TXT e-solutions Group

Annual report

as at 31 December 2020

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
In office until approval of the financial statements as at 31 December 2022:

Enrico Magni	Chair	(1)
Daniele Misani	Chief Executive Office	(2)
Matteo Magni	Director	(5)
Stefania Saviolo	Independent Director	(3)
Paola Generali	Independent Director	(3)
Valentina Cogliati	Independent Director	(4)
Fabienne Anne Dejean Schwalbe	Independent Director	(6)

(1) Powers assigned: proxy.
(2) Powers assigned: ordinary and extraordinary administration, except for the purchase and sale of property.
(3) Member of the Remuneration Committee, the Risks and Internal Controls Committee and the Related Parties Committee.
(4) Member of the Risks and Internal Controls Committee and Related Parties Committee.
(5) Member of the Risks and Internal Controls Committee.
(6) Member of the Remuneration and Appointments Committee.

BOARD OF STATUTORY AUDITORS
In office until approval of the financial statements as at 31 December 2022:

Mario Basilico	Chair
Luisa Cameretti	Standing auditor
Franco Vergani	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Fabio Maria Palmieri	Alternate auditor
Giada d'Onofrio	Alternate auditor

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

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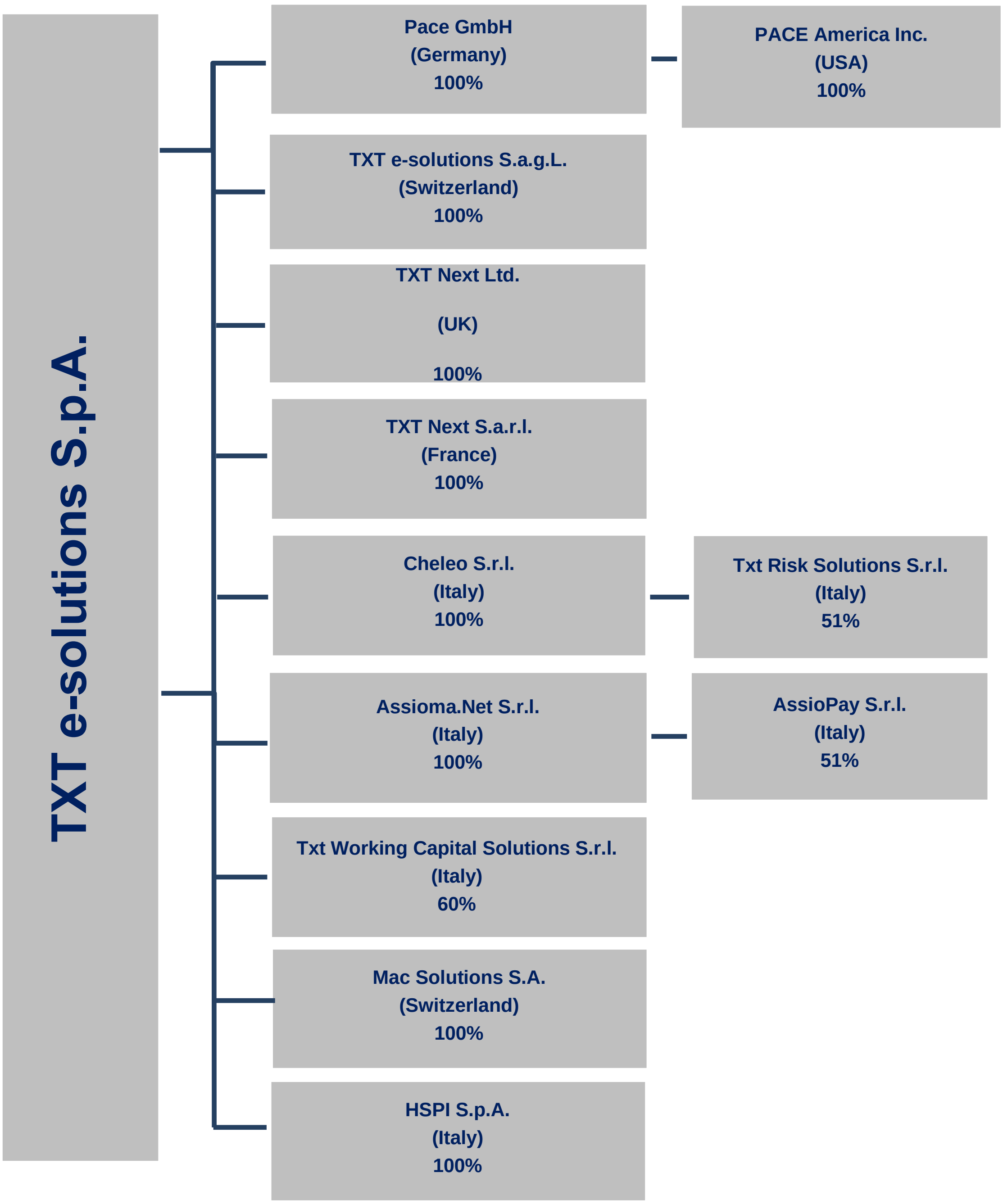

