



# TXT e-solutions Group

Interim report  
as at 30 September 2018

## 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 as at 31 December 2019:

Alvise Braga Illa	Chairman	(1)
Enrico Magni	Chief Executive Officer	(2)
Marco Edoardo Guida	Chief Executive Officer	(3)
Paolo Matarazzo	Director	(3)
Fabienne Anne Dejean Schwalbe	Independent Director	(4)
Stefania Saviolo	Independent Director	(4)
Valentina Cogliati	Independent Director	(5)

(1) Powers assigned: proxy

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

(3) Powers assigned: ordinary administration.

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

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

### BOARD OF STATUTORY AUDITORS

Members' term of office expires upon approval of the financial statements as at 31 December 2019:

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

### EXTERNAL AUDITORS

EY S.p.A.

### INVESTOR RELATIONS

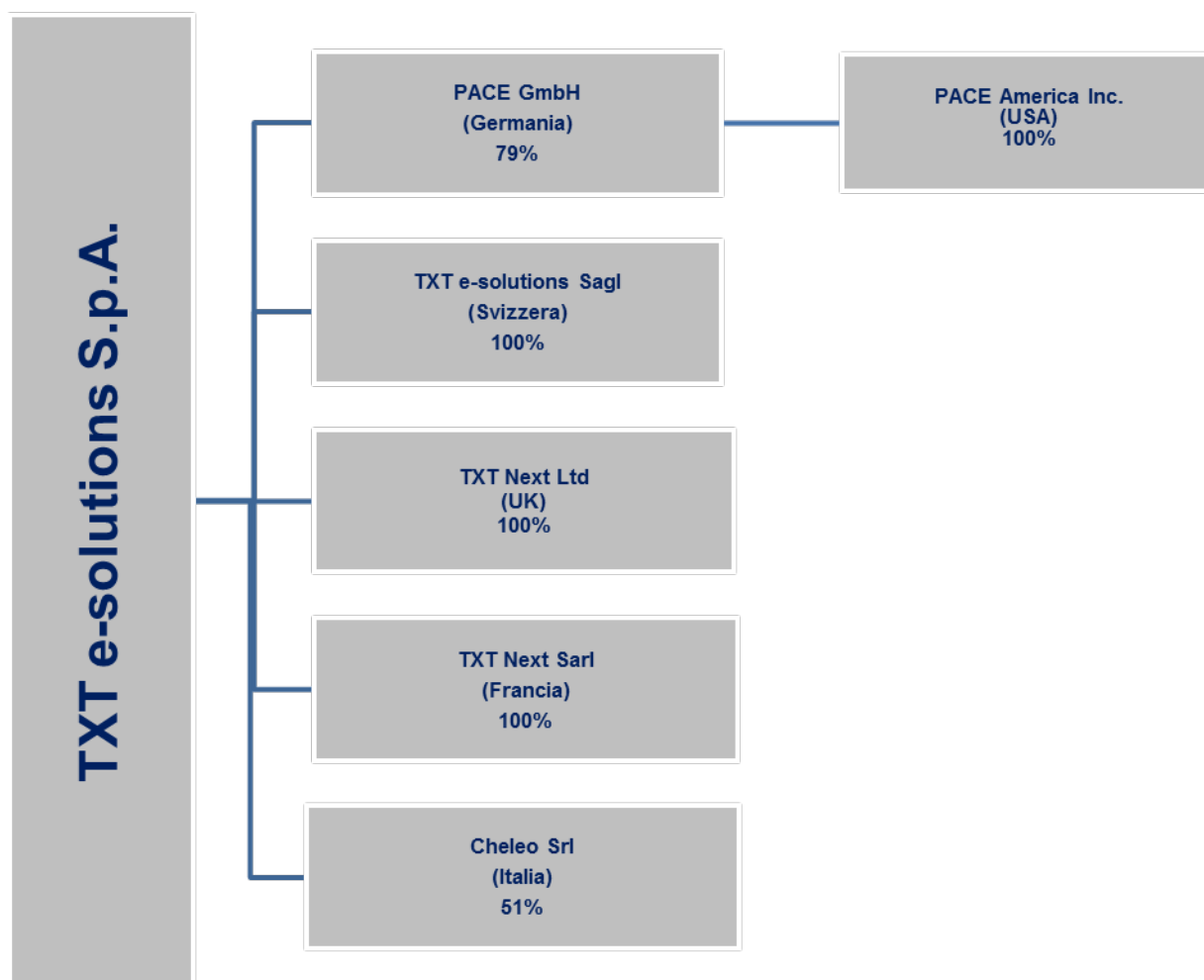
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Organisational structure and scope of consolidation



Key data and Directors' Report on Operations for the first 9 months of 2018

## TXT e-solutions Group – Key data

<b>INCOME DATA</b> (€thousand)	<b>9m 2018</b>	<b>%</b>	<b>9m 2017</b>	<b>%</b>	<b>% CHANGE</b>
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<b>REVENUES</b>	<b>28,627</b>	<b>100.0</b>	<b>26,032</b>	<b>100.0</b>	<b>10.0</b>
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<b>EBITDA</b>	<b>2,829</b>	<b>9.9</b>	<b>2,623</b>	<b>10.1</b>	<b>7.9</b>
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<b>OPERATING PROFIT (EBIT)</b>	<b>1,464</b>	<b>5.1</b>	<b>2,111</b>	<b>8.1</b>	<b>(30.6)</b>
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<b>NET PROFIT FROM CONTINUING OPERATIONS</b>	<b>999</b>	<b>3.5</b>	<b>1,391</b>	<b>5.3</b>	<b>(28.2)</b>
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Net profit from Discontinued Operations - 838

<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>999</b>		<b>2,229</b>		
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<b>FINANCIAL DATA</b> (€thousand)	<b>30.9.2018</b>	<b>31.12.2017</b>	<b>Change</b>
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Fixed assets 20,189 8,860 11,329

Net working capital 6,135 6,303 (168)

Post-employment benefits and other non-current liabilities (2,935) (2,609) (326)

<b>Capital employed</b>	<b>23,389</b>	<b>12,554</b>	<b>10,835</b>
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Net financial position 64,812 87,340 (22,528)

Group shareholders' equity 88,201 99,894 (11,693)

<b>DATA PER SHARE</b>	<b>30.9.2018</b>	<b>30.9.2017</b>	<b>Change</b>
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Average number of shares outstanding 11,767,885 11,652,117 115,768

Net earnings per share 0.08 0.19 (0.11)

Shareholders' equity per share 7.50 2.84 4.66

<b>ADDITIONAL INFORMATION</b>	<b>30.9.2018</b>	<b>31.12.2017</b>	<b>Change</b>
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Number of employees 523 481 42

TXT share price 9.51 9.64 (0.13)

(1) The analytical results of the first 9 months of 2017 refer to Continuing Operations, in accordance with Accounting Standard IFRS 5. The summary results refer to assets held for sale ("Discontinued Operations").

## Notes on Alternative Performance Measures

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

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

- **EBITDA**, which in the official consolidated Income Statement means “Total revenues” net of total operating costs.
- **EBIT**, which in the official consolidated Income Statement means “Total revenues” net of total operating costs, depreciation 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 current receivables/payables.
- **CAPITAL EMPLOYED**, the algebraic sum of Fixed Assets, Net Working Capital, post-employment benefits, and other non-current liabilities.

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

## Directors' Report on Operations for the first 9 months of 2018

Dear Shareholders:

Two factors have characterised the first 9 months of 2018: the robust organic development of software activities for the Aerospace, Aviation & Automotive sectors, the expansion of the partnership with Boeing and other important customers, and the investments in the research and development of innovative software products; the acquisition of Cheleo, a company specialised in the development of software and solutions for managing the life cycle of bank and financial loans.

Cheleo designs and develops products and services for managing loans: initial inquiries, management and recovery of credit, transfer of credit packages, both performing and non-performing. The types of loans covered are leases, mortgages, salary-backed loans, factoring and Non-Performing Loans (NPLs).

The Cheleo acquisition offers TXT the opportunity to work with a highly competent team of staff which share TXT's ethical and professional values in providing products and services of the highest quality. This first acquisition allows TXT to join the Fintech sector, thus strengthening its pre-existing Banking and Finance Division activities.

