	3,694,483	3,320,022	3,320,022
Cash and cash equivalents	1.11	4,443,217		7,317,967	
TOTAL CURRENT ASSETS	**(B)**	**32,317,749**	8,185,711	**33,907,806**	5,188,677
TOTAL ASSETS	**(A + B)**	**54,458,710**	8,185,711	**49,440,258**	5,188,677

BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY					
Amounts in Euro	**Notes**	**31 Dec. 2016**	Of which due to related parties	**31 Dec. 2015**	Of which due to related parties
SHAREHOLDERS' EQUITY					
Share capital	1.12	6,503,125		6,503,125	
Reserves	1.12	14,503,848		15,165,918	
Retained earnings (accumulated losses)		1,836,480		473,095	
Profit (loss) for the year		3,085,708		4,524,878	
TOTAL SHAREHOLDERS' EQUITY	**(A)**	**25,929,161**	0	**26,667,015**	0
NON-CURRENT LIABILITIES					
Non-current financial liabilities		0	0	0	0
Employee benefits expense	1.13	3,563,347	1,283,958	3,508,150	1,006,458
Deferred tax provision	1.6	211,746		185,513	
Provisions for future risks and charges	1.14	288,905		90,000	
TOTAL NON-CURRENT LIABILITIES	**(B)**	**4,063,998**	1,283,958	**3,783,663**	1,006,458
CURRENT LIABILITIES					
Current financial liabilities	1.15	10,130,101	9,288,955	7,263,424	6,449,682
Trade payables	1.16	4,769,361	1,552,253	2,828,232	4680.827
Tax payables	1.17	90,904		0	
Sundry payables and other current liabilities	1.18	9,475,185	1,198,605	8,897,923	948,168
TOTAL CURRENT LIABILITIES	**(C)**	**24,465,551**	12,039,813	**18,989,580**	7,858,682
TOTAL LIABILITIES	**(E = B + C)**	**28,529,549**	13,323,771	**22,773,243**	9,065,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**(A + E)**	**54,458,710**	13,323,771	**49,440,258**	9,065,140

Income Statement

Amounts in Euro	Notes	31 Dec. 2016	Of which due to related parties	31 Dec. 2015	Of which due to related parties
Revenues		**45,343,816**	9,505,606	42,929,676	7,517,262
Total Revenues	2.1	**45,343,816**	9,505,606	42,929,676	7,517,262
Purchase of materials and external services	2.2	**(11,899,169)**	(3,841,567)	(10,815,618)	(3,046,548)
Personnel costs	2.3	**(28,254,925)**	(1,137,406)	(27,055,580)	(1,677,746)
Other operating costs	2.4	**(1,098,043)**	0	(1,154,723)	0
Depreciation and amortisation/Impairment/Provisions	2.5	**(1,411,176)**	(978,389)	(588,890)	0
OPERATING PROFIT (LOSS)		**2,680,503**	13,053,850	3,314,865	2,792,968
Financial income	2.6	**1,974,318**	1,074,510	2,157,124	1,579,872
Financial charges	2.6	**(1,098,886)**	(96,138)	(825,447)	(80,527)
Earnings before taxes		**3,555,935**	14,032,222	4,646,543	4,292,313
Income taxes		**(470,228)**	0	(121,665)	0
Profit (loss) for the year		**3,085,708**	0	4,524,878	0

Statement of Comprehensive Income

(Amount in Euro)	2016	2015
Profit (loss) for the year	3,085,708	4,524,878
Change in fair value of available-for-sale financial assets	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)	(64,314)	74,996
TOTAL ITEMS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS) FOR THE YEAR NET OF TAXES	(64,314)	74,996
TOTAL PROFIT/(LOSS) OF COMPREHENSIVE INCOME NET OF TAXES	(64,314)	74,996
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,021,394	4,599,874
Total profit for the year	3,021,394	4,599,874

Statement of Cash Flows

Amounts in Euro	Notes	31 Dec. 2016	31 Dec. 2015
Cash flows from operating activities			
Profit (loss) for the year		3,085,708	4,524,878
Depreciation and amortisation, impairment and provisions		338,286	588,890
Impairment on investments	2.5	978,389	0
Provision for bad debts		94,501	0
Income taxes paid during the year		(156,519)	(836,093)
Interest expense		2,123	43,303
Other non-monetary costs		0	740,000
Cash flow from operating activities before change in working capital*		**4,342,488**	**5,060,978**
** of which with related parties*		*4,526,616*	*4,292,313*
(Increases)/decreases in trade receivables		(364,178)	(5,749,766)
(Increases)/decreases in inventories		(869,454)	(378,952)
Increases/(decreases) in payables due to suppliers		1,941,129	413,327
Increases/(decreases) in tax payables (receivables)		306,260	0
Increases/(decreases) in post-employment benefits		(9,118)	35,764
Increases/(decreases) in other assets and liabilities		1,228,296	649,486
Net cash from operating activities*		**6,575,422**	**463,674**
** of which with related parties*		*3,323,406*	*4,275,566*
Cash flows from investing activities			
Increases in non-current assets:			
- Intangible assets		(22,429)	(25,548)
- Property, plant and equipment		(396,614)	(378,465)
- Financial assets	1.4	(7,509,272)	(17,664)
Decreases and other changes in non-current assets:		0	3,659
Net cash used in investing activities*		**(7,928,316)**	**(418,018)**
** of which with related parties*		*0*	*0*
Cash flows from financing activities			
Increases/(decreases) in financial payables/receivables		2,237,392	(2,332,392)
Sale of treasury shares		0	3,167,670
Purchase of treasury shares		(827,756)	(952,239)
Distribution of dividends		(2,931,492)	(2,678,079)
Net cash used in financing activities*		**(1,521,856)**	**(2,795,040)**
** of which with related parties*		*2,464,807*	*878,426*
Increases/(decreases) in cash and cash equivalents		**(2,874,750)**	**(2,749,384)**
Cash and cash equivalents at the beginning of the year		**7,317,967**	**10,067,350**
Cash and cash equivalents at the end of the year	**1.11**	**4,443,217**	**7,317,967**

Statement of Changes in Equity as at 31 December 2016

(Amount in Euro)	Share capital	Legal reserve	Share premium reserve	Merger surplus	First time adoption	Stock option reserve	Actuarial differences	Retained earnings (accumulated losses)	Profit (loss) for the year	Total
At 31 December 2016	6,503,125	620,000	12,624,161	1,911,444	0	921,297	(910,984)	473,095	4,524,878	26,667,016
Allocation of previous year's profit		230,000			0			4,294,878	(4,524,878)	0
Distribution of dividends								(2,931,493)		(2,931,493)
Purchase of treasury shares			(827,756)							(827,756)
Post-employment benefits discounting							(64,314)			(64,314)
Total profit at 31 December 2016							(64,314)		3,085,708	3,021,394
At 31 December 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

(Amount in Euro)	Share capital	Legal reserve	Share premium reserve	Merger surplus	First time adoption	Stock option reserve	Actuarial differences	Retained earnings (accumulated losses)	Profit (loss) for the year	Total
At 31 December 2015	5,911,932	519,422	10,999,922	1,911,444	225,081	181,297	(985,980)	1,021,773	2,004,898	21,789,790
Allocation of previous year's profit		100,578			(225,081)			2,129,401	(2,004,898)	0
Free share capital increase	591,193		(591,193)							0
Distribution of dividends								(2,678,079)		(2,678,079)
Allocation to stock grant plan						740,000				740,000
Purchase of treasury shares			(952,239)							(952,239)
Sale of treasury shares			3,167,670							3,167,670
Total profit at 31 December 2015							74,996		4,524,878	4,599,874
At 31 December 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

Introduction

Founded in 1989, TXT e-solutions S.p.A. specialises in software and strategic high-value solutions targeting large enterprises and operates on an international level. The main business areas are: **Integrated & Collaborative Planning**, with TXT Retail Division's products and services for companies in the Luxury, Fashion, Accessory and Retail segments; **Software for Complex Operations & Manufacturing**, with TXT Next's solutions in the Aerospace, Defence, High-Tech and Finance sectors. TXT is listed on the Italian Stock Market (STAR segment, TXT.MI) and its registered office is based in Milan. It also has offices in Italy, France, UK, Germany, Spain, Switzerland, USA, Canada, Australia, Hong Kong and Singapore.

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 2016 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.

Notes to 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 2016 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.

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

As for information relating to the nature of the company's business, business areas, and significant events after the reporting period, 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 2017. 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 2016.