Key data and Directors' report on operations for the year 2020

TXT e-solutions Group – Key data

INCOME DATA (€ thousand)	2020	%	2019	%	% CHANGE
REVENUES	**68,753**	**100.0**	**59,091**	**100.0**	**16.4**
EBITDA	**8,560**	**12.5**	**7,004**	**11.9**	**22.2**
OPERATING PROFIT (EBIT)	**3,150**	**4.6**	**3,553**	**6.0**	**(11.3)**
PROFIT (LOSS) FOR THE PERIOD	**4,715**	**6.9**	**487**	**0.8**	**868.2**
Profit for the year attributable to non-controlling interests	(241)		(39)		
NET PROFIT ATTRIBUTABLE TO TXT SHAREHOLDERS	**4,474**		**448**	**6.4**	**898.7**

FINANCIAL DATA (€ thousand)	31.12.2020	31.12.2019	Change
Fixed assets	47,412	34,634	12,778
Net working capital	19,148	9,084	10,064
Post-employment benefits and other non-current liabilities	(2,757)	(3,110)	353
Capital employed	**63,803**	**40,608**	**23,195**
Net financial position	22,060	41,412	(19,352)
Group shareholders' equity	85,454	81,852	3,602
Shareholders' Equity attributable to minority interests	409	168	241

DATA PER SHARE	31.12.2020	31.12.2018	Change
Average number of shares outstanding	11,684,590	11,747,747	(63,157)
Net earnings per share	0.38	0.04	0.34
Shareholders' equity per share	7.31	6.97	0.35

ADDITIONAL INFORMATION	31.12.2020	31.12.2019	Change
Number of employees	996	786	210
TXT share price	7.88	9.66	(1.78)

Notes on Alternative Performance Measures

In compliance with the indications of the ESMA Guidelines on alternative performance measures (APM) (ESMA/2015/1415), implemented by CONSOB (see CONSOB Communication no. 0092543, 3 December 2015), it should be noted that the reclassified statements presented in this Director's Report on Operations show some differences in the terms used and in the degree of detail with respect to the official statements shown in the financial statements on the following pages and in the explanatory notes.

Specifically, the reclassified consolidated Income Statement makes use of the following terms:
• **EBITDA**, which is equivalent to “Total revenues” net of total operating costs in the official consolidated Income Statement.
• **EBIT**, which is equivalent to “Total revenues” net of total operating costs, depreciation, amortisation and write-downs in the official consolidated Income Statement.