The main operating and financial results for the first 9 months of 2018 were as follows:

- Revenues amounted to €28.6 million, up 10.0% compared to €26.0 million in first 9 months of 2017. Within the same consolidation scope, revenues increased by 8.0%, with a €0.5 million contribution from Cheleo. Revenues from software licenses, subscriptions and maintenance amounted to €3.7 million, up by 55.7% compared with the first 9 months of 2017 (€2.4 million) due to Cheleo's contribution and also to the application of the new accounting standard IFRS 15 "Revenue Recognition" which entails a different recognition profile over the year for the revenue from software license sales. Revenues from services amounted to €24.9 million compared with €23.6 million in the first 9 months of 2017, up by 5.3%.
- International revenues amounted to €10.1 million, up by 15.3% compared to €8.8 million in the first 9 months of 2017, equal to 35% of the total (34% in 2017).
- Net of direct costs, the Gross Margin came to €12.7 million, up by 14.0% compared to the first 9 months of 2017. The percentage impact on revenues increased from 42.7% to 44.3%.
- EBITDA was €2.8 million, up by 7.9% compared to the first nine months of 2017 (€2.6 million), following significant investments in research and development (+15.6%) and commercial investments (+12.4%). General and administrative costs increased by 19.9% due to legal and notarial fees for the acquisition of Cheleo as well as corporate costs that are no longer apportioned to a wider scope of activities after the sale of TXT Retail. The new accounting standard IFRS 16 no longer recognises the costs for rental/leasing of offices, cars and printers under operating costs, but as depreciation costs of the related contracts. The margin on revenues was 9.9% compared with 10.1% in 2017.
- Operating profit (EBIT) amounted to €1.5 million, down compared to the first 9 months of 2017 (€2.1 million) as a result of amortisation/depreciation related to adoption of the new accounting



standard IFRS 16 “Operating leases” (€0.7 million).

- Net profit stood at €1.0 million, down €0.4 million on the net profit from continuing operations in the first 9 months of 2017 (€1.4 million) due to the effect of higher financial charges from capital losses on liquidity management, more than offset by the lower tax liabilities for the one-off “Patent Box” benefit. Net profit of the first 9 months of 2017 (€2.2 million) included net profit from continuing operations (€1.4 million) and net profit from TXT Retail Division “Discontinued Operations” (€0.8 million).
- The consolidated Net Financial Position as at 30 September 2018 was positive for €64.8 million, compared to €87.3 million as at 31 December 2017, down €22.5 million mainly due to the dividend distribution (€11.7 million), the disbursement for the acquisition of Cheleo (€5.0 million), the purchase of treasury shares (€3.2 million) and the recognition of the payable to lessors of offices, cars and printers as a result of the new accounting standard IFRS 16 (€2.8 million).
- Consolidated shareholders' equity as at 30 September 2018 amounted to €88.2 million, down €11.7 million compared to €99.9 million as at 31 December 2017. The main reasons for the decrease is the distribution of dividends (€11.7 million), purchase of treasury shares (€3.2 million) and application of the new accounting standard IFRS 15 “Revenue recognition”, with a different recognition profile of revenue from the sale of software licences. Revenues already considered in previous years were recalculated according to the new standard, cumulatively adjusting shareholders' equity (€1.4 million). The net shareholders' equity also increased thanks to the use of treasury shares for the payment of one portion of the price for the acquisition of Cheleo (€3.5 million), and to the net profit recorded in the first 9 months of 2018 (€1.0 million).

The Aviation sector is in a phase of rapid consolidation and TXT is well-positioned to take opportunities with regard to work and acquisitions, numbering among its main and most loyal customers some of the biggest players in this consolidation, including Leonardo, Airbus, Boeing, Pilatus, Lufthansa, Safran, Rolls-Royce and Embraer, and many others.

In the first 9 months of 2018, R&D investments, already started in 2017, continued and resulted in the issue of new software solutions in the areas of Flight Operations (Pacelab FPO Cloud), Training for maintenance workers (Pacelab WEAVR) and the configuration of airplane cabins (Pacelab CABIN).

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

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

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

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

The assets attributable to the TXT Retail Division, sold on 2 October 2017, were classified in the comparative tables of the first 9 months 2017 under “Assets and liabilities held for sale - Discontinued Operations”, pursuant to accounting standard IFRS 5. The income statement for the first 9 months of 2017 showed a breakdown of the trend in revenues and expenses with regard to continuing operations, corresponding to the TXT Next Division and without TXT Retail. The net profit (loss) of the TXT Retail Division (“Discontinued Operations”) in the first six months of 2017 is summarised under discontinued operations.

TXT’s results for the first 9 months of 2018, compared with those under Continuing Operations in the previous year, are the following:

<i>(€ thousand)</i>	9m 2018	%	9m 2017	%	% Change
<b>REVENUES</b>	<b>28,627</b>	<b>100.0</b>	<b>26,032</b>	<b>100.0</b>	<b>10.0</b>
Direct costs	15,942	55.7	14,906	57.3	7.0
<b>GROSS MARGIN</b>	<b>12,685</b>	<b>44.3</b>	<b>11,126</b>	<b>42.7</b>	<b>14.0</b>
Research and Development costs	2,154	7.5	1,864	7.2	15.6
Commercial costs	3,884	13.6	3,456	13.3	12.4
General and Administrative costs	3,818	13.3	3,183	12.2	19.9
<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>2,829</b>	<b>9.9</b>	<b>2,623</b>	<b>10.1</b>	<b>7.9</b>
Depreciation, amortisation and impairment	1,365	4.8	512	2.0	n.s.
<b>OPERATING PROFIT (EBIT)</b>	<b>1,464</b>	<b>5.1</b>	<b>2,111</b>	<b>8.1</b>	<b>(30.6)</b>
Financial income (charges)	(385)	(1.3)	(95)	(0.4)	n.s.
<b>EARNINGS BEFORE TAXES (EBT)</b>	<b>1,079</b>	<b>3.8</b>	<b>2,016</b>	<b>7.7</b>	<b>(46.5)</b>
Taxes	(80)	(0.3)	(625)	(2.4)	(87.2)
<b>NET PROFIT FROM CONTINUING OPERATIONS</b>	<b>999</b>	<b>3.5</b>	<b>1,391</b>	<b>5.3</b>	<b>(28.2)</b>
Net profit Discontinued Operations (sale of TXT Retail)	-		838		
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>999</b>		<b>2,229</b>		

## REVENUES AND GROSS MARGINS

Revenues and direct costs for the first 9 months of 2018, compared with those under continuing operations in the previous year, are the following:

<i>(€ thousand)</i>	9m 2018	%	9m 2017	%	% Change
<b>REVENUES</b>	<b>28,627</b>	<b>100.0</b>	<b>26,032</b>	<b>100.0</b>	<b>10.0</b>
Software	3,730	13.0	2,396	9.2	55.7
Services	24,897	87.0	23,636	90.8	5.3
<b>DIRECT COSTS</b>	<b>15,942</b>	<b>55.7</b>	<b>14,906</b>	<b>57.3</b>	<b>7.0</b>
<b>GROSS MARGIN</b>	<b>12,685</b>	<b>44.3</b>	<b>11,126</b>	<b>42.7</b>	<b>14.0</b>

In the first 9 months of 2018, revenues amounted to €28.6 million, up by €2.6 million (+10.0%) compared with €26.0 million of the first 9 months of 2017, due to the organic growth (+8.2%) recorded in particular in the aviation market and to the consolidation of the Cheleo activities as from 1 August 2018 (€0.5 million). Revenues from software for licences, subscriptions and maintenance in the first 9 months of 2018 were €3.7 million, +55.7% compared to the first 9 months of 2017, and revenues from services amounted to €24.9 million, up by 5.3% compared to the first 9 months of 2017.

International revenues accounted for 35% of total revenues, compared to 34% in the prior year's first 9 months, up by 15.3%.

The Gross margin increased from €11.1 million to €12.7 million, up by 14.0% due to a better contribution of revenues from licences which, following the adoption of the new accounting standard IFRS 15 "Revenue recognition", are now more evenly apportioned over the financial year as well as due to the positive contribution from Cheleo. The impact of the gross margin on revenues improved from 42.7% to 44.3%.

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

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

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

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

TXT 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 aerospace and aviation sector, a historic precursor in these realms. TXT has strategic partnerships with Microsoft, HP and IBM.