For a description of operating segments pursuant to IFRS 8, reference should be made to the Notes to the consolidated financial statements.

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 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 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
Plant and equipment	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.

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

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.

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 2016 and 2015.

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.

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, since the turnover rate for these inventories is high, is a reasonable 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 2008.

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 grant plans. Pursuant to IFRS 2 – Share-Based Payment – the overall amount of the present value of the stock grants 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 grants 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 2016.

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 is recognised when it is probable that the economic benefits will flow to TXT 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 Company 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:

Sales of assets

Sales are recognised when ownership is transferred, i.e. all risks and rewards associated with the asset are transferred. Revenue is recognised net of returns, discounts, rebates and premiums, as well as of any directly related taxes.

Services

Revenues arising from the provision of development and maintenance services are measured on the basis of the considerations agreed in relation to the stage of completion determined using the cost-to-cost method. 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

Expenses are recognised in the financial statements when ownership of the assets to which they refer has been transferred or the services acquired have been provided, or when the relevant future benefits cannot be estimated.

Personnel costs include, consistently with their substantial nature, stock options/grants 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 2016.

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. 2016	Level 1	Level 2	Level 3
Financial assets at fair value				
- other non-current financial assets	0	0	0	0
- other current financial assets	254,823	0	252,143	0
Total financial assets	**254,823**	**0**	**252,143**	**0**
Financial liabilities at fair value				
- other non-current financial liabilities	0	0	0	0
- other current financial liabilities	841,146	0	836,804	0
Total financial liabilities	**841,146**	**0**	**836,804**	**0**

Amounts in Euro	31 Dec. 2015	Level 1	Level 2	Level 3
Financial assets at fair value				
- other non-current financial assets	0	0	0	0
- other current financial assets	0	0	0	0
Total financial assets	**0**	**0**	**0**	**0**
Financial liabilities at fair value				
- other non-current financial liabilities	0	0	0	0
- other current financial liabilities	813,737	0	794,459	0
Total financial liabilities	**813,737**	**0**	**794,459**	**0**

Current financial assets and liabilities approximate market value.

Guarantees issued, obligations and other contingent liabilities

At 31 December 2016, the Company had issued guarantees on debts and obligations of third parties and associates amounting to € 707 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.

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 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. The key assumptions used to determine the recoverable amount for the various cash-generating units, including a sensitivity analysis, are detailed in Note 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 13.

New accounting standards, interpretations and amendments adopted by the Group

The accounting standards adopted in preparing the financial statements as at 31 December 2016 are consistent with those used in preparing the financial statements as at 31 December 2015, except for the adoption of the new standards, amendments and interpretations effective since 1 January 2016.

Several new standards and amendments became effective as of 2016. However, they did not have any impact on the financial statements of TXT e-solutions.

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

Annual Improvements to IFRS - 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current assets held for sale and discontinued operations

Assets (or discontinued operations) are generally disposed through sale or distribution to shareholders. The amendment clarifies that the change from one to another of these disposal methods should not be considered as a new disposal plan but, rather, as a continuation of the original plan. Therefore, there is no interruption in the application of the IFRS 5 requirements. This amendment must be applied prospectively. These financial statements do not contain non-current assets held for sale or discontinued operations

IFRS 7 Financial instruments: disclosures

(I) Servicing contracts

The amendment clarifies that a servicing contract that includes remuneration may entail the continuous use of a financial asset. An entity must define the nature of the remuneration and of the agreement based on the guidelines contained in IFRS 7 on the issue of continuous involvement, in order to evaluate if disclosure is required. Definition of which servicing contracts require continuous involvement must be done retrospectively. In any case, the required disclosure is not submitted for the years prior to the one of initial application of this amendment.

(II) Applicability of the IFRS 7 amendments to condensed interim financial statements

The amendment clarifies that the disclosure requirements on remuneration are not applicable to condensed interim financial statements, unless this disclosure provides a significant update of the information presented in the most recent annual financial statements. This amendment must be applied retrospectively.

IAS 19 Employee benefits

The amendment states that the active market of high-quality corporate bonds must be defined with respect to the currency of the bond, rather than the country in which the bond is located. If there is no active market for high-quality corporate bonds in that currency, the relative rates on government securities must be used. This amendment must be applied prospectively.

IAS 34 Interim financial reporting

The amendment states that the required disclosure may be presented in the interim financial statements as well as referred to in references between the interim financial statements and the section of the interim financial report (such as the Directors' Report on Operations or the Report on Risks) in which they are presented.

Other information presented in the interim financial statements must be available for readers of the financial statements at the same conditions and deadlines as the interim financial statements themselves. This amendment must be applied retrospectively. This amendment had no impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify rather than significantly modifying a number of the already existent IAS 1 requirements. The amendments clarify:

- the requirement of materiality in IAS 1;
- the fact that specific lines in the statements of profit/(loss) for the year or of other items in the Statement of Comprehensive Income or in the Statement of Financial Position may be separated;
- that entities have flexibility with regard to the order in which the notes to the financial statements are presented;
- that the portion of other items of the Statement of Comprehensive Income regarding associates and joint ventures, accounted for using the equity method, must be presented on an aggregate basis on a single line, and classified among items that will not subsequently be reclassified to the income statement.

Moreover, the amendments clarify the requirements that are applied when sub-totals are included in the statements of profit/(loss) for the year or of other items in the Statement of Comprehensive Income or in the Statement of Financial Position. These amendments have no impact on the Group.

Annual Improvements to IFRS - 2010-2012 Cycle

Mandatory for companies starting from the start date of their first financial year, beginning on or after 1 February 2015.

IFRS 2 Share-based Payment

This amendment applies prospectively and clarifies a number of points regarding definition of the performance condition and service condition which are part of the vesting conditions. The clarifications are consistent with the methods used by the Company, in prior periods, to identify the performance and service conditions which are part of the vesting conditions. Moreover, the deadline for awarding of the stock grants envisaged by the plan approved by the shareholders' meeting of 23 April 2012 expired on 30 June 2014, and 2015 is the last year for possible vesting of these rights for beneficiaries of the plan. Consequently, these amendments did not have any impact on the Company's financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment applies prospectively and clarifies that all agreements with regard to contingent consideration classified as a liability (or asset) arising from a business combination must be subsequently measured at fair value, with offsetting entry in the income statement, whether or not it falls under the scope of IAS 39. This amendment had no impact on the Company's accounting policies.

IFRS 8 Operating segments

The amendment applies retrospectively and clarifies that:

- An entity must disclose the assessments made by management in applying the aggregation criteria pursuant to paragraph 12 of IFRS 8, including a brief description of the operating segments that were aggregated and the economic characteristics (for e.g., sales, gross margin) used to determine the segments are “similar”;
- A reconciliation of the segment's assets with total assets must be presented only if the reconciliation is presented at the highest decision-making level, as is required for liabilities of the segment.

The Company has not applied the aggregation criteria envisaged by IFRS 8.12. In prior periods, the Company presented the reconciliation of segment assets with total assets and continues to do so, as the reconciliation is provided to the highest decision-making level.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets: measurement

The amendment applies retrospectively and clarifies that in IAS 16 and IAS 38, as asset may be revalued based on observable data by adjusting the gross carrying amount of the asset to market value, as well as by determining the market value of the carrying amount and adjusting the gross carrying amount proportionally, so that the resulting carrying amount is equal to market value. Furthermore, the accumulated amortisation is the difference between the asset's gross carrying amount and the carrying amount. This amendment did not have any impact on the Company's financial statements or accounting policies.

IAS 24 Related party disclosures

The amendment applies retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to disclosure on transactions with related parties. Moreover, an entity that uses a management entity must disclose the expenses sustained for the management services. This amendment is not relevant for the Company, as it does not receive management services from other entities.

Amendments to IFRS 11 Accounting for acquisitions of interests in joint operations

The amendments to IFRS 11 require a joint operator that accounts for the acquisition of an interest in a joint operation in which the activity constitutes a business to apply the relevant principles of IFRS 3 Business Combinations with regard to accounting for business combinations. The amendments also clarify that, in the event of maintenance of joint control, the interest previously held in a joint operation is not subject to re-measurement upon acquisition of an additional interest in the same joint operation. Moreover, an exclusion from the scope of IFRS 11 was added in order to clarify that amendments are not applied when the parties sharing control, including the entity drawing up the financial statements, are under the common control of the same ultimate controlling party.