The reclassified consolidated Balance Sheet was prepared based on the items recognised as assets or liabilities in the official consolidated Balance Sheet and makes use of the following terms:
• **FIXED ASSETS**, given by the sum of tangible, intangible fixed assets, goodwill, deferred tax assets/liabilities and other non-current assets.
•**NET WORKING CAPITAL**, given by the sum of inventories, trade receivables/payables, current provisions, tax receivables/payables and other assets/liabilities and current receivables/payables.
• **CAPITAL EMPLOYED**, given by the algebraic sum of fixed assets, net working capital and 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 financial position and economic performance, also by providing comparative data. The APMs adopted are consistent with those used in the previous year.

Directors' report on operations for the year 2020

The 2020 year was marked by three important development paths:

- ✓ **research and completion of several acquisitions.** During the year, more than 5 opportunities were assessed, Due diligence was carried out on various companies and 3 acquisitions were completed.
  - On 15 April 2020, TXT e-Solutions S.p.A. formalised the entry, via a capital increase it financed 60% of, in a FinTech start-up, whose company name is TXT Working Capital Solutions S.r.l., an innovative start-up dedicated to the study and development of solutions for the Factoring and Supply Chain Finance market. The purchase of the 60% shareholding took place via the subscription by TXT e-Solutions of a capital increase for € 0.3 million, plus € 0.5 million of share premium. TXT e-solutions and the shareholders also entered into a Put/Call option contract to purchase the remaining 40% at a price commensurate with the financial and economic results of TXT Working Capital Solutions activities in 2024.
  - On 13 July 2020, TXT e-solutions S.p.A. has finalised the purchase of MAC Solutions S.A., a Swiss company. Mac Solutions S.A. has been on the market for over 20 years and specialises in providing professional ICT services to the bank sector, supplying and integrating financial software and developing innovative software and Apps designed through the software factory for customers on the Swiss market.
    At the closing, CHF 5.4 million was paid in cash, of which CHF 2.2 million went in an escrow account linked to Mac Solutions S.A.'s performance over the three-year period 2020-2022.
  - On 19 October 2020, the final contract was signed for the acquisition of the company HSPI S.p.A., a company specialising in the digital transformation of large Italian public and private companies.
    At the Closing, € 9.0 million were paid in cash and € 2.5 million were paid by way of ordinary TXT treasury shares.

TXT's strategy is to invest net liquidity and treasury shares (€ 11.0 million at the end of 2020 prices) in new acquisitions in sectors with a high intensity of innovative software and an integrated services business model with high added value.

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

- ✓ **Amendments to the Articles of Association**. On 15 October 2020, the Extraordinary Shareholders' Meeting of TXT e-solutions S.p.A. has approved, among other things, i) the integration of the corporate purpose in order to allow the company to carry out holding activities (so-called mixed holding company) and consequent amendment to Article 4 of the Articles of Association; and ii) the introduction of a 40% share capital or voting right threshold for the promotion of a take-over bid, in compliance with the introduction of Article 7-bis of the Articles of Association.
  The change in the core business was necessary in view of the growing activities of the company aimed at acquiring equity investments in companies and undertakings of any kind, Italian and foreign, relating to the company's core business of creating value for the shareholders, the customers and the Group.
  The shareholders who did not participate in the approval of the resolutions had the right to withdraw in accordance with the law.
  On 21 December 2020, the offer period ended for the shareholders of TXT e-Solutions other than those withdrawing of the 834,584 ordinary shares of TXT e-Solutions in relation to which the right of withdrawal was exercised. As part of the Option Offer, where the shares were offered, on the basis of the ratio of 3 shares for every 40 options held, at a price of € 7.480 per share purchased, 422,045 shares were assigned, both as a result of the exercise of the option rights and as a result of the exercise of the pre-emption right. Taking into account the number of shares for which the option and pre-emption right was exercised, the remaining shares, and whose

liquidation was borne by the Company, amounted to 412,539 withdrawn shares, for a total value of approximately € 3,085,791.72.
Laserline S.p.A. - reference shareholder of TXT e-solutions - exercised the option rights due and the pre-emption rights on the unopted options.