The Cheleo acquisition will allow TXT to significantly expand its customers target and likewise its mix of new products, expertise and high value-added specialisations, strengthening its market presence.

In 2017, Cheleo achieved revenues of around €2.8 million with EBITDA (IFRS) of €0.95 million (34% of revenues). Both revenues and EBITDA are forecast to rise in 2018 (+25%). Cheleo results were consolidated with the TXT results as from 1 August 2018.

The majority of Cheleo share capital was held, indirectly through Laserline S.p.A., by Enrico Magni, the relative majority shareholder and Chief Executive Officer of TXT and consequently a related party in the transaction. All the procedures and fairness checks for corporate transactions with related parties were therefore implemented, including the publication of a disclosure.

## REVENUES

In the first 9 months of 2018, research and development costs amounted to €2.2 million, up by 15.6% compared with €1.9 million in 2017 mainly due to new investments in proprietary software products for the improvement of operating efficiency during flights, and in the technologies for 3D representation and Augmented Reality. The impact on revenues increased from 7.2% in the first 9 months of 2017 to 7.5%.

Commercial costs amounted to €3.9 million, up by 12.4% compared to the first 9 months of 2017, due to commercial investments in international aerospace and aviation business. The impact of commercial costs on revenues increased from 13.3% in the first 9 months of 2017 to 13.6%.

General and administrative costs amounted to €3.8 million, up by €0.6 million compared with the same figure of the first 9 months of 2017 (€3.2 million), due to some corporate costs that are no longer apportioned over a wider scope of activities following the transfer of TXT Retail and to legal and notarial fees for the acquisition of Cheleo. These costs were partly offset by the effects of the adoption of the new accounting standard IFRS 16, according to which rental costs for offices, cars and printers are no longer considered as operating costs, but rather as depreciation costs of the related contracts (€0.7 million). The impact on revenues was 13.3% in the first 9 months of 2017, compared with 12.2% in 2017.

Gross operating profit (EBITDA) for the first 9 months of 2018 was €2.8 million, up by 7.9% compared to the same figure for the first 9 months of 2017 (€2.6 million). Profit as a percentage of revenues was 9.9%, compared to 10.1% the prior year.

Operating profit (EBIT) amounted to €1.5 million, down compared to the first 9 months of 2017 (€2.1 million) as a result of amortisation/depreciation related to adoption of the new accounting standard IFRS 16 "Operating leases" (€0.7 million). Amortisation and depreciation of assets and the provisions to bad debts amounted to €0.7 million.

Earnings before taxes came to €1.1 million, compared with €2.0 million in the first 9 months of 2017. In the first nine months of 2018, financial charges amounted to €0.4 million, compared with €0.1 million in 2017 due to the costs for joining some multisegment insurance funds and due to some capital losses from financial investments because of the high volatility of the financial markets in the last few months.

Net profit was €1.0 million, compared to the net profit under continuing operations of €1.4 million in the first 9 months of 2017 (-28.2%). The particularly lower tax liabilities in the first nine months of 2018 (€80 thousand) benefited from the one-off recognition of "Patent Box" tax relief on intercompany software profits in 2015-2017, resulting from an agreement executed with the Tax Authorities (€0.2 million). In the first nine months of 2017 the taxes amounted to €0.6 million, equal to 31% of the Earnings before taxes.

Net profit of the first 9 months of 2017 (€2.2 million) included net profit from continuing operations (€1.4 million) and net profit from TXT Retail Division "Discontinued Operations" (€0.8 million).

## CAPITAL EMPLOYED

At 30 September 2018, capital employed was €23.4 million, up by €10.8 million compared with 31 December 2017 (€12.6 million) mainly due to the acquisition of Cheleo (+€8.4 million) and the adoption of the new IFRS accounting standard which has involved the recognition of tangible assets for €2.9 million.

The table below shows the details:

(€ thousand)	30.9.2018	31.12.2017	Total change	of which Cheleo	of which TXT
Intangible assets	15,342	7,332	8,010	8,276	(266)
Net property, plant and equipment	3,758	793	2,965	80	2,885
Other fixed assets	1,089	735	354	0	354
<b>Fixed assets</b>	<b>20,189</b>	<b>8,860</b>	<b>11,329</b>	<b>8,356</b>	<b>2,973</b>
Inventories	3,667	2,528	1,139	-	1,139
Trade receivables	10,805	14,681	(3,876)	810	(4,686)
Sundry receivables and other short-term assets	3,098	2,533	565	171	394
Trade payables	(964)	(1,341)	377	(136)	513
Tax payables	(785)	(1,052)	267	(22)	289
Sundry payables and other short-term liabilities	(9,686)	(11,046)	1,360	(330)	1,690
<b>Net working capital</b>	<b>6,135</b>	<b>6,303</b>	<b>(168)</b>	<b>493</b>	<b>(350)</b>
<b>Post-employment benefits and other non-current liabilities</b>	<b>(2,935)</b>	<b>(2,609)</b>	<b>(326)</b>	<b>(317)</b>	<b>(9)</b>
<b>Capital employed</b>	<b>23,389</b>	<b>12,554</b>	<b>10,835</b>	<b>8,532</b>	<b>2,303</b>
Group shareholders' equity	88,201	99,894	(11,693)	3,464	(15,157)
Net financial position (Cash)	(64,812)	(87,340)	22,528	5,068	17,460
<b>Sources of financing</b>	<b>23,389</b>	<b>12,554</b>	<b>10,835</b>	<b>8,532</b>	<b>2,303</b>

Intangible assets amounted to €15.3 million, up by €8.0 million due to the goodwill for the acquisition of Cheleo (+€8.3 million) and net of the amortisation/depreciation for the period on intangible assets for the intellectual property of the software and customer portfolio following the acquisition of Pace (-€0.3 million).

Property, plant and equipment of €3.8 million, increased by €3.0 million compared to 31 December 2017, mainly due to the voluntary early adoption of the new accounting standard IFRS 16, as from 1 January 2018 (+€2.9 million). The capitalised amount corresponds to the sum of all residual instalments of the related rental and lease agreements (offices, cars and printers). Investments in servers and computers during the first 9 months of 2018 (€0.4 million) were essentially in line with the depreciation amounts for the period.

Other fixed assets amounted of €1.1 million and comprised deferred tax assets, up by €0.4 million compared to 31 December 2017.

Net working capital decreased by €0.2 million, from €6.3 million as at 31 December 2017 to €6.1 million as at 30 September 2018. The primary cause of the reduction in working capital is the decrease in receivables due from customers (-€3.9 million) as a result of effective credit collection action with major Italian customers in the aerospace and aviation sector (-€4.7 million) net of the consolidation of the commercial receivables of Cheleo (+€0.8 million).

The other main changes in net working capital were due to the lower sundry payables and other short-term liabilities (€1.4 million) following the payment of annual bonuses to the employees, based on the results of the 2017 period, and the increase in inventory for work in progress not yet invoiced to the customers (€1.1 million). Tax payables increased by €0.3 million due to allocations related to profit for the period.

Liabilities arising from post-employment benefits of Italian employees and other non-current liabilities of €2.9 million, increased by €0.3 million compared with the same figure at the end of 2017 due to the acquisition of Cheleo.

Consolidated shareholders' equity as at 30 September 2018 amounted to €88.2 million, down €11.7 million compared to €99.9 million as at 31 December 2017. The main reasons for the decrease is the distribution of dividends (€11.7 million), purchase of treasury shares (€3.2 million) and application of the new accounting standard IFRS 15 "Revenue recognition", with a different recognition profile of revenue from the sale of software licences. Revenues already considered in previous years were recalculated according to the new standard, cumulatively adjusting shareholders' equity (€1.4 million). The net shareholders' equity increased thanks also to the use of treasury shares for part of the price paid for the acquisition of Cheleo (€3.5 million) and because of the net profit recorded in the first 9 months of 2018 (€1.0 million).

The consolidated Net Financial Position as at 30 September 2018 was positive for €64.8 million, compared to €87.3 million as at 31 December 2017, down by €22.5 million mainly due to the dividend distribution (€11.7 million), payment for the Cheleo acquisition (€5.0 million), purchase of treasury shares (€3.2 million) and recognition of the payables to lessors of offices, cars and printers as a result of the new accounting standard IFRS 16 (€2.8 million).