The amendments are applied to both the acquisition of an initial interest in a joint operation, as well as to the acquisition of each additional interest in the same joint operation and must be applied prospectively. These amendments have no impact on TXT as there were no acquisitions of interests in joint operations during the year.

Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation

The amendments clarify the principle contained in IAS 16 Property, plant and equipment and IAS 38 Intangible assets that revenues reflect a model of economic benefits generated by the operation of a business (of which the asset is a part), rather than the economic benefits that are consumed through use of the asset. Consequently, a revenue-based method cannot be used for depreciation of property, plant and equipment and may only be used under very limited circumstances for the amortisation of intangible assets. The amendments must be applied prospectively and have no impact on the company, since the company uses straight-line methods to depreciate/amortise its non-current assets.

Amendments to IAS 27 Equity method in separate financial statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities that are already applying the IFRS and decide to change the accounting criterion in their separate financial statements to the equity method must apply the change retrospectively. These amendments have no impact on the Company's financial statements.

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 € 4,443,217 at 31 December 2016 (€ 7,317,967 at 31 December 2015) 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 CAD and USD), 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 2016, there were two foreign currency hedge contracts; for further details, see Note 1.16.

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	18,929,821	-
Provision for bad debts	(787,198)	
Total receivables due from customers	18,142,623	
Receivables due from customers (Top 5)	10,045,586	55%
Receivables due from customers (Top 10)	12,876,940	71%

In general, trade receivables are mainly concentrated in Italy. Receivables from an important Italian customer operating in the Aerospace & High Tech business account for 29% of the TXT's total trade receivables. The first ten customers account for 71% 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. 2016	Interest rate change	Financial income/charges
Cash, bank assets, and securities	4,443,217		
Financial exposure (fixed rate)			
Financial exposure (floating rate)	(6,180,794)		
Net financial position	(1,737,578)		
Financial exposure (floating rate)	6,180,794	-1%	61,808
		-1%	-61,808

Other risks

The Company has business dealings in the United Kingdom exclusively with the subsidiary TXT e-solutions 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 2016.

Notes to the BALANCE SHEET and INCOME STATEMENT as at 31 December 2016

1. Balance sheet

1.1. Intangible assets with an indefinite useful life

This item includes goodwill, fully referring to the TXT Retail Cash-Generating Unit, amounting to € 800,000. It arises from the purchase of Aisoftw@are's “Program” business in 2003 concerning operations in the Fashion sector based in Vicenza. Program is part of TXT Retail's business unit, but continued its operations with the same organisational structure in Vicenza.

The carrying amount of goodwill is lower than the fair value of the investment. The fair value was measured based on the present value of future cash flows expected to be derived from the asset as calculated by management.

Impairment test on goodwill and intangible assets with indefinite useful lives

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 recoverable value is estimated by determining the value in use, which is the present value of future cash flows which are expected to be associated with each cash-generating unit, considering an explicit 5-year forecast period, based on the latest plans prepared by management for the 2017-2019 period and approved by the Board of Directors on 13 December 2016 and relative forecasts.

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 1.50%, based on a more prudent approach than the one used by the analysts following TXT, which fluctuates between 2.00% and 2.50%.

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 6.68%, based on the following assumptions:

- The risk-free interest rate related to the Euro zone should be the rate of return of government bonds of the country with the lower rates, implicitly identified as that with lower risk. In the current economic situation, characterised by high dispersion of returns of European government bonds, the lower rate is that of the 10-year German Bund (0.21% at 31 December 2016). In order to calculate TXT Retail's cost of capital, a certain level of systemic risk deriving from operations in different countries with different spread profiles was thus included, and the base rate was considered to be the average yield of the ten-year government bonds of the countries in which TXT Retail operates. Therefore, the Countries are: Germany (EUR), France (EUR), Canada (CAD$), Spain (EUR), UK (Pound), Italy (EUR), and Australia (AUD$). The United States (USD$), Hong Kong (HKD$) and Singapore (SDG$) were not considered, as these countries did not generate revenues in 2016. The risk-free interest rate of 1.18% includes 97 basis points of "systematic" risk compared to the German rate (0.21%), considering the average risk of the countries in which TXT Retail operates.
- 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: 1.18% + 5.50%*1.00 = 6.68%.

Since at 31 December 2016, TXT 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 the two key variables were simulated.

- Discount rate: increased and decreased by 1 and 2 percentage points compared to the base discount rate of 6.68% (therefore in the ranges 4.68%-5.68%-6.68%-7.68%-8.68%).
- Revenue growth rate: for the years beyond the analytical forecast for the 2017 Budget, and therefore for the 2018-2019-2020-2021 period, the revenue growth/decrease rate was increased and decreased by 2 percentage points and the implicit growth rate g was simultaneously increased/decreased by 0.5% within the range (1.00%-1.50%-2.00%).

The sensitivity analysis, pursuant to paragraph 134 of IAS 36, regarding the CGUs for which no impairment was recorded, showed the following tolerance margins:

- Discount rate: the fair value measurement of the CGU is higher than the CGU's carrying amount, even simulating an increase in the discount rate up to a WACC of 31.16%.
- EBITDA: the fair value measurement of goodwill is higher than the CGU's carrying amount even in case of a reduction in each year of the projected period of the plan, up to -54% of the estimated EBITDA.

  Given the above, the directors verified that no reasonable change in expected economic parameters would have resulted in the necessity to carry out a write-down of goodwill.

Conclusions

Based on the analyses conducted, the Company's Directors deemed the carrying amount of goodwill in the consolidated financial statements at 31 December 2016 to be recoverable.

1.2. Intangible assets with a finite useful life

Net of amortisation, intangible assets with a finite useful life amounted to € 46,683 at 31 December 2016. The changes that occurred during the year are detailed below:

	Software licences	Research and development, advertising	Total
Historical cost	814,060	1,340,648	2,154,708
Accumulated amortisation	(772,878)	(1,340,648)	(2,113,527)
Balance at 31 December 2015	**41,181**	**0**	**41,181**
Acquisitions/capitalisations	22,429	0	22,429
Disposals	0	0	0
Other changes	0	0	0
Amortisation	(16,927)	0	(16,927)
Net value at 31 December 2016	**46,683**	**0**	**46,683**
Balance at 31 December 2016			
Historical cost at 31 December 2016	836,489	101,612	938,101
Accumulated amortisation at 31 December 2016	(789,806)	(101,612)	(891,418)
Net value	**46,683**	**0**	**46,683**

The item is detailed as follows:

- Software licences: these include licences acquired mainly by the Company for operating in-house instruments and implementing products. Investments in the period of € 22,429 referred to the purchase of software licences.
- Research and development: these consist of the (internal and external) research and development costs incurred for the purchase or internal production of intangible fixed assets concerning proprietary TXT products, fully amortised.

1.3. Property, plant and equipment

Net of depreciation, property, plant and equipment amounted to € 918,585 at 31 December 2016, up € 75,256 compared with 31 December 2015. The changes that occurred during the year are detailed below:

	Plants	Furniture and fixtures	Electronic equipment	Other assets	Leasehold improvements	Total
Historical cost	5,695	356,762	2,315,131	1,175	562,434	3,241,195
Accumulated depreciation	(5,544)	(290,268)	(1,673,630)	(1,175)	(427,248)	(2,397,866)
Balance at 31 December 2015	**150**	**66,493**	**641,500**	**0**	**135,186**	**843,329**
Acquisitions/capitalisations	0	5,923	390,471	220	0	396,614
Other changes in accumulated depreciation	4,193	0	0	0	0	4,193
Disposals	(4,193)	0	0	0	0	(4,193)
Depreciation	(150)	(11,200)	(255,863)	(220)	(53,926)	(321,358)
Net value at 31 December 2016	**0**	**61,217**	**776,108**	**0**	**81,260**	**918,585**
Balance at 31 December 2016						
Historical cost at 31 December 2016	1,502	362,685	2,705,602	1,395	562,434	3,633,617
Accumulated depreciation at 31 December 2016	(1,502)	(301,468)	(1,929,493)	(1,395)	(481,174)	(2,715,031)
Net value	**0**	**61,217**	**776,108**	**0**	**81,260**	**918,585**

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.