✓ **Growth strategies during the Covid-19 period: The COVID-19 emergency is impacting the regular and ordinary performance of Group activities, in a global context of a serious economic recession and heightened uncertainty.** The TXT Group, like the entire market, has found itself having to react so as to mitigate the impacts and rethink the ambitious and challenging growth targets set for the year 2020. The resilience of our model, based on a solid outlook for orders and on the ability to react to the new scenario, has enabled us to offset the slowdown in activities related to sectors hit particularly hard by the pandemic such as, for example, the civil aviation segment.

The main operating and consolidated financial results for 2020 were as follows:

(€ thousand)	2020	%	2019	%	% Change
REVENUES	**68,753**	**100.0**	**59,091**	**100.0**	**16.4**
Direct costs	39,470	57.4	31,824	53.9	24.0
GROSS MARGIN	**29,283**	**42.6**	**27,267**	**46.1**	**7.4**
Research and development costs	6,684	9.7	6,071	10.3	10.1
Marketing costs	7,636	11.1	8,610	14.6	(11.3)
General and administrative costs	6,403	9.3	5,582	9.4	14.7
GROSS OPERATING PROFIT (EBITDA)	**8,560**	**12.5**	**7,004**	**11.9**	**22.2**
Depreciation, amortisation and impairment	4,818	7.0	2,734	4.6	76.2
Reorganisation charges	(592)	(0.9)	(717)	(1.2)	(17.4)
OPERATING PROFIT (EBIT)	**3,150**	**4.6**	**3,553**	**6.0**	**(11.3)**
Financial income (charges)	570	0.8	2,194	3.7	n.m.
Financial income (charges) related to acquisitions	2,157	3.1	(3,432)	(5.8)	
EARNINGS BEFORE TAXES (EBT)	**5,877**	**8.5**	**2,315**	**3.9**	**153.9**
Taxes	(1,162)	(1.7)	(1,867)	(3.2)	n.m.
NET PROFIT	**4,715**	**6.9**	**448**	**0.8**	**952.8**

- **Revenues** amounted to € 68.8 million, up 16.4% compared to € 59.1 million in 2019. Within the same consolidation scope, revenues increased by 5.4%, with the acquisitions contributing € 6.5 million. Software revenues in 2020 were € 8.6 million, up 25.1% compared to 2019. Revenues from services amounted to € 60.1 million, up 15.2% compared to 2019.
The Aerospace, Aviation and Automotive Division had revenues for € 40.8 million, up 5.4% compared to 2019.
The Fintech Division had revenues for € 27.9 million, up +7.1% compared to 2019.

- **EBITDA** was € 8.6 million, up 22.2% compared to 2019 (€ 7.0 million), following investments in research and development (+10.1%). General and administrative costs, as a percentage of revenues, are in line with the previous year, i.e. from 9.4% in 2019 to 9.3% in 2020, despite the costs related to acquisitions and mainly due to cost containment and optimisation over a broader scope of business after acquisitions. The margin on revenues was 12.5% compared with 11.9% in 2019.

- **Financial income and charges.** The net balance was € 1.4 million compared to net loss of € 1.2 million in the previous year. Financial income, attributable to the management of financial investments, amounted to € 0.6 million, down compared with € 2.2 million in 2019 mainly due to greater financial market volatility in the current year and to lower financial investments in connection with outlays linked to the M&A plan. The prudent and diversified management, with investments mainly in multi-segment insurance, has made it possible to mitigate the losses generated by the financial market volatility linked to the COVID-19 pandemics.

In 2019, charges of € 3.4 million were recorded under this item as non-recurring components, broken down as follows (i) the adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the residual 21% of the capital of the company PACE and determined taking into account the valuation formula indicated in the contract; and (ii) the lower cost to be paid for the Earn-Out linked to the average performance of the EBITDA of the company Cheleo in the years 2017-2019 and the application of the relative multiple. This amount was readily re-calculated at the time of payment and resulted in an income of € 0.8 million.

- **Net profit** was € 4.7 million (€ 0.5 million in 2019), net of tax charges of € 1.2 million, up compared to 2019 due to the operating result.