The acquisition of Cheleo Srl, completed on 31 July 2018, involved an investment of €8.5 million, broken down as follows:

- €3.5 million for the value of the TXT shares equalling 40% of the Cheleo shares
- €5.0 million disbursement, broken down as:
  - €1.1 million already paid at the first closing covering 11% of the shares
  - €4.9 million payment scheduled for January 2019 covering the remaining 49% of the shares
  - €1.4 million payment to be made in 2020 for "Earn-out", based on the 2019 income
  - (€2.4) million from the cash flow of the acquired Cheleo.

Pursuant to Consob communication dated 28 July 2006 and in compliance with the structure envisaged by the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", it is noted that the TXT e-solutions Group's net financial position as at 30 September 2018 is as follows:

<i>(€ thousand)</i>	30.9.2018	31.12.2017	Change
Cash and cash equivalents	16,208	86,527	(70,319)
Financial instruments at fair value	99,573		99,573
Short-term financial receivables	-	3,156	(3,156)
Current financial liabilities	(13,720)	(675)	(13,045)
<b>Short-term financial resources</b>	<b>102,061</b>	<b>89,008</b>	<b>13,053</b>
Non-current financial payables - Lessors IFRS 16	(1,994)	-	(1,994)
Other non-current financial liabilities	(35,255)	(1,668)	(33,587)
Non-current financial liabilities	(37,249)	(1,668)	(35,581)
<b>Net Available Financial Resources</b>	<b>64,812</b>	<b>87,340</b>	<b>(22,528)</b>

The Net Financial Position as at 30 September 2018 is detailed as follows:

- Cash and cash equivalents of €16.2 million are mainly in Euros, held with major Italian banks.
- HFT securities at fair value of €99.6 million are composed of investments in partial return multisegment insurance funds (€89.9 million) and in bond and absolute return funds with a medium-low risk profile (€9.8 million).
- Short-term financial receivables, zero as at 30 September 2018 and €3.2 million as at 31 December 2017, referred to the contractual payment for net working capital price adjustment agreed with Aptos collected at the beginning of 2018.
- At 30 September 2018, current financial liabilities amounted to €13.7 million and refer by €8.0 million to the short-term share of new medium-long term loans obtained in the third quarter of 2018; by €4.9 million to the payable for the payment of the residual portion of the Cheleo acquisition scheduled for January 2019 and by €0.8 million to the short-term portion of the payable for the payment of rents and leasing of offices, cars and printers covering all instalments until the expiry of the related contracts following adoption of the new accounting principle.  
As at 31 December 2017, the payable of €0.7 million referred to the amount payable to partners for financed research projects.
- Non-current financial payables - Lessors IFRS 16 as at 30 September 2018 amounted to €2.0 million and refer to the medium/long-term portion of payables for the payment of rentals and lease instalments for offices, cars and printers including all amounts up to expiry of the related contracts ("Lessors – IFRS 16"), following adoption of the new accounting standard.
- Non-current financial liabilities for €35.3 million were mainly represented by: €32.0 million in new medium-long term loans obtained in the third quarter of 2018 for the portion to be repaid beyond 12 months; €1.7 million disbursement estimated for the exercise of the Put/Call option in 2020-2021 related to the Pace acquisition and €1.5 million disbursement estimated for the Earn-out in 2020 related to the acquisition of Cheleo.



In July and August 2018, TXT obtained some fixed-rate medium-long term loans, benefiting from the continuing extremely favourable interest rates and the strength of the banking system as an additional element of financial flexibility for development plans regarding the acquisition of the Company, in addition to the already ample liquidity available. Loans in Euro were obtained with fixed interest rate between 0.60% and 0.70% a year, all without guarantees, for a total amount of €40.0 million, of which €8.0 million with a due date within 12 months and €32.0 million beyond 12 months, broken down as follows:

- €20.0 million loan with Unicredit, 5 years, with a quarterly amortisation plan, a floating interest rate and an Interest Rate Swap for covering the interest rate risk.
- €10.0 million loan with BNL, 5 years, with a quarterly amortisation plan, a floating interest rate and an Interest Rate Swap for covering the interest rate risk.
- €10.0 million loan with UBI, 4 years, with a quarterly amortisation plan and fixed interest rates.

### Covenants

In line with market practice, the loan agreements require compliance with:

1. financial covenants based on which the company undertakes to comply with certain levels of financial indexes, contractually defined, the most significant of which relate the gross or net financial indebtedness with the gross operating margin (EBITDA) or the net equity, measured on the basis of the consolidated scope of the Group according to the definitions agreed upon with the financing counterparties;
2. negative pledge commitments pursuant to which the company may not create security interests or other restrictions on the corporate assets;
3. pari-passu clauses based on which the loans have the same degree of priority for their repayment as the other financial liabilities and clauses for change of control, which are activated in the event of a divestment by the majority shareholder;
4. limitations to the extraordinary transactions that the company can carry out, if exceeding certain thresholds;
5. some obligations toward the issuers that restrict, inter alia, the payment of particular dividends or the distribution of capital; as well as to merging or consolidating with other companies; selling or transferring the company's assets.

The measurement of financial covenants and other contractual obligations is constantly monitored by the Group.

The non-compliance with the covenants and the other contractual commitments, if not adequately corrected within the agreed upon time frame, may involve the obligation of an early repayment of the residual amount.

### Q3 2018 ANALYSIS

Analysis of the operating results for the third quarter of 2018, compared with those for continuing operations in the third quarter of the previous year, are presented below:

(€ thousand)	Q3 2018	%	Q3 2017	%	% Change
<b>REVENUES</b>	<b>9,621</b>	<b>100.0</b>	<b>8,113</b>	<b>100.0</b>	<b>18.6</b>
Direct costs	5,382	55.9	4,795	59.1	12.2
<b>GROSS MARGIN</b>	<b>4,239</b>	<b>44.1</b>	<b>3,318</b>	<b>40.9</b>	<b>27.8</b>
Research and Development costs	707	7.3	606	7.5	16.7
Commercial costs	1,263	13.1	1,040	12.8	21.4
General and Administrative costs	1,509	15.7	950	11.7	58.8
<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>760</b>	<b>7.9</b>	<b>722</b>	<b>8.9</b>	<b>5.3</b>
Depreciation, amortisation and impairment	493	5.1	169	2.1	n.s.
<b>OPERATING PROFIT (EBIT)</b>	<b>267</b>	<b>2.8</b>	<b>553</b>	<b>6.8</b>	<b>(51.7)</b>
Financial income (charges)	(98)	(1.0)	58	0.7	n.s.
<b>EARNINGS BEFORE TAXES (EBT)</b>	<b>169</b>	<b>1.8</b>	<b>611</b>	<b>7.5</b>	<b>(72.3)</b>
Taxes	(40)	(0.4)	(193)	(2.4)	n.s.
<b>NET PROFIT FROM CONTINUING OPERATIONS</b>	<b>129</b>	<b>1.3</b>	<b>418</b>	<b>5.2</b>	<b>(69.1)</b>
Net profit Discontinued Operations (sale of TXT Retail)	-		244		
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>129</b>		<b>662</b>		

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

- Net revenues amounted to €9.6 million, up 18.6% compared to the third quarter of 2017 (€8.1 million). Within the same consolidation scope, revenues were up by 12.8%, with Cheleo contributing by €0.5 million). Software, subscriptions and maintenance revenues were €1.4 million, +52.2% compared to the third quarter of 2017 (€0.9 million), due also to the effect of application of the new accounting standard IFRS 15 "Revenue recognition", which this year involves a different recognition profile for revenues from the sale of software licences. Revenues from services amounted to €8.2 million, up 14.4% compared to €7.2 million in the third quarter of 2017.
- The gross margin in the third quarter of 2018 amounted to €4.2 million, +27.8% over the third quarter of 2017 (€3.3 million). The percentage impact on revenues improved from 40.9% to 44.1% thanks to the growth in revenues from software.
- EBITDA in the third quarter of 2018 was €0.8 million, up by 5.3% compared to the third quarter of 2017 (€0.7 million), following significant investments in research and development (+16.7%) and commercial investments (+21.4%). General and administrative costs rose from €1.0 million in the third quarter of 2017 to €1.5 million due to higher legal and notary public costs for the acquisition of Cheleo (€0.2 million) as well as corporate costs that are no longer

apportioned along a wider scope of activities, after the transfer of TXT Retail. The new accounting standard IFRS 16 no longer recognises the costs for rental/leasing of offices, cars and printers under operating costs, but as depreciation costs of the related contracts. In the third quarter of 2018, the percentage of revenue was 7.9% compared with 8.9% of last year.