1.4. Investments

“Investments” amounted to € 19,009,167 at 31 December 2016 compared with € 12,478,284 at 31 December 2015 and changed as follows during the year:

Company name	Balances at 31 December 2015	Acquisitions/Establishments	Disposals	Impairments and other changes	Balances at 31 December 2016
TXT e-solutions GmbH	3,576,930	0	0	0	3,576,930
TXT e-solutions SL	735,107	0	0	0	735,107
TXT e-solutions SARL	1,676,217	0	0	0	1,676,217
TXT e-solutions LTD	2,462,055	0	0	0	2,462,055
Maple Lake Australia Pty Ltd	466,001	0	0	0	466,001
TXT North America Inc.	3,471,389	0	0	(978,389)	2,493,000
TXT USA Inc.	72,920	0	0	0	72,920
TXT Retail AsiaPacific Ltd	11,298	0	0	0	11,298
TXT Singapore Pte Ltd	6,366	0	0	0	6,366
Pace GmbH	0	7,472,191	0	0	7,472,191
TXT e-solutions Sagl	0	37,082	0	0	37,082
Total	**12,478,284**	**7,509,273**	**0**	**(978,389)**	**19,009,167**

The most significant change in the item is linked to the acquisition of PACE Aerospace Engineering and Information Technology Gmbh, with headquarters in Berlin (hereinafter, “PACE”), effective from 1 April 2016.

The acquisition is aimed at expanding the TXT NEXT division into the international aeronautics market, optimising on the skills and proprietary software of PACE and on the vast and high-quality customer portfolio.

The consideration for acquisition of 79% of the shares of PACE is broken down as follows:

- € 5.6 million upon stipulation of the definitive agreement;
- variable supplementary payments, as these are dependent on the operating results of PACE, to be carried out in 2016 and 2017 and estimated at approximately € 1.8 million.

TXT also subscribed a combined put/call option for the remaining 21% of PACE shares held by the three founding directors, to be exercised during the period 2020-2021.

Overall, upon initial recognition of the business combination, the total estimated consideration is broken down as follows:

Component	Euro/000
Provisional price	5,649
Earn-Out 2015-2016	1,274
Other variable components	549
Total (79%)	7,472

The provisional price component corresponds to the fixed price established in the contract. The Earn-Out amounts depend on the performance of variables such as revenues and EBITDA and on the application of multiples whose magnitude is linked to the same variables. A portion of the Earn-Out equal to around € 1 million has already been defined with certainty as at the purchase date (as it is based on 2015 results compared to 2014), while the residual Earn-Out amount has been calculated by using the PACE Business Plan approved by the Board of Directors as the base. Said Business Plan represents a reasonable estimate of the scenario considered most likely. The item “Other variable components” is linked to the higher liquidity of PACE available as at the date of acquisition with respect to the threshold indicated in the contract.

To complete the analysis of the transaction, note that the directors, for the purposes of drawing up the Separate Financial Statements, considered the call option on the residual 21% of share capital of the company acquired as a financial instrument, recognised at its fair value at the initial recognition date and with subsequent changes posted to the income statement. As at the initial recognition date, the directors deemed the fair value of the option 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.

Also note that during the course of the year, the company TXT e-solutions Sagl was established, with headquarters in Switzerland, share capital of 40,000 CHF and 100%-owned, with the objective of developing and providing support to Swiss customers.

The item “Acquisitions/Establishments” refers to the cost of acquisition and establishment of the two companies indicated above.

Information required by Consob communication no. 6064293 dated 28 July 2006 is provided in the table below (*).

Company name	**City or foreign country**	**Share capital**	**Shareholders' equity**	**Profit / Loss**	**% control**	**Carrying amount**	**Shareholders' equity**
TXT e-solutions GmbH	Germany	1,300,000	7,228,321	865,592	100	3,576,930	7,228,321
TXT e-solutions SL	Spain	600,000	1,214,451	(55,968)	100	735,107	1,214,451
TXT e-solutions SARL	France	1,300,000	3,273,575	999,703	100	1,676,217	3,273,575
TXT e-solutions LTD	Great Britain	3,307,914	5,754,857	107,376	100	2,462,055	5,754,857
Maple Lake Australia Pty Ltd	Australia	90,000	176,150	79,370	100	466,001	176,150
TXT North America Inc.	Canada	1,679,257	(388,133)	(275,993)	100	2,493,000	(388,133)
TXT USA Inc.	USA	90,262	(128,596)	25,194	100	72,920	(128,596)
TXT Retail AsiaPacific Ltd	Hong Kong	11,558	(17,883)	(17,098)	100	11,298	(17,883)
TXT Singapore Pte Ltd	Singapore	6,560	(105,076)	(68,946)	100	6,366	(105,076)
Pace GmbH	Berlin	295,000	2,690,288	1,393,448	79	7,472,191	2,125,328
TXT e-solutions Sagl	Chiasso	43,784	64,212	26,562	100	37,082	64,212
Total		**8,590,641**	**19,697,954**	**3,052,678**		**19,009,167**	

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

Some of the investments show shareholders' equity that is less than the carrying amount of the investment at 31 December 2016.

With regard to subsidiaries TXT Retail Asia Pacific Ltd and TXT Singapore Pte Ltd, this misalignment is a result of being in the start-up phase, having been established in 2015. The directors, considering that these companies have not yet conducted activities aimed at customers, and based on the company development strategies as well as on external indicators, determined that said misalignment does not represent, as at the reporting date, an indicator of impairment.

TXT USA Inc, company established in 2014, carries out commercial support activities, as well as investment support for the Group in North America. The commercial dealings of TXT USA Inc. are exclusively of an intercompany nature, mainly with TXT North America and TXT e-solutions S.p.A. The prospects are of a rebalancing of shareholders’ equity.

All other investments at 31 December 2016 were tested for impairment. The recoverable amount of the individual investments 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. On 13 December 2016, the Company's Board of Directors approved the plans based on which the recoverable amounts were measured. The terminal value used to check the recoverable amount of the investments is consistent with that used in the impairment test for goodwill (for further details reference should be made to Note 1.1).
Upon completion of the analysis, note that with regard to Canadian investee company TXT North America Inc. (Maple Lake Ltd), in carrying out the impairment test, the directors took into due consideration the profit results of the last year, lower than the amount in the budget forecasts and business plan. Following said impairment test, the carrying amount of the investment was written down by € 978 thousand, in order to realign it to the recoverable value, equal to € 2,493 thousand.

The carrying amount of all other investments was deemed to be lower than the recoverable amount.

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.

We did not use a single Free Risk rate weighted based on the importance of the volume of business achieved locally by TXT Retail, but the local Free Risk rate was considered for each investment and a specific discount rate was then calculated. For details of the Free Risk rates applied for each Country, see below. The other measurement parameters were applied uniformly in all countries and 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.

The discount rate for **France** is based on the yield on 10-year local government bonds of 0.69%. The remaining parameters are the same for all TXT investments and impairment: Risk premium 5.50%, Beta 1.00, Equity 100%, g 1.50%. The discount rate is therefore equal to **6.19%**.

The discount rate for **Germany** is based on the yield on 10-year local government bonds of 0.21%. The remaining parameters are the same for all TXT investments and impairment: Risk premium 5.50%, Beta 1.00, Equity 100%, g 1.50%. The discount rate is therefore equal to **5.71%**.

The discount rate for the **United Kingdom** is based on the yield on 10-year local government bonds of 1.24%. The remaining parameters are the same for all TXT investments and impairment: Risk premium 5.50%, Beta 1.00, Equity 100%, g 1.50%. The discount rate is therefore equal to **6.74%**.

The discount rate for **Spain** is based on the yield on 10-year local government bonds of 1.39%. The remaining parameters are the same for all TXT investments and impairment: Risk premium 5.50%, Beta 1.00, Equity 100%, g 1.50%. The discount rate is therefore equal to **6.89%**.

The discount rate for **Canada** is based on the yield on 10-year local government bonds of 1.72%. The remaining parameters are the same for all TXT investments and impairment: Risk premium 5.50%, Beta 1.00, Equity 100%, g 1.50%. The discount rate is therefore equal to **7.22%**.

The discount rate for **Australia** is based on the yield on 10-year local government bonds of 2.78%. The remaining parameters are the same for all TXT investments and impairment: Risk premium 5.50%, Beta 1.00, Equity 100%, g 1.50%. The discount rate is therefore equal to **8.28%**.

Since at 31 December 2016, TXT 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 the two key variables were simulated.

- Discount rate: increased and decreased by 1 and 2 percentage points compared to the base discount rate used.
- Revenue growth rate: for the years beyond the analytical forecast for the 2017 Budget, and therefore for the 2018-2019-2020-2021 period, the revenue growth/decrease rate was increased and decreased by 2 percentage points and the implicit growth rate g was simultaneously increased/decreased by 0.5% within the range (1.00%-1.50%-2.00%).