- The consolidated **Net Financial Position** as at 31 December 2020 was positive for € 22.1 million compared to € 41.4 million at 31 December 2019, down by € 19.3 million mainly due to the acquisition net of the NFP acquired (€ 18.3 million), the payment of the severance for end of term of office set aside (€ 1.2 million), the positive effect of the reduction of the value of the liability for the Pace PUT/CALL option settled definitively in the year (€ 0.8 million), the net balance between the trading of treasury shares (€ 0.8 million) and other changes in the net working capital for the residual amounts.

- **Consolidated shareholders' equity** as at 31 December 2020 amounted to € 85.9 million, up by € 3.9 million compared to 31 December 2019 (€ 82.0 million) mainly due to the net effect of the trading of treasury shares (€ 0.8 million) and the net profit of the year (€ 4.8 million).

GROUP REVENUES AND GROSS MARGINS

Revenues and direct costs in 2020, compared with those of the previous year, are shown below on the basis of the operating segments also reported in the notes to the financial statements pursuant to IFRS 8:

(in migliaia di Euro)	2020	%	2019	%	Var %
RICAVI	**68.753**	**100,0**	**59.091**	**100,0**	**16,4**
COSTI DIRETTI	39.470	57,4	31.824	53,9	24,0
MARGINE LORDO	**29.283**	**42,6**	**27.267**	**46,1**	**7,4**

(in migliaia di Euro)	2019	%	2018	%	Var %
	TXT AEROSPACE, AVIATION & AUTOMOTIVE				
RICAVI	**40.847**	**100,0**	**38.737**	**100,0**	**5,4**
Software	7.478	18,3	5.851	15,1	27,8
Servizi	33.369	81,7	32.886	84,9	1,5
COSTI DIRETTI	23.026	56,4	20.424	52,7	12,7
MARGINE LORDO	**17.821**	**43,6**	**18.313**	**47,3**	**(2,7)**
	TXT FINTECH				
RICAVI	**27.906**	**100,0**	**20.354**	**100,0**	**37,1**
Software	1.148	4,1	1.042	5,1	n.s.
Servizi	26.758	95,9	19.312	94,9	38,6
COSTI DIRETTI	16.444	58,9	11.400	56,0	44,2
MARGINE LORDO	**11.462**	**41,1**	**8.954**	**44,0**	**28,0**

TXT Aerospace, Aviation & Automotive Division

Revenues of the Aerospace, Aviation & Automotive Division, which include the Pace CGU and TXT e-solutions CGU, were € 40.8 million in 2020, compared to € 38.7 million in 2019, an increase of 5.4% entirely due to organic growth. Revenues from software in 2020 were € 7.5 million, up 27.8% compared to 2019, and revenues from services were € 33.4 million, up by 1.5% compared to 2019. International revenues represent 45% of the Division's revenues (€ 35.6 million at 31.12.2020).

The Gross Margin was € 17.8 million compared to € 18.3 million in 2019, mainly due to the reduction in margins on services activities in the automotive sector.

TXT has decades-long experience in the aerospace sector, particularly in on-board software, flight simulators, training systems, flight support systems and advanced manufacturing solutions. The Division also serves a growing number of aerospace companies and airline operators throughout the world, providing them with software and innovative services to design, configure, produce, acquire and operate their airlines and fleets in an economically optimal manner. The main application areas are the preliminary design of airplanes and technical systems, the configuration of airplanes and cabins, economic management of fleets, and the analysis of flying routes and innovative instruments – such as “Electronic Flight Bags” – to improve operating efficiency during flight.

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

The Aerospace & Aviation market is under strong pressure by COVID-19, with civil aviation in crisis, airlines with fleets on the ground (in 2020 they accounted for 5% of the Group revenues), and a medium-long term impact on aircraft manufacturers and the entire production chain. The impact in the short/medium-term is mitigated by revenues from software licenses and services already contractually agreed (at 31 December 2020, the backlog resulting from the application of IFRS15 on licences amounted to approximately € 5 million, of which € 2.1 million will be reversed to the income statement in 2021), by the focus on strategic customers (in any case leaders in the sector, even during the crisis) and by the acquisition of new multi-year contracts in the defence aeronautics sector, which is not particularly affected by the current crisis.