- EBIT (Operating profit) amounted to €0.3 million, down compared to the third quarter of 2017 (€0.6 million) as a result of amortisation/depreciation for €0.5 million, up due to the adoption of the new accounting standard IFRS 16 “Operating leases”.
- Earnings before taxes was €0.2 million compared with €0.6 million in the third quarter of 2017, after financial charges of €0.1 million for costs related to entering into some multi-segment insurance funds with a guarantee of partial return.
- Net profit was €0.1 million, compared to net profit under continuing operations of €0.4 million in the third quarter of 2017.
- Net profit of the third quarter of 2017 (€0.7 million) included net profit under continuing operations (€0.4 million) and net profit of the TXT Retail Division, “Discontinued Operations” (€0.3 million).

## EMPLOYEES

As at 30 September 2018, there were 523 employees, an increase of 42 employees compared to 481 personnel units at 31 December 2017 due to a growth in the business and the acquisition of Cheleo (24 employees). As at 30 September 2017, there were 486 employees under Continuing Operations.

## TXT SHARE PERFORMANCE AND TREASURY SHARES

In the first 9 months of 2018, the share price of TXT e-solutions reached a high of €13.48 on 2 May 2018 and a low of €9.04 on 7 August 2018. At 30 September 2018, the share price was €9.51.

Average daily trade volumes in the first nine months of 2018 amounted to 67,000 shares, an improvement on the daily average of 46,300 shares in 2017.

As at 30 September 2018, 1,198,507 treasury shares were held (1,268,321 as at 31 December 2017), accounting for 9.21% of shares outstanding, and were purchased at an average price of €3.17 per share. In the first 9 months of 2018, the Company acquired 324,628 treasury shares at an average price of €9.89 and delivered 354,204 shares to the sellers as part of the payment for the acquisition of Cheleo and 40,238 shares to the employees who exercised their Stock Option. As at 30 September 2018, all options assigned to employees had been exercised.

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

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

On 16 March 2018, TXT was informed that the entire equity investment in TXT e-solutions S.p.A., owned by E-business Consulting S.A. and equal to 25.62% of the share capital, had been transferred

to Laserline S.p.A. based on a transfer agreement. Laserline S.p.A. is a company in which Enrico Magni directly and indirectly holds a 100% stake.

On 19 April 2018, the Shareholders' Meeting appointed Enrico Magni and Valentina Cogliati (independent director) as Directors with a tenure until approval of the financial statements as at 31 December 2019, replacing Teresa Cristiana Naddeo and Andrea Lanciani.

On 10 May 2018, the Board of Directors appointed Enrico Magni as Chief Executive Officer and granted the two Chief Executive Officers, Enrico Magni and Marco Guida, the ordinary and extraordinary powers of administration until this point delegated to the Chairman, Alvisè Braga Illa.

The Board of Directors confirmed the requirements of independence of Valentina Cogliati; appointed Stefania Saviolo as Lead Independent Director; appointed Fabienne Schwalbe (Chairman), Stefania Saviolo and Valentina Cogliati as members of the Risks and Internal Controls Committee; confirmed the Remuneration Committee, made up by Stefania Saviolo (Chairman) and Fabienne Schwalbe; confirmed the Related Parties Committee, made up by Fabienne Schwalbe (Chairman) and Stefania Saviolo.

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

On 11 October 2018, TXT participated in the establishment of the start-up Sense immaterial Reality Srl by subscribing shares representing 24% of its share capital for a total value of €48 thousand. The purpose of the company is to develop proprietary technologies for a 3D representation and New Augmented Reality with applications designed for the industry, communication and service sectors. Therefore, TXT has a minority investment in the research project, formerly managed internally and fully consolidated through the TXT Sense Division.

It must be noted that Alvisè Braga Illa, Chairman of the Board of Directors and shareholder of TXT with an interest of 14.02% of the share capital, holds a majority interest in the share capital of Sense immaterial Reality Srl, i.e. 76% of its share capital. Therefore, Alvisè Braga Illa qualifies as a related party in the above transaction. Procedures and congruity assessments, necessary for corporate operations with related parties, were therefore activated: the transaction was unanimously approved by the Board of Directors, with a favourable opinion issued by the Board of Statutory Auditors and the Related Parties Committee which obtained, to this end, a fairness opinion from an independent expert.

In consideration of said transaction, it is also expected that Sense immaterial Reality Srl shall pay to TXT an amount for the purchase of rights on research activities of €70 thousand as well as another €40 thousand on an annual basis for the provision of some services; TXT has made a capital investment of €48 thousand in Sense, a 24% equity interest, under an anti-dilution shareholders agreement up to a €1 million investment by the shareholder Braga Illa. TXT shall remain free to operate directly in the AR/VR technologies, in particular in the Aero and Transportation sectors, with the possible cooperation of Sense immaterial Reality Srl. Within the scope of this transaction, about 10 expert researchers, previously employed within the TXT Division, are now employed at Sense immaterial Reality Srl. The transaction has an overall value below €500 thousand and it is to be considered as falling within the scope of transactions with related parties of lesser importance.

TXT is striving to achieve a growth in internal and external lines, as envisaged in the already mentioned business plans, while focusing on sectors using high-intensity innovative software and with a business model including integrated services with high added value. In view of enhancing TXT's innovating technologies and management capacity, the business plan envisages to invest the remarkable amount of liquidity in new acquisitions, combined with the already owned treasury shares.

In the fourth quarter of 2018, the Company has forecast an increase in revenue due to both its organic growth and the contribution from the acquired Cheleo, as well as an increased EBITDA. The policy for investing in the organic development of its business and acquisitions, targeting the Aerospace, Aviation & Automotive sectors and Fintech, will continue.

Manager responsible for preparing  
corporate accounting documents

Chairman of the Board of Directors

Paolo Matarazzo

Alvise Braga Illa

Milan, 6 November 2018

Interim Report as at 30 September 2018

## Consolidated Balance Sheet

<b>ASSETS</b>	<b>30.09.2018</b>	<b>31.12.2017</b>
<b>NON-CURRENT ASSETS</b>		
Goodwill	13,645,125	5,369,231
Intangible assets with a finite useful life	1,696,860	1,962,454
<b>Intangible assets</b>	<b>15,341,985</b>	<b>7,331,685</b>
Property, plant and equipment	3,758,319	793,444
<b>Property, plant and equipment</b>	<b>3,758,319</b>	<b>793,444</b>
Sundry receivables and other non-current assets	73,776	75,173
Deferred tax assets	1,015,228	659,656
<b>Other non-current assets</b>	<b>1,089,004</b>	<b>734,828</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>20,189,308</b>	<b>8,859,957</b>
<b>CURRENT ASSETS</b>		
Period-end inventories	3,666,801	2,527,917
Trade receivables	10,805,014	14,680,812
Sundry receivables and other current assets	3,097,871	5,690,021
HFT securities at fair value	99,573,175	0
Cash and cash equivalents	16,208,424	86,527,488
<b>TOTAL CURRENT ASSETS</b>	<b>133,351,285</b>	<b>109,426,238</b>
<b>TOTAL ASSETS</b>	<b>153,540,592</b>	<b>118,286,195</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	6,503,125	6,503,125
Reserves	14,855,745	15,144,014
Retained earnings (accumulated losses)	65,843,679	9,691,188
Profit (loss) for the year	998,609	68,555,495
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>88,201,158</b>	<b>99,893,822</b>
<b>NON-CURRENT LIABILITIES</b>		
Non-current financial liabilities	37,249,123	1,688,023
Employee benefits expense	2,934,998	2,589,776
Deferred tax provision	438,646	503,014
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>40,622,766</b>	<b>4,780,813</b>
<b>CURRENT LIABILITIES</b>		
Current financial liabilities	13,720,442	674,861
Trade payables	963,692	1,341,308
Tax payables	346,562	548,642
Sundry payables and other current liabilities	9,685,973	11,046,750
<b>TOTAL CURRENT LIABILITIES</b>	<b>24,716,669</b>	<b>13,611,560</b>
<b>TOTAL LIABILITIES</b>	<b>65,339,435</b>	<b>18,392,373</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>153,540,592</b>	<b>118,286,195</b>