The sensitivity analysis, pursuant to paragraph 134 of IAS 36, regarding the investments for which no impairment was recorded, showed the following tolerance margins:

Company	WACC max rate	EBITDA
TXT e-solutions Sarl	>100%	>100%
TXT e-solutions Gmbh	>100%	-86%
TXT e-solutions SL	>100%	>100%
TXT e-solutions Ltd	36%	-76%
Maple Lake Australia Pty Ltd	40%	-70%

Other Companies

The only investment in associates is represented by “Innovazione Più SC”; the relevant disclosure is provided below:

Company name	City or foreign country	Share capital	Shareholders' equity	Profit / Loss	% ownership	Carrying amount	Equity pursuant to Article 2426, para. 4, of Italian Civil Code
Innovazione Più SC	Milan	75,000	(88,374)	(8,076)	14.29	0	(12,625)

The extraordinary shareholders' meeting of the cooperative Innovazione Più on 13 December 2011 resolved to place the company into liquidation.

The most recent financial statements approved and available are those as at 31 December 2011, since the company has ceased operations.

The Company expects no cost to arise from the conclusion of the liquidation process.

1.5. Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to € 58,680 at 31 December 2016, compared with € 29,208 at 31 December 2015. The most significant change regards the security deposit for a staff leasing contract.

This item includes security deposits of € 28,708 for the Milan office (Via Frigia 27), security deposits of € 26,957 for staff leasing contracts, and security deposits for motor vehicle rentals and bids in public tenders as well as advanced payments to employees of € 500.

1.6. Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities at 31 December 2016, compared to the figures as at the end of 2015, is shown below:

	Deferred tax assets	Deferred tax liabilities	Net balance
Balance at 31 December 2015	1,340,448	185,513	1,154,935
Used in the period	(848,460)	(21,514)	(826,946)
Provisions in the period	815,857	47,747	768,110
Balance at 31 December 2016	**1,307,845**	**211,746**	**1,096,099**

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

The decision to recognise deferred tax assets for previous tax losses was made also following the changes in legislation (Italian Decree Law no. 98/2011) on the use of each tax period's losses without limitation in time and due to the Company’s positive outlook, as well as the positive results recorded in recent years. The recognition of deferred tax assets on previous losses was based on company plans that consider future profitability and within the limits of the reasonable capacity to absorb previous losses and, in any case, no later than the explicit forecast period used to conduct the impairment tests (pursuant to Note.1.1 “Intangible assets with an indefinite useful life” and 1.4 “Investments”).

The deferred tax provision mainly refers to recognition of deferred tax on the tax amortisation mismatch of goodwill.

Recognition of deferred tax assets on accumulated losses, as envisaged by IAS 12, was carried out to the extent to which it was considered probable that a future taxable income against which the tax losses could be used would be available. A reasonable prospective period was considered, based on projections of the economic results of the divisions in which the Company operates. The probability of achieving taxable income was assessed based on the Company's business plan, prudently hypothesising a number of variations that could have a significant impact on the Company's results. The Company's positive performance over recent years was also taken into consideration.

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 2015		31 December 2016	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Prepaid taxes for recoverable losses	4,715,000	1,130,578	4,375,092	1,050,022
Provisions for future risks and charges	105,000	28,876	288,905	69,337
Provision for bad debts	293,918	80,826	293,918	70,540
Write-down on treasury shares	244,664	67,283	244,664	58,719
Costs deductible in future years	119,580	32,885	241,902	59,226
Total	**5,478,162**	**1,340,449**	**5,444,481**	**1,307,845**

Deferred tax liabilities	31 December 2015		31 December 2016	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Goodwill mismatch	611,108	185,391	666,663	179,499
Exchange differences	445	122	134,361	32,247
Total	**611,553**	**185,513**	**801,024**	**211,746**

As at 31 December 2016, there were no residual tax losses for which no deferred tax assets were recorded.

1.7. Inventories

Period-end inventories amounted to € 2,877,326 at 31 December 2016, up € 869,455 compared to the end of 2015, due to the increase in activity on work in progress.

The table below provides the breakdown of inventories:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Inventories of work-in-progress	2,875,529	2,006,315	869,215
Inventories of consumables	1,797	1,556	240
Total	**2,877,326**	**2,007,871**	**869,455**

Contract work in progress is recognised based on stage of completion, using the cost-to-cost method. It is mainly attributable to the TXT Next division.

1.8. Trade receivables

Trade receivables at 31 December 2016, net of the provision for bad debts, amounted to € 19,114,143 as shown in detail below:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Receivables due from customers	14,904,552	16,934,726	(2,030,174)
Receivables to be collected	129,449	46,547	82,902
Receivables due from customers for invoices to be issued	376,113	689,147	(313,034)
Provision for bad debts	(787,198)	(694,608)	(92,589)
Receivables due from intercompany customers	4,026,152	1,718,300	2,307,852
Receivables due from intercompany customers for invoices to be issued	465,075	150,355	314,720
Total	**19,114,143**	**18,844,466**	**269,677**

Trade receivables at 31 December 2016 increased by € 269,677 compared to the end of 2015, following the increase in revenues during 2016 and, in particular, during the final months of the year.

There was an increase in intercompany receivables and a decrease in receivables due from customers during the year.

The provision for bad debts of € 787,198 changed in the year as follows:

(Amount in Euro)	31 Dec. 2015	Allocations	Uses	31 Dec. 2016
Provision for bad debts	694,608	94,501	(1,911)	787,198

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 mainly regard revenues from licences, maintenance and services provided to subsidiaries. They amount to € 4,026,152, up € 2,307,852 over the previous year and are entirely collectible. The change is mainly due to the increase in revenues compared to the prior year and to the net settlement of several amounts during the initial months of 2017. 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 2016 compared with the situation at 31 December 2015.

(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 at 31 December 2016	**19,114,143**	**12,183,716**	**5,671,873**	**1,258,554**	**0**	**0**	**6,930,427**
(Amount in Euro)	**Trade receivables**	**Performing**	**0-90 days**	**91-180 days**	**181-360 days**	**More than 360 days**	**Non-performing**
Trade receivables	19,539,074	11,821,449	5,671,873	1,483,053	157,678	405,021	7,717,625
Provision for bad debts	(694,608)	0	0	(131,909)	(157,678)	(405,021)	(694,608)
Balance at 31 December 2015	**18,844,466**	**11,821,449**	**5,671,873**	**1,351,144**	**0**	**0**	**7,023,017**

1.9. Sundry receivables and other current assets

The item “Sundry receivables and other current assets”, which included receivables for research grants, tax and other receivables, as well as accrued income and prepaid expenses, amounted to € 1,933,756 at 31 December 2016, compared to € 2,417,480 at 31 December 2015.

The breakdown is shown below:

	at 31 Dec. 2016	at 31 Dec. 2015	Change
Receivables due from EU	962,314.20	1,036,359	(74,045)
Tax receivables	792,160	891,568	(99,408)
Other receivables	100,576	95,465	5,111
Accrued income and prepaid expenses	78,706	394,088	(315,382)
Total	**1,933,756**	**2,417,480**	**(483,724)**

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 essentially in line with the previous year.

Tax receivables of € 792,160 represent the receivables due from taxation authorities as shown below in detail:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
IRES receivable for IRAP deductibility on personnel costs	405,147	405,147	0
Interest income withholding	862	20,989	(20,127)
Tax advances	285,431	432,836	(147,405)
VAT to be reimbursed	19,880	19,880	0
Other withholding taxes paid	80,841	12,716	68,125
Total	**792,160**	**891,568**	**(99,408)**

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 reduction on the previous year is the result of uses during the year.

The item “VAT to be reimbursed” refers 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.

Other receivables amount to € 100,576 and mainly include receivables due from employees for travel advances and meal vouchers (approximately € 57,000) and other trade receivables.

Prepaid expenses, amounting to € 78,706, consisted of reversals of prepaid expenses that did not relate to the period. The decrease compared to 2015 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 € 3,949,307 at 31 December 2016 compared to € 3,320,022 at 31 December 2015.