TXT FINTECH Division

Revenues of the TXT Fintech Division, which include the Assioma CGU, AssioPay CGU, Cheleo CGU, HSPI CGU, Mac Solutions CGU, TXT Risk Solutions CGU and TXT Working Capital CGU, amounted to € 27.9 million, up by 37.1 % compared to € 20.4 million in 2019, of which € 6.5 million deriving from the consolidation of the new companies that joined the TXT Group during the year.

International revenues account for 9% of revenues for the Division (€ 2.6 million).

The gross margin was € 11.5 million, up by 28.0% compared to 2019 (€ 9 million). The impact of the gross margin on revenues improved from 16.9% to 37.5%, thanks to the contribution of the acquisitions and the favourable mix of products and services.

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

TXT historically operates in the financial and banking sector with an increasing portfolio of proprietary products and innovative solutions. Moreover, TXT specialises in Independent Verification & Validation of supporting IT systems. At the base of the offer is the great experience of market processes accrued over more than twenty years of activity alongside leading banking companies, combined with in-depth knowledge of methods and tools for managing specialist vertical processes such as NPL, digital payments, factoring and compliance.

The FARADAY™ product designed for compliance with solutions for the assessment of the risk of financing of terrorism, corruption and money laundering, which aim to meet the needs of all those who are subject to European and national legislation on the subject, allows to manage different types of data and to support the calculation of the risk in the various areas.

Polaris is the B2B digital platform (Marketplace) designed to dynamically and centrally manage the Supply Chain Finance programs, aimed at responding in a flexible and integrated manner to the needs of the buyers, suppliers and Financial Partners; ideal tool for large companies and multinationals that manage large and diversified supplies. Polaris gives the possibility to financial partners, banks specialised in trade finance and Factors, investment funds and family offices, of expanding their reference market with centralised management of the onboarding processes and contractual formalisation. A simple tool to proactively manage commercial debt within its supply chains, supporting the liquidity of suppliers in collaboration with a wide range of possible financial partners. Polaris digitalises the main operating processes in the area of reverse factoring and confirming and dynamic discounting, making it possible to include both smaller suppliers and financial partners other than large commercial banks in the support programs of large companies.

Assiopay, focused on the development of software for the world of payments and payment-related systems (meal vouchers and rechargeable), has developed a proprietary platform (gateway) that allows access to various service providers, and has also developed an Android SmartPOS application. able to integrate various issuers and enable payment on international credit circuits in addition to their management software (Assiopay Terminal Management System). Assiopay designs and develops software and Apps for payment, loyalty, ticketing, meal vouchers and many other solutions at Banks, Financial Institutions, System Integrators, service providers, large-scale distribution chains, etc. through customised solutions.

On 15 April 2020, TXT e-solution formalised the purchase of 60% of a FinTech start-up, TXT Working Capital Solutions S.r.l., an innovative start-up dedicated to the development of solutions for the Factoring and Supply Chain Finance market.

The total investment was € 3.5 million, broken down as follows:

- € 0.8 million, broken down as follows:
    - € 0.3 million paid in cash in the form of subscription of share capital;
    - € 0.5 million paid in cash by way of share premium;
- € 2.7 million payment envisaged for the "PUT/CALL" cross option for the remaining 40% at a price commensurate with the financial and economic results of the company in 2024.

On 13 July 2020, TXT e-solutions S.p.A. has finalised the purchase of MAC Solutions S.A., a Swiss company which has been on the market for over 20 years and specialises in providing professional ICT services to the bank sector, supplying and integrating financial software and developing innovative software and Apps designed through the software factory for customers on the Swiss market. The total investment was € 6.4 million, paid in cash.