## Income Statement

	30.09.2018	30.09.2017
Revenues and other income	28,627,362	26,030,532
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>28,627,362</b>	<b>26,030,532</b>
Purchase of materials and external services	(4,969,041)	(4,724,240)
Personnel costs	(20,596,721)	(17,798,311)
Other operating costs	(232,439)	(886,287)
Depreciation and amortisation/Impairment	(1,365,486)	(511,755)
<b>OPERATING PROFIT (LOSS)</b>	<b>1,463,675</b>	<b>2,109,939</b>
Financial income (charges)	(384,770)	(95,318)
<b>EARNINGS BEFORE TAXES</b>	<b>1,078,905</b>	<b>2,014,621</b>
Income taxes	(80,296)	(624,548)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>998,609</b>	<b>1,390,073</b>
<i>Discontinued Operations</i>	0	839,358
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>998,609</b>	<b>2,229,430</b>
<b>EARNINGS PER SHARE</b>	0.08	0.19

## Consolidated Statement of Comprehensive Income

	30.09.2018	30.09.2017
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>998,609</b>	<b>2,229,430</b>
Gain/(Loss) on the effective part of hedging instruments (cash flow hedge)	(45,875)	0
Profit/(Loss) from foreign currency translation differences	318,564	(138,466)
<b>Total items of other comprehensive income that will be subsequently reclassified to profit/(loss) for the year net of taxes</b>	<b>272,690</b>	<b>(138,466)</b>
Defined benefit plans actuarial gains (losses)	(1,278)	24,604
<b>Total items of other comprehensive income that will not be subsequently reclassified to profit/(loss) for the year net of taxes</b>	<b>(1,278)</b>	<b>24,604</b>
<b>Total profit/(loss) of Comprehensive Income net of taxes</b>	<b>271,412</b>	<b>(113,862)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,270,021</b>	<b>2,115,569</b>



## Statement of Cash Flows

	30 September 2018	30 September 2017
Results from continuing operations	998,609	1,390,073
Results from discontinued operations	0	839,358
<b>Net profit (loss) for the period</b>	<b>998,609</b>	<b>2,229,431</b>
Non-monetary costs for Stock Options	0	242,888
Non-monetary interest	18,180	18,180
Change in fair value of monetary instruments	346,825	0
Current taxes	410,563	480,396
Change in deferred taxes	(64,373)	(200,547)
Depreciation and amortisation, impairment and provisions	1,365,583	1,027,296
<b>Cash flows from (used in) operating activities (before change in working capital)</b>	<b>3,075,387</b>	<b>3,797,644</b>
(Increases)/decreases in trade receivables	7,374,444	2,479,416
(Increases)/decreases in inventories	(1,138,884)	(743,647)
Increases/(decreases) in trade payables	(507,797)	(810,725)
Increases/(decreases) in other assets and liabilities	(4,038,036)	(2,976,936)
Increases/(decreases) in post-employment benefits	27,285	28,578
<b>Change in operating assets and liabilities</b>	<b>1,717,012</b>	<b>(2,023,314)</b>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>4,792,399</b>	<b>1,774,330</b>
Increases in property, plant and equipment	(320,323)	(453,532)
Increases in intangible assets	(32,127)	(88,510)
Net cash flow from acquisition/assignment	1,307,716	0
Increases/(decreases) in other assets and liabilities	(99,920,000)	0
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(98,964,734)</b>	<b>(542,042)</b>
Increases/(decreases) in financial payables	38,560,892	(355,908)
Distribution of dividends	(11,709,799)	(3,495,636)
(Purchase)/Sale of treasury shares	(2,989,492)	0
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>23,861,601</b>	<b>(3,851,544)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(70,310,735)</b>	<b>(2,619,256)</b>
Effect of exchange rate changes on cash flows	(8,329)	105,316
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>86,527,488</b>	<b>7,570,479</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>16,208,424</b>	<b>5,056,539</b>
Assets acquired that did not generate cash flows (initial recognition IFRS 16)	(3,586,000)	-
Liabilities acquired that did not generate cash flows (initial recognition IFRS 16)	3,586,000	-

# Statement of changes in Shareholders' Equity at 30 September 2018

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva Fair value IRS	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Totale patrimonio netto (Gruppo)
<b>Saldi al 31 Dicembre 2017</b>	6,503,125	1,005,000	12,136,607	1,911,444	140,667	1,164,184	(913,844)	-	(300,045)	9,691,188	68,555,495	99,893,821
Utile al 31 Dicembre 2017		295,625			(140,667)	(1,164,184)			327,517	69,237,204	(68,555,495)	-
Rettifica per adozione IFRS15										(1,374,914)		(1,374,914)
Distribuzione dividendi										(11,709,799)		(11,709,799)
Acquisto partecipazioni			3,464,115				(25,076)					3,439,039
Vendita azioni proprie a dipendenti			221,309									221,309
Acquisto azioni proprie			(3,210,802)									(3,210,802)
Attualizzazione TFR							(1,278)					(1,278)
Fair value strumenti di copertura (cash flow hedge)								(45,875)				(45,875)
Delta cambi									(8,953)			(8,953)
Utile al 30 settembre 2018											998,609	998,609
<b>Saldi al 30 settembre 2018</b>	6,503,125	1,300,625	12,611,229	1,911,444	-	-	(940,198)	(45,875)	18,519	65,843,679	998,609	88,201,157

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva Fair value IRS	Riserva di traduzione	Utili a nuovo	Utile (perdita) del periodo	Totale patrimonio netto
<b>Saldi al 31 Dicembre 2016</b>	6,503,125	850,000	11,796,405	1,911,444	140,667	921,297	(996,939)	-	(531,731)	8,133,126	5,555,363	34,282,757
Utile al 31 Dicembre 2016		155,000								5,400,363	(5,555,363)	-
Acc.to piano Stock Grant						242,888						242,888
Distribuzione dividendi										(3,495,636)		(3,495,636)
Vendita azioni proprie			651,816									651,816
Acquisto azioni proprie			(311,614)									(311,614)
Attualizzazione TFR							(18,097)					(18,097)
Altri movimenti							101,191					101,191
Delta cambi									231,686	(346,665)		(114,979)
Utile al 31 dicembre 2017											68,555,495	68,555,495
<b>Saldi al 31 dicembre 2017</b>	6,503,125	1,005,000	12,136,607	1,911,444	140,667	1,164,185	(913,845)	-	(300,045)	9,691,188	68,555,495	99,893,821

## 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 IT 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 30 September 2018 (see also the organisational diagram in the section "Organisational structure and scope of consolidation"):

Company name of the subsidiary	Currency	% of direct interest	Share capital
PACE GmbH	EUR	79%	295,000
TXT Next Ltd	GBP	100%	100,000
TXT Next Sarl	EUR	100%	100,000
TXT e-solutions Sagl	CHF	100%	40,000
Cheleo srl	EUR	51%	99,000

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

- Income statement (average exchange rate for the period)

Currency	30.09.2018	30.09.2017
British Pound (GBP)	0.8839	0.8725
US Dollar (USD)	1.1949	1.1132
Swiss Franc (CHF)	1.1611	1.0946

- Balance sheet (exchange rates as at 30 September 2018 and 31 December 2017)

Currency	30.09.2018	31.12.2017
British Pound (GBP)	0.8873	0.8872
US Dollar (USD)	1.1576	1.1993
Swiss Franc (CHF)	1.1316	1.1702

## 2. Basis of preparation of the consolidated financial statements

This interim report was prepared in compliance with IFRSs and pursuant to Article 154-ter of the Consolidated Law on Finance (Legislative Decree 195/2007) implementing Directive 2004/109/EC on disclosure requirements. Such article replaced Article 82 (“Interim management report”) and Annex 3D (“Content of the quarterly report”) of the Issuers’ Regulation.

This interim report has been prepared in accordance with accounting standards and principles used to prepare the separate and consolidated financial statements, since they are compatible. To this purpose, it should be noted that the Group applied for the first time the standards IFRS 15 Revenues from Contracts with Customers and IFRS 9 Financial Instruments, and elected for an earlier adoption of IFRS 16 Leases (mandatorily effective as from the beginning of financial year 2019). With reference to the possible alternative modalities to recognise the transition to the new standards, it is specified that, for the first-time adoption of IFRS 15, the amended retrospective application method was adopted. The above method involved the recognition of a cumulative effect of the initial application of the new standard to the opening shareholders’ equity, without any restatement in the comparative tables. Similarly, also for IFRS 16, the cumulative effect was accounted for upon the first-time application, without redetermining any comparative disclosures.