This represents the receivables for cash-pooling due from subsidiaries as detailed below:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Cash pooling TXT North America Inc.	3,170,818	2,976,156	194,662
Cash pooling TXT USA Inc.	265,629	257,188	8,441
Cash pooling TXT AsiaPacific Ltd	18,683	17,719	964
Cash pooling TXT Singapore Pte Ltd	174,034	68,959	105,075
Cash pooling TXT e-solutions Sagl	65,319	0	65,319
Net balance deposit in Escrow	252,143	0	252,143
Currency forward sales	2,680	0	2,680
Total	**3,949,306**	**3,320,022**	**629,284**

The increase in cash pooling receivables is the result of treasury management by TXT e-solutions S.p.A., which involves reimbursements/loans to the subsidiaries, based on the requirements of each.

The net balance of the deposit in Escrow of € 252,143 represents the net position of the sums paid in advance, and deposited with the Escrow Agent pending the final balance, for a variable portion of the consideration to purchase PACE and the reasonable estimate of the amount effectively due in this respect by the Company.

The value as at 31 December 2016 of the contract stipulated on 28 December 2016 for the forward sale of USD 500,000 is equal to € 2,680.

Interest income on cash pooling transactions amounted to € 74,510, calculated by applying an interest rate equal to the 12-month Libor plus 1% for loans in British sterling, in the Australian dollar and in the Canadian dollar.

1.11. Cash and cash equivalents

Cash and cash equivalents showed a decrease of € 2,874,750 compared with 31 December 2015, and were broken down as follows:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Cash	1,663	1,334	329
Bank deposits	4,441,554	7,316,633	(2,875,079)
Total	**4,443,217**	**7,317,967**	**(2,874,750)**

The balance consists of cash and cash equivalents in Italian current accounts held at leading bank institutions. Cash and cash equivalents at the end of the year in currency other than the Euro refer to foreign currency current accounts, for a balance of USD 5,696, CAD 9,991, AUD 8,198 and GBP 7,191, recognised for a total of € 39,164.

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 for the period and the reduction in cash and cash equivalents compared to the prior year.

1.12. 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 (€ 850,000), the share premium reserve (€ 11,796,405), the merger surplus reserve (€ 1,911,444), the stock option/stock grant reserve (€ 921,297), the reserves for actuarial differences on post-employment benefits (€ 975,298), and the reserves for retained earnings (€ 1,836,480).

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 € 921,297 (€ 921,297 at 31 December 2015) and refers to the 2012 stock grant plan. This stock grant plan has ended, and 74,837 shares that accrued in 2015 were delivered in 2016, and there are no residual options at 31 December 2016.

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

The disclosures required by IFRS 2 on the 2012 stock grant plan are reported below:

STOCK GRANT PLAN 2012-2016						
	Options	2012	2013	2014	2015	2016
(i)	Outstanding at the beginning of the period	0	280,000	458,340	198,000	102,519
(ii)	Granted during the period	280,000	378,000	0	0	0
(iii)	Forfeited during the period	0	(143,660)	(248,000)	(95,481)	0
(iv)	Exercised during the period	0	(56,000)	(12,340)	0	(102,519)
(v)	Expired during the period	0	0			
(vi)	Outstanding at the end of the period	280,000	458,340	198,000	102,519	0
(vii)	Exercisable at the end of period	0	12,340	198,000	102,519	0

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 (In Euro)	Free	Required by Law	Established by Shareholders' Meeting	TOTAL
Share premium reserve	11,787,714	8,691	0	11,796,405
Legal reserve	0	850,000	0	850,000
Stock option reserve	0	0	921,297	921,297
Merger surplus	1,911,444	0	0	1,911,444
Reserve for retained earnings	0	0	1,836,481	1,836,481
Reserve for actuarial differences on post-employment benefits	0	0	(975,298)	(975,298)
Total	**13,699,158**	**858,691**	**1,782,480**	**16,340,329**

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. Exercising of the rights is subject to the achievement of predetermined revenue and EBITDA growth objectives cumulatively in the three-year period 2017-2019. The vesting conditions will occur starting from 2017.

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

Treasury shares

At 31 December 2016, the Company held 1,354,133 treasury shares (1,345,700 at 31 December 2015), equal to 10.41% of shares outstanding, amounting to € 3,298,518.59 (€ 3,253,840.24 at 31 December 2015), for a total par value of € 677,066.50 (€ 672,850 at 31 December 2015) and a market value of € 10,155,997.50. The price of TXT stock as at 31 December 2016 was € 7.50 (€ 10,940,541 as at 31 December 2015, stock price € 7.17). Shares outstanding (issued) at 31 December 2016 numbered 13,006,250.

During 2016, the Company purchased 110,952 treasury shares at an average price per share of € 7.4605, for a total amount of € 827,756 (in 2015, the Company purchased 125,965 treasury shares at an average price per share of € 7.56, for a total value of € 952,238).

During the month of March, 102,519 treasury shares were assigned to employees following the achievement of the 2013 Stock Grant plan performance targets, all of which were exercised during 2016.

The carrying amount per share was € 7.6384, recorded by the Company for a total of € 783,081.

The purchase of treasury shares was authorised again by the Shareholders' Meeting of 22 April 2016. 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 2016, 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 22 April 2015 for the portion not yet executed (on this date, the Shareholders' Meeting resolved a free share capital increase with the assignment of one new share for every 10 shares held, carried out on 20 May 2015 with ex-dividend date of 18 May 2015).

1.13. Employee benefits expense

The item "Employee benefits expense" at 31 December 2016 amounted to € 3,563,347, 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)	At 31 Dec. 2015	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	Total	At 31 Dec. 2016
Post-employment benefits	2,558,433	1,393,009	(1,515,189)	64,314	35,562	(22,304)	2,536,130
Provision for severance for end of term of office	949,717	77,500	0	0	0	77,500	1,027,217
Total non-current provisions relating to employees	**3,508,150**	**1,470,509**	**(1,515,189)**	**64,314**	**35,562**	**55,196**	**3,563,347**

Post-employment benefits for personnel of € 2,536,130 at 31 December 2016 (€ 2,558,433 at 31 December 2015) were measured as a defined benefit provision. The portion allocated to the provision amounted to € 1,393,009. The item "uses/payments" includes advance payments to personnel still in service for € 112,180.

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

	2016	2015
Provision for post-employment benefits	**2,324,748**	**2,412,038**
Current cost	(34,890)	(31,350)
Financial charges	35,562	39,860
Actuarial differences	64,314	(74,994)
Retained earnings	146,395	212,879
Total	**2,536,130**	**2,558,433**

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 20%.

- 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 0.8562% per year, i.e. the rate on Bonds issued by AA-rated European Companies at 31 December 2016 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 € 2,536,130):

Sensitivity analysis at 31 December 2016	**% Change in liabilities (DBO)**			
Type of change for the specific assumption	**Decrease**	**Increase**	**Decrease**	**Increase**
Decrease or increase of 50% of company's staff turnover	0.61%	-0.36%	2,551,600	2,527,000
Decrease or increase of 50% in frequency of advanced payments	0.17%	-0.14%	2,540,441	2,532,579
Decrease or increase of inflation by one percentage point	-8.62%	9.59%	2,317,515	2,779,344
Decrease or increase of discount rate by one percentage point	13.02%	-11.10%	2,866,334	2,254,619

The end-of-term severance debt refers to the fee renewed for the period 2014-2016, to be paid when the term of office of the Chairman of the Board of Directors ends, equal to 25% of the fees resolved upon and accrued each year, as resolved by the Shareholders’ Meeting of 16 April 2014.

1.14. Provisions for future risks and charges

The item “Provisions for future risks and charges” amounted to € 288,905 at 31 December 2016 (€ 90,000 at 31 December 2015).

The change during the year is due to the provision for contingent liabilities with regard to the personnel department.

1.15. Current financial liabilities

Current financial liabilities amount to € 10,130,101 (€ 7,263,424 at 31 December 2015) and include the short-term loans from subsidiaries, and the payables on research projects funded by the European Union.

(Amount in Euro)	31 December 2016	31 December 2015	Change
Cash Pooling from subsidiaries	9,288,955	6,449,686	2,839,269
Advances for partners of funded projects	706,824	794,459	(87,635)
Receivables subject to collection	129,980	0	129,980
Fair value of forward sales	4,341	19,278	(14,937)
Total	**10,130,100**	**7,263,423**	**2,866,677**

The loans granted by subsidiaries to the Parent Company through "cash-pooling" contracts amounted to € 9,288,955 (€ 6,449,686 at 31 December 2015). Interest expense of € 96,137 accrued on these loans and was calculated by applying an interest rate equal to the 12-month Euribor + 1% spread for the Euro zone companies, 12-month Libor + 1% spread for the Sterling zone companies and BBSW + 1% spread for companies in Australia. The table below details the loans by counterparty, and compares the values with those of 31 December 2015:

(Amount in Euro)	31 December 2016	31 December 2015	Change
Cash Pooling TXT e-solutions SL	1,114,867	1,138,074	(23,207)
Cash Pooling TXT e-solutions GmbH	4,154,877	2,524,877	1,630,000
Cash Pooling TXT e-solutions Sarl	3,542,689	2,377,988	1,164,701
Cash Pooling TXT Ltd	373,753	408,747	(34,994)
Cash Pooling Maple Lake Australia Pty Ltd	102,768	0	102,768
Total	**9,288,955**	**6,449,686**	**2,839,269**

The changes are due to the subsidiaries' cash generation, net of the relevant net changes in working capital, which generated a cash surplus accredited on the Cash-pooling accounts.

The payable regarding advances on research projects funded by the European Union received by TXT e-solutions S.p.A. as lead manager and to be reimbursed to the project partners amounted to € 706,824 (€ 794,459 at 31 December 2015). This payable will be paid off in 2017.

Payables due to banks for advances on receivables to be collected and for current account overdrafts amounted to € 129,980.

The forward sale of CAD 4,500,000 amounted to € 4,341, with contract stipulated on 28 December 2016.

1.16. Trade payables

Trade payables amounted to € 4,769,361 at 31 December 2016 (€ 2,828,232 at 31 December 2015). 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 mainly due to the increase in intercompany payables and to the net settlement of several amounts during the initial months of 2017.

1.17. Tax payables

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

The Company did not have any tax payables at 31 December 2015, as the advances paid during 2015 were in excess compared to the amounts owing for the year.

1.18. Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 9,475,185 at 31 December 2016, compared to € 8,897,923 at 31 December 2015, as shown in the table below:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Payables due to social security institutions	1,328,772	1,180,324	148,448
Payables due to employees and external staff	4,699,809	4,478,720	221,088
Tax payables other than income taxes	1,079,454	1,139,348	(59,894)
Accrued expenses and deferred income	2,367,151	2,099,532	267,619
Total	**9,475,185**	**8,897,923**	**577,262**

The item payables due to employees and external staff includes:

- variable remuneration (bonuses) of € 2.1 million (€ 2.3 million at 31 December 2015) that will be paid during 2017 based on the achievement of corporate and personal performance targets;
- provisions for deferred remuneration (predominantly the thirteenth month bonus, leaves and holiday pay) for the remaining portion.

VAT payables of € 416,263 (€ 506,373 at 31 December 2015) and payables for withholding taxes for employees, external staff and professionals of € 663,191 (€ 631,975 at 31 December 2015) are classified under the item “tax payables other than income taxes”.

The item “accrued expenses and deferred income” mainly refers to revenues pertaining to future financial years invoiced to customers in advance. The increase is directly related to performance in revenues.

2. Income Statement

2.1. Total revenues and other income

Revenues and other income for 2016 amounted to € 45,343,816, up 5.32% compared with the previous year.

	31 Dec. 2016	31 Dec. 2015	Change	% change
Revenues	45,343,816	42,929,677	2,414,139	5.32%
Total	**45,343,816**	**42,929,677**	**2,414,139**	**5.32%**

The increase in revenues over the prior year is in line with the increase in Group revenues, from both the TXT Retail and TXT Next divisions.

The portion of grants received from the European Union accrued during the financial year amounted to € 459,006 (compared to € 879,309 at 31 December 2015). In the previous financial statements, this was highlighted separately under other income, while in 2016 it was included under the item Revenues, as this detail was no longer considered necessary.

For additional information on the analysis of revenues and other income, see the Director's report on operations.

2.2. Purchase of materials and external services

Purchases of materials and external services amounted to € 11,899,169, up from 2015, when they totalled € 10,815,618.

The item is detailed below:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Consumables and resale items	296,100	313,816	(17,716)
Technical consulting	1,827,016	2,530,326	(703,310)
Intercompany charges	3,246,235	2,433,623	812,612
Travel expenses	2,110,268	1,682,968	427,300
Utilities	316,758	310,023	6,735
Media & marketing services	586,657	427,447	159,210
Maintenance and repair	690,463	569,504	120,959
Canteen and ticket services	582,978	523,074	59,904
General, administrative and legal services	1,474,777	1,065,012	409,765
Costs for Directors and Statutory Auditors	669,012	667,670	1,342
Others	98,905	292,155	(193,250)
Total	**11,899,169**	**10,815,618**	**1,083,551**

As a percentage of revenues, costs for purchasing materials and services were in line with the prior year, at around 26% (compared to 25% at 31 December 2015).

Technical consulting fell by approximately € 0.7 million compared to 2015, due to the fact that various software development processes, previously provided by outside consultants, were brought in house within the TXT Group. Conversely, the charging back of intercompany costs increased by € 0.8 million, due to greater use of support by other companies of the Group, with high professional skills and experience.

Charges for general, administrative and legal services also increased, compared to 31 December 2015, mainly due to higher costs for M&A consulting, predominantly related to the acquisition of PACE GmbH, and consultancy fees to seek highly specialised personnel.

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

2.3. Personnel costs

Personnel costs for 2016 amounted to € 28,254,925, up by € 1,199,345 (4.4%) compared to 2015.

This increase is mainly due to growth in the number of employees of the TXT Retail and TXT Next divisions, due to the increase in business volume and the hiring of young graduates, facilitated by the contractual changes introduced in Italy by the so-called Jobs Act.

Personnel costs	31 Dec. 2016	31 Dec. 2015	Change
Wages and salaries	21,965,928	20,879,646	1,086,282
Social security costs	4,628,829	3,921,581	707,248
Post-employment benefits	1,393,009	1,218,287	174,722
Other personnel costs	267,159	1,036,066	(768,907)
Total personnel costs	**28,254,925**	**27,055,580**	**1,199,345**

The item “Other personnel costs” in 2015 mainly included costs sustained for the stock grant plan (€ 740,000) and the amounts paid to employees following out-of-court settlements.

The employees of TXT e-solutions, excluding directors and external consultants, numbered 550 at 31 December 2016 (500 at 31 December 2015).

The table below shows the breakdown of employees by level:

	White-collar staff	Middle managers	Executives and manag-ers	Total
31 Dec. 2015	422	54	24	500
31 Dec. 2016	466	60	24	550

2.4. Other operating costs

The item “other operating costs” amounted to € 1,098,042, down by € 56,681 from the previous year.

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Rental expense for premises	518,550	488,338	30,212
Rental expense for motor vehicles	504,001	458,333	45,668
Contingent liabilities	18,983	107,690	(88,707)
Other operating costs	56,508	100,362	(43,854)
Total	**1,098,042**	**1,154,723**	**(56,681)**

The item Rental expense for premises is essentially in line with 2015. This item includes the rent for the offices of Milan, Turin, Genoa, Vicenza and Bari.

The item Rental expense for motor vehicles includes both the rental expense for motor vehicles used on a regular basis and occasional rentals for individual business trips. It should also be noted that the costs incurred with regard to the cars assigned to managers and other personnel depend on the business role and service requirements for business trips.

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

2.5. Depreciation, amortisation and impairment

Depreciation and amortisation at 31 December 2016 amounts to € 432,787 (€ 588,890 at 31 December 2015), down due to the conclusion of amortisation of research and development costs on TXT's proprietary product.

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.

This item includes the impairment of the investment in TXT North America Inc., equal to € 978,389.

2.6. Financial income (charges)

The balance of financial income and charges at 31 December 2016 was positive for € 875,432, compared to a negative balance of € 1,331,677 at 31 December 2015.

Financial income is detailed as follows:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Subsidiaries' dividends	1,000,000	1,500,000	(500,000)
Bank interest income	3,314	46,406	(43,092)
Exchange rate gains	785,757	180,476	605,281
Profit on forward sales	110,738	350,369	(239,631)
Interest income on intercompany loans	74,510	79,872	(5,362)
Total	**1,974,318**	**2,157,123**	**(182,805)**

Bank interest income decreased due to the general reduction in interest rates on short-term deposits in Euro. In 2016, a dividend of € 1,000,000 was resolved and collected by the French subsidiary TXT e-solutions Sarl.