The assumptions applied to this interim report are also in line with those used in the separate and consolidated financial statements.

The interim report as at 30 September 2018 is not subject to auditing.

The publication and release of this report were approved by the Board of Directors’ Meeting held on 6 November 2018.

## 3. Accounting standards and interpretations applied from 1 January 2018

The accounting standards adopted in preparing the interim report are consistent with those used in drawing up the consolidated financial statements as at 31 December 2017 and illustrated in the Annual Report under note 3.1 “Accounting standards and basis of consolidation”, except as regards the compulsory application from 1 January 2018 of the standards IFRS 9 “Financial instruments” and IFRS 15 “Revenues from Contracts with Customers”. Also note that the Company has opted for early adoption of IFRS 16 “Leases” in accordance with the provisions of paragraph C1 of the standard. Detailed descriptions of these newly adopted standards are provided below.

### **IFRS 15 Revenues from Contracts with Customers**

IFRS 15 was issued in May 2014, amended in April 2016, and approved in September 2016.

IFRS 15 sets out the recording of revenues for an amount that reflects the fee to which the entity considers itself entitled in the context of trade with the customer for the transfer of products or services. The new standard requires more evaluation elements and choices by the directors to define its policy for recognising revenues. The new model represents a change in basic standards in relation to the previous “transfer of risks and benefits” model which defined the practice developed around

IAS 18 Revenue, which furthermore did not specifically deal with the granting of software use licences, and has replaced all the requirements present in the IFRS with regard to the recognition of revenues, including those of IAS 11 Construction Contracts, to which the TXT Group's policy referred mainly for the recognition of revenues from project services (the other standards and interpretations superseded but that do not apply to the TXT Group are: IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers for Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services).

The Group applied the new standard using the modified retrospective application method. This method consists of recording the cumulative effect of the initial application of the new standard on the initial shareholders' equity at the start of the period, without showing the comparison again; the Group has chosen to apply the new standard retrospectively only to contracts that were not completed on the date of initial application. As extensively discussed in other sections of the financial statements, the TXT Group operates in the supply of software products and strategic solutions.

The summary table provided below illustrates the effects of first-time adoption of the new standard, with an indication of the balancing entry of the cumulative catch-up adjustment, recognised on the opening balances.

Financial statements item	Amount in Euro
Deferred income	1,912,219
Deferred tax assets	(537,304)
Retained earnings (accumulated losses)	(1,374,915)

For the sake of full disclosure, information is provided on the future distribution over time of revenues from contracts considered in the calculation of the initial adjustment to the opening balance (with separate indication of contracts signed in EURO and USD).

Revenue type	Change in accounting standard IFRS 15	2018 revenues IFRS 15	2019 revenues IFRS 15	2020 revenues IFRS 15
EURO licences	1,475,860	1,025,252	448,809	1,798
USD licences	528,344	528,344	0	0

## IFRS 16 Leases

IFRS 16 was published in January 2016 (approved at the end of 2017) and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 defines the principles for the recording, measurement, presentation and disclosure of leases and requires lessees to account for all lease contracts, including those classified according to previous practices as operating leases (for example certain rentals and hires), in the financial statements on the basis of a single model substantially similar to that used to account for financial leases in accordance with IAS 17. On the start date of the lease contract, the lessee will record a liability in relation to the lease payments (i.e. lease liabilities) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. the right to use the asset). Lessees must account separately for interest expenses on lease liabilities and amortisation of the right to use the asset.

Lessees must also remeasure liabilities related to lease contracts should certain events occur (for example a change in the conditions of the lease contract, a change in future lease payments resulting from a change in an index or rate used to determine these payments). The lessee generally recognises the remeasured amount of the lease liability as an adjustment of the right to use the asset.

The standard establishes two exemptions for recording by lessees:

- lease contracts on low-value assets;
- short-term lease contracts (for example contracts expiring within 12 months or less).

The Group opted for early adoption of the standard from January 2018 using a modified retrospective approach.

The positions affected by the scope of application of IFRS 16 and which in principle had an appreciable effect are related to:

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

The following table summarises the effects of application of IFRS 16:

Registered office	Contractual years	Years remaining	Options
Milan	6	6	Early termination; Renewal
Turin	6	4.5	Renewal
Berlin	4	1	Renewal

Type	Historical cost	Accumulated depreciation	Amount payable
Increase in the period	3,586,000	0	3,586,000
Instalment reimbursement (payment)	0	0	(825,428)
Depreciation	0	(721,071)	0
Interest	0	0	13,871
	<u>3,586,000</u>	<u>(721,071)</u>	<u>2,774,443</u>

For the lease contract on the main office in Milan, the contractually envisaged duration was used, without taking into account the early termination or further renewal options which are considered unlikely. A similar approach was adopted for the lease contracts of other offices.

As regards vehicle lease contracts, these refer to medium/long-term rental agreements, usually for 4 years with monthly instalments paid in advance.

### **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the plan for accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard from the effective date (1 January 2018) and has opted not to restate the comparative data.

The Group has performed impact analysis on all aspects covered by IFRS 9. This analysis is based on information currently available, including the strategy for the use of financial instruments.

The Group's adoption of IFRS 9 did not entail any significant adjustment of other items in the financial statements recorded as at 1 January 2018.

## 4. Financial risk management

As for business risks, the main financial risks identified and monitored by the Group are as follows:

- Currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

The financial risk management objectives and policies of the TXT e-solutions Group reflect those illustrated in the consolidated financial statements as at 31 December 2017, to which reference should be made.

## 5. Extraordinary transactions

As described in the half year financial statements at 30 June 2018, under “Subsequent events”, on 31 July 2018, the Company has executed the agreement for the acquisition of Cheleo S.r.l. ([www.cheleo.it](http://www.cheleo.it)), an Italian company specialising in the design and development of products and services for lifecycle management of loans by banking and financial intermediaries.

The transaction will allow TXT to significantly expand its customers target and likewise its mix of new products, expertise and high value-added specialisations, strengthening its market presence.

At the Operation date (First Closing), on 31 July 2018, concurrently with the execution of the Purchase Agreement and the notary deed concerning the purchase of the Cheleo Srl shares, the shareholders transferred about 51% of the share capital of Cheleo Srl (Notary Deed for Share Transfer).

At the same date of the First Closing, TXT and Laserline executed an option purchase/sale agreement (the Option Agreement) concerning shares equal to 49% of the Cheleo share capital (residual Laserline holding). In particular, pursuant to the Option Agreement, it is set forth that in the period between 1 January and 31 January 2019: (a) TXT shall have the right to purchase from Laserline the residual Laserline holding which Laserline is required to sell to TXT if the latter exercises the option; and (b) Laserline shall have the right to sell to TXT the residual Laserline holding, which TXT is required to purchase from Laserline if the latter exercises the option.

The consideration for the purchase of 100% of the share capital of Cheleo was agreed upon by the parties to be in the amount of €10 million, including €2.4 million in cash (NFP). On 31 July 2018, Laserline received its portion of the consideration, €1.1 million, in cash, against the transfer of the holding representing 11% of the share capital of Cheleo, while the Managers and Arcadia received, pro-quota, their portion of the consideration, i.e. €4 million, in TXT shares (for a total of 354,204 treasury shares) against the transfer of shares representing 40% of the share capital of Cheleo. The remaining portion of the consideration (€4.9 million) shall be fully paid in cash to Laserline at the closing date of the purchase/sale of the residual Laserline holding.

Lastly, it should be noted that the majority of Cheleo share capital was held, indirectly through Laserline S.p.A., by Enrico Magni, the relative majority shareholder and Chief Executive Officer of TXT and consequently a related party in the transaction. All the procedures and fairness checks for corporate transactions with related parties were therefore implemented, including the publication of a disclosure.

At the time of the initial recognition of the business combination, the total estimated consideration was:

Component	Euro
Provisional price	4,564,115
Earn-Out 2018-2019	1,475,750
Total (51%)	6,039,865
Put/call option (49%)	4,900,000
Total (100%)	10,939,865

The Earn-out depends on the EBITDA performance and the application of a multiple. The Earn-out, of €1.5 million, was measured on the basis of the Business Plan approved by the Board of Directors. Said Business Plan represents a reasonable estimate of the most likely scenario.