Financial charges are detailed as follows:

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Interest expense for post-employment benefit discounting	35,562	39,860	(4,298)
Bank interest expense	1,190	124	1,066
Interest expense on loans	0	47,964	(47,964)
Interest expense on intercompany loans	96,138	80,526	15,612
Exchange rate losses	553,128	385,771	167,357
Losses on forward sales	326,781	178,752	148,029
Bank expenses	37,966	41,617	(3,652)
Other	48,121	50,833	(2,712)
Total	**1,098,886**	**825,447**	**273,439**

The main item refers to the exchange rate losses largely arising from the foreign currency loans to foreign subsidiaries after the appreciation of the Euro during the year.

The exchange rate risk management activity reported overall losses/gains on foreign exchange and on losses/gains on forward sales of approximately € 20 thousand.

(Amount in Euro)	at 31 Dec. 2016	at 31 Dec. 2015	Change
Exchange rate gains	785,757	180,476	605,281
Profit on forward sales	110,738	350,369	(239,631)
Exchange rate losses	(553,128)	(385,771)	(167,357)
Losses on forward sales	(326,781)	(178,752)	(148,029)
Total	**16,586**	**(33,678)**	**50,264**

Exchange rate gains/losses regard the differences generated on commercial transactions in currencies other than the Euro (predominantly the USD, CAD, GBP, AUD, HKD and SGD).

Gains/losses on forward sales regard foreign currency hedges carried out during the year.

2.7. Income taxes

Income taxes amounted to € 470,228, compared to € 121,665 in 2015, and are broken down as follows:

	2016	2015	Change
Current taxes	419,872	389,731	30,141
Deferred tax assets	32,604	16,941	15,663
Deferred tax liabilities	26,233	(285,007)	311,240
Deferred taxes of previous years	(8,481)	0	(8,481)
Total	**470,228**	**121,665**	**348,563**

€ 206,922 of current taxes can be attributed to IRAP and € 212,950 to corporate income tax (IRES). With regard to the deferred tax assets/(liabilities), reference should be made to the notes to the Balance Sheet.

2.8. Net earnings per share

Basic net earnings per share

The basic net earnings per share for 2016 is calculated by dividing net profit of € 3,085,708 (€ 4,524,878 at 31 December 2015) by the average number of ordinary shares outstanding in 2016, equal to 11,686,276. The result is € 0.26.

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 2016, the weighted average number of ordinary shares outstanding in 2016 was 11,686,276, and the diluted earnings per share amounted to € 0.48.

2.9. 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

At 31 December 2016	Receivables	Payables	Costs	Revenues
TXT e-solutions Sarl (France)	821,166	201,911	84,046	3,427,425
TXT e-solutions Gmbh (Germany)	602,358	123,287	375,241	1,937,906
TXT e-solutions SL (Spain)	44,226	105,965	122,815	106,543
TXT e-solutions Ltd (United Kingdom)	950,574	967,079	1,741,653	2,166,131
Maple Lake Australia Pty Ltd (Australia)	30,003	3,628	0	67,000
Maple Lake Ltd (Canada)	1,849,375	643,072	404,304	1,601,526
Pace GmbH	183,935	1,873	3,060	197,435
TXT USA Inc.	8,257	232,794	230,910	441
TXT Singapore Pte Ltd	2,651	51,208	225,863	1,200
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
Balance at 31 December 2016	**4,491,228**	**4,034,815**	**4,978,974**	**9,505,606**

At 31 December 2015	Receivables	Payables	Costs	Revenues
TXT e-solutions Sarl (France)	772,401	195,706	121,047	2,944,463
TXT e-solutions Gmbh (Germany)	0	40,429	536,722	1,234,179
TXT e-solutions SL (Spain)	(0)	36,193	114,878	146,490
TXT e-solutions Ltd (United Kingdom)	322,217	653,845	1,635,365	1,949,081
Maple Lake Australia Pty Ltd (Australia)	10,084	0	0	35,000
Maple Lake Ltd (Canada)	761,638	36,922	8,116	1,208,049
TXT USA Inc.	2,117	0	0	0
TXT Singapore Pte Ltd	198	17,380	17,494	0
Directors and key management personnel	0	1,634,979	2,290,671	0
Balance at 31 December 2015	**1,868,655**	**2,615,453**	**4,724,294**	**7,517,262**

Financial transactions

At 31 December 2016	Receivables	Payables	Charges	Income
TXT e-solutions Sarl (France)	0	3,542,689	42,677	1,000,000
TXT e-solutions Gmbh (Germany)	0	4,154,877	31,067	0
TXT e-solutions SL (Spain)	0	1,114,867	11,943	0
TXT e-solutions Ltd (United Kingdom)	0	373,753	5,010	0
Maple Lake Australia Pty Ltd (Australia)	0	102,768	3,569	0
Maple Lake Ltd (Canada)	3,170,818	0	978,389	63,941
Pace GmbH	0	0	1,873	0
TXT USA Inc.	265,629	0	0	5,659
TXT Retail AsiaPacific Ltd	18,683	0	0	358
TXT Singapore Pte Ltd	174,034	0	0	4,551
TXT e-solutions Sagl (CH)	65,319	0	0	0
Balance at 31 December 2016	**3,694,483**	**9,288,955**	**1,074,527**	**1,074,510**

At 31 December 2015	Receivables	Payables	Charges	Income
TXT e-solutions Sarl (France)	0	2,377,989	32,269	1,500,000
TXT e-solutions Gmbh (Germany)	0	2,524,877	30,664	0
TXT e-solutions SL (Spain)	0	1,138,074	13,503	0
TXT e-solutions Ltd (United Kingdom)	0	408,747	4,091	0
Maple Lake Australia Pty Ltd (Australia)	(0)	0	0	1,115
Maple Lake Ltd (Canada)	2,976,156	0	0	75,303
TXT USA Inc.	257,188	0	0	3,256
TXT Retail AsiaPacific Ltd	17,719	0	0	0
TXT Singapore Pte Ltd	68,959	0	0	198
Balance at 31 December 2015	**3,320,022**	**6,449,687**	**80,527**	**1,579,872**

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

	Total	Related parties	Impact
Trade receivables	19,114,143	4,491,228	23.5%
Other financial receivables	3,949,307	3,694,483	93.5%
Employee benefits expense	3,563,347	1,283,958	36.0%
Current financial liabilities	10,130,101	9,288,955	91.7%
Trade payables	4,769,361	1,552,253	32.5%
Sundry payables and other current liabilities	9,475,185	1,198,605	12.6%
Total Revenues	45,343,816	9,505,606	21.0%
Purchase of materials and external services	(11,899,169)	(3,841,567)	32.3%
Personnel costs	(28,254,925)	(1,137,406)	4.0%
Depreciation and amortisation/Impairment/Provisions	(1,411,176)	(978,389)	69.3%
Financial income	1,074,510	2,157,124	>100%
Financial charges	(96,138)	(825,447)	>100%

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:

	31 Dec. 2016	*31 Dec. 2015*	*Change*
Amounts in Euro	*(a)*	*(b)*	*(a-b)*
Cash, bank assets, and securities	4,443,217	7,317,967	(2,874,750)
Short-term payables due to banks	(129,980)	0	(129,980)
Intercompany receivables for cash-pooling	3,694,483	3,320,022	374,461
Intercompany payables for cash-pooling	(9,288,955)	(6,449,687)	(2,839,268)
Other short-term financial receivables	254,824	0	254,824
Other short-term financial payables	(711,166)	(813,737)	102,571
Short-term financial position	**(1,737,578)**	**5,476,290**	**(7,213,867)**

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

4. Subsequent events

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

The Company expects to achieve positive growth in revenues during the first quarter of 2017 in both Divisions, although the short-term profitability level will be penalised by substantial investments in research and development and strengthening of international business. For further details, reference should be made to the Directors' report on operations.

5. Significant non-recurring events and transactions

Based on Consob Resolution no. 15519 dated 27 July 2006, it should be noted that no “non-recurring events and transactions” took place in the period.

6. Proposal for allocation of profit or coverage of losses

We propose that the profit for the year of € 3,085,707.51 (rounded to € 3,085,708) be allocated as follows:

- € 155,000.00 to legal reserves;
- The residual amount of € 2,930,707.51 to the retained earnings reserve;

distribution of € 0.25 (zero point twenty-five 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 17 May 2017, with record date 16 May 2017 and ex-dividend date 15 May 2017, coupon no. 9. Acknowledgement that, solely for tax purposes, this dividend constitutes a distribution of profit reserves whose profits were achieved after financial year 2007.