For the purposes of drawing up the Consolidated Financial Statements, the directors also decided to consider execution of the put/call option agreement executed with the shareholder Laserline as the acquisition of a present ownership interest in the residual 49% of the Cheleo's capital as well. Besides considering the acquisition of 51% of the share capital and the subscription of the put/call option transactions as being strictly substantially related, the assessment made by the directors also took into consideration the existence of a call/put option at the same short-term exercise conditions (less than 12 months).

The fair value of the liability related to the acquisition of the ownership interest in the residual 49% of the share capital of Cheleo was determined on the basis of the already defined price.

The net assets acquired and the recognition of the goodwill, which should still be allocated, is the following:

Allocation as at acquisition date		
Total price		10,939,865
Net financial position	2,407,716	
Net assets (liabilities)	256,255	
<b>Goodwill to be allocated</b>	<b>8,275,894</b>	

The net financial position of Cheleo at the acquisition date is represented by its cash and cash equivalents (€2.4 million).

For the purposes of the acquisition, a total of €0.2 million in consulting and legal fees were incurred and were fully expensed in the third quarter of 2018.

The cash flow statement, under item "Net cash flow from the acquisition of Cheleo" shows a net amount of €1.3 million, represented by the financial disbursement actually carried out in the third quarter of 2018, net of the Net Financial Position of Cheleo at the acquisition date (€2.4 million).

## 6. Transactions with related parties

Related parties are:

- a) Entities that, directly or indirectly, even through subsidiaries, trustees or third parties:
  - have control over 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) The joint ventures in which TXT e-solutions S.p.A. holds an interest.
- d) Managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies.
- e) Close family members of the parties as per the above points a) and d).
- f) Entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights.
- g) An occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity.

The following tables show the overall amounts of the transactions carried out with related parties.

## Trade transactions

Trade transactions with related parties of the Group exclusively refer to amounts paid to the directors and to key management personnel.

As at 30 September 2018	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	1,358,839	0	740,199	0
<b>Total as at 30.09.2018</b>	<b>0</b>	<b>1,358,839</b>	<b>0</b>	<b>740,199</b>	<b>0</b>

As at 31 December 2017	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	1,393,467	0	1,237,562	0
<b>Total as at 31.12.2017</b>	<b>0</b>	<b>1,393,467</b>	<b>0</b>	<b>1,237,562</b>	<b>0</b>

## Financial transactions

As at 30 September 2018	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	4,900,000	0	0	0
<b>Total as at 30.09.2018</b>	<b>0</b>	<b>4,900,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

As at 30 September 2017, there were no financial transactions with related parties of the Group.

The financial debt of €4.9 million represents the payable recorded for the acquisition, by Laserline, of the shares representing 49% of the Cheleo share capital, to be exercised through the PUT/CALL option by 31 January 2019.

As explained in Note 1, "Extraordinary transactions", the Cheleo operation represents a transaction with related parties, pursuant to the Consob regulation OPC, since the company that held, before the First Closing of the transaction, 60% of the share capital of Cheleo, i.e. Laserline, is the relative majority shareholder of TXT (holding an interest of about 25.62% of the share capital thereof). In addition, Laserline's control is entrusted to Mr Enrico Magni, CEO of TXT.

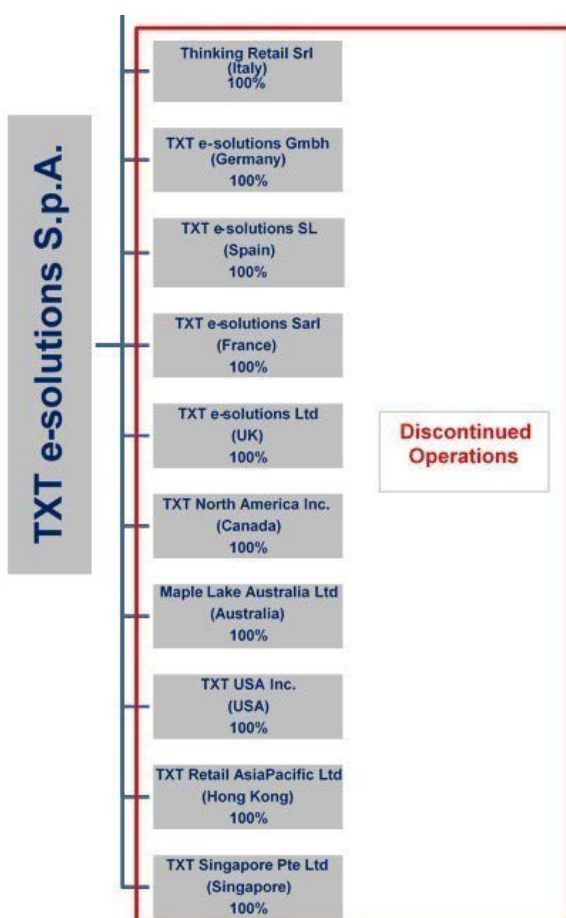
For additional information, please see the Disclosure Document on transactions with related parties, concerning the acquisition of the entire share capital of Cheleo S.r.l., posted on 3 August 2018 on the website of the company and through the dissemination and storage systems for regulated information that the Company has adopted.

## 7. Significant non-recurring events and transactions

As reported extensively in the Annual Report as at 31 December 2017, during 2017 the TXT Group disposed of the TXT Retail Division (the pre-disposal scope of activities is illustrated in the chart below).

This Chapter provides the analytical details of items under Discontinued Operations, comprising the subsidiaries indicated below which were sold during 2017.

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



	30.09.2017	Continuing Operations	Discontinued Operations
Revenues and other income	53,297,567	26,030,532	27,267,035
<b>TOTAL REVENUES AND OTHER INCOME</b>	<b>53,297,567</b>	<b>26,030,532</b>	<b>27,267,035</b>
Purchase of materials and external services	(9,787,728)	(4,724,240)	(5,063,488)
Personnel costs	(36,874,718)	(17,798,311)	(19,076,407)
Other operating costs	(1,836,219)	(886,287)	(949,932)
Depreciation and amortisation/Impairment	(1,027,296)	(511,755)	(515,541)
<b>OPERATING PROFIT (LOSS)</b>	<b>3,771,606</b>	<b>2,109,939</b>	<b>1,661,667</b>
Financial income (charges)	(541,532)	(95,318)	(446,214)
<b>EARNINGS BEFORE TAXES</b>	<b>3,230,074</b>	<b>2,014,621</b>	<b>1,215,453</b>
Income taxes	(1,000,644)	(624,548)	(376,096)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>2,229,430</b>	<b>1,390,073</b>	<b>839,357</b>
Net profit from Discontinued Operations	-	839,358	-
<b>NET PROFIT (LOSS) FOR THE PERIOD (group)</b>	<b>2,229,430</b>	<b>2,229,431</b>	<b>839,357</b>

## 8. Certification of the Interim report pursuant to Article 154-bis of Legislative Decree 58/98

**pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented**

The undersigned Alvisè Braga Illa as Chairman of the Board of Directors and Paolo Matarazzo as Manager responsible for preparing corporate accounting documents for TXT e-solutions S.p.A. certify, also pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 dated 24 February 1998:

- the adequacy, in relation to the company's characteristics, and
- the actual application of the administrative and accounting procedures for the preparation of the condensed consolidated financial statements as at 30 September 2018.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated financial statements as at 30 September 2018 is based on a process defined by TXT in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission which represents a reference framework that is generally accepted at an international level.

We also certify that the condensed consolidated financial statements as at 30 September 2018:

- correspond to the accounting books and records;
- were prepared in compliance with the International Financial Reporting Standards endorsed by the European Union as well as with the implementing measures for Article 9 of 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.

The interim Report on Operations includes a reliable analysis of the important events that occurred in the first nine months of the year and how they affected the condensed financial statements, as well as a description of the main risks and uncertainties for the remaining three months. The interim Report on Operations also includes a reliable analysis of the information on significant transactions with related parties.

Manager responsible for preparing corporate  
accounting documents

Chairman of the Board of Directors

Paolo Matarazzo

Alvisè Braga Illa

Milan, 6 November 2018