On 16 October 2020, TXT e-solutions S.p.A. finalised the purchase of 100% of the ordinary shares of HSPI S.p.A., a company specialized in the "digital transformation" of large Italian public and private companies, leader in the field of "IT governance". With the acquisition of HSPI, TXT continues to diversify and significantly increase the extent and depth of its technological and consulting services mix, inheriting a new broad and diversified client portfolio, which strengthens its presence on the

Fintech and Industrial markets and guarantees its access to new sectors (Public Administration, Energy & Utilities). Thanks to HSPI, the TXT Group will acquire a leadership presence throughout Italy, with the addition of new operating centres including Bologna and, especially, Rome. The Transaction will further strengthen TXT Group know-how in key skills such as Information Risk Management, Process Mining, blockchain, data science and advanced analytics; it will add them to the services offered in the field of cyber-security, expected to expand strongly over the next few years, and in the public administration sector through an internal department structured for participation in tender procedures.

The total investment was € 12.1 million, broken down as follows:

- € 9.1 million cash disbursement to sellers
- € 2.6 million through payment of TXT shares (297,209 treasury shares valued at a price of € 7.79).

The transfer of its Banking & Finance business unit to the subsidiary Assioma.Net S.r.l. (company acquired on 30 April 2019 and 100% controlled by TXT e-solutions) was completed on 16 December 2019, with real and accounting effect from 1 January 2020.

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

The transaction is aimed at simplifying the organisational and managerial structure.

The acquisitions carried out in 2019 and 2020 relating to the Fintech Division have allowed TXT to significantly expand its customer target and to extend its mix of new products, expertise and high value-added specialisations, strengthening its market presence.

RESEARCH AND DEVELOPMENT ACTIVITIES

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

In 2020, investments continued and resulted in the issue of new software solutions in the areas of Flight Operations (Pacelab FPO Cloud), Training with Augmented Reality and Virtual Reality technologies (Pacelab WEAVR) and the configuration of airplane cabins (Pacelab CABIN).

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

Pacelab CABIN is a TXT software product addressed to airplane manufacturers to support the configuration of passenger airplane cabins during the sale phases to airlines. Pacelab CABIN, already in use by the main manufacturers, was extended to allow a Cloud-based collaboration between geographically distributed configuration teams and to offer innovative ways of interactive and collaborative configuration and visualisation of cabin configurations through Augmented Reality technologies. Thanks to these new functions, important innovations were introduced in the cabin configuration process, permitting a significant extension of the already existing relationship with a major US company for the cabin design of their main airplanes.

Starting in January 2020, a new “eXtended Reality” (XR) business line was created to consolidate and further develop the excellent results of the new Pacelab WEAVR product obtained in recent years as a result of a significant internal investment. 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. The platform is already in use in other sectors such as automotive, manufacturing and defence. WEAVR consolidates TXT's experience in the sector, obtained over the years through carrying out numerous projects and complex simulators, and is created using innovating Virtual Reality and Augmented Reality techniques.

In 2020, new projects were launched and the existing ones continued as part of the subsidised research program co-financed by the European Commission research framework HORIZON 2020, by the German Aviation Research Program and by the regional development funds in Lombardy and Puglia.

The projects aim to develop new industrial applications and skills on innovative technologies such as Artificial Intelligence, Big Data Analysis, IoT and Augmented Reality in different domains such as aeronautics and manufacturing and are based on TXT's experience in Industry 4.0, Digital manufacturing and Training & Simulation:

- The purpose of the new XMANAI project, coordinated by TXT, is to develop an eXplainable Artificial Intelligence platform to support use-cases in the manufacturing field (end-users: FORD, CNH, Whirlpool);
- The new AI REGIO project supports the implementation of digital transformation paths guided by Artificial Intelligence for small and medium manufacturing companies towards the future industry 5.0;
- The ADMITTED project, coordinated by TXT, is responsible for building a BigData environment and a set of algorithms for the analysis of test flight data for the next generation of Leonardo helicopters (Next Generation Civil Tilt Rotor);
- The ICARUS project aims to build a Big Data analysis platform in the aeronautical sector that allows to share data from different sources by tracking it with blockchain and analysing it to extract value from it;
- The FASTEN project aims to develop a platform for production systems entirely connected for high-customisation products, using sophisticated software technologies for self-learning, self-optimisation and advanced control;
- The OPTIMAL project aims to develop improved fuel efficiency techniques and big data analytics on flight outputs;
- The SMART4CPPS project aims to develop IoT and Big Data applications for predictive maintenance programs;
- The purpose of the QU4LITY project is to develop the concept of “augmented worker” in the manufacturing sector, supporting the worker with Augmented Reality, Artificial Intelligence and Internet of Things

The projects are being carried out as part of international consortia from 3 to 43 partners, consisting of leading companies in the sector, important universities and research centres.

The Fintech Division is characterised by its ability to create cutting-edge and highly reliable products.

Assiopay has developed a ViP (Voucher Intelligent Payment platform) payment processing platform to allow the complete management of payment instruments based on the concept of vouchers, the management of fidelity cards and POS terminals. The advantage of the platform is to simplify the payment life cycle and make the management of the voucher uniform regardless of the issuer and its physical form (paper, electronic, virtualised on mobile), the type of terminal used and the infrastructure used. The modularity of the platform allows to package the services to the customer according to their real needs. Although the company was established only in 2019, the platform is now used in Italy by most of the meal voucher issuers and by various large-scale retail operators.

The I-Mole research project, developed by Assioma.Net, aims to create the tools for an ecosystem dedicated to logistics. The project purpose is to invest more than € 6 million. It has already obtained a non-repayable loan from the Puglia Region for over 60% of the investments. The research idea is to overcome the limits and the fragmentation of traditional management systems with an innovative logistics framework on which to grow an ecosystem. I-Mole consists of a Digital Business Ecosystem, made up of all the Organisations that offer and/or purchase goods/services made available by I-Mole. Companies contribute both to enriching the services of the ecosystem and to extending the market to which these services are sold: each company can be a supplier of one or more services; user of one or more services; provider of some services and user of other services available in the ecosystem.

Cheleo, a Group company specialised in the design of financial applications for Banks and Financial Companies, distinguishes itself for the specialised advisory support provided to customers. As part of Consumer Credit, it offers a suite of financial products that are always compliant with regulatory provisions.

The financial applications are constantly subject to implementations and developments resulting from the directives issued by the Supervisory Bodies, the Bank of Italy and the ECB in the first place, always in respect of compliance, increasing their functional coverage and, at the same time, evolving their architecture according to new technological and IT opportunities.

In 2020, the Group confirmed this investment trend mainly in the following areas:

a) New native web front-end for salary-backed loans (QUEEN);

b) New QUEEN configurator;

c) Completion of the native web front-end for the leasing application (ACE);

d) ECB reporting – Bankit;

e) Cheleo - Faraday Suite integration;

f) Automatic management of amortised cost and accruals;

g) New Developments on Factoring application (KING);

h) Research and Development, testing of new products.

TXT Risk Solutions has continued to innovate its FARADAY solution, which has as its strong point the on-going evolution both functional and in the application of innovative technologies applied to risk management.

In 2020, it has generated considerable expertise and built up a set of AI models developed across different sectors, enabling it to have a warehouse of intelligent models to be used as semi-finished products on customers; it has developed new probabilistic models for sectors not yet explored including:

- crypto-currency module, which makes it possible to identify within the financial intermediary the customers who have a high probability of using virtual currencies and to investigate the behaviour of these subjects in the bank's normal operations. The module was installed in MpS to the satisfaction of the customer.
- The module for the renewal management of the appropriate audits enables, with the application of artificial intelligence, the reduction of human intervention only to the situations that really need to be reviewed, providing a significant saving of time and resources.
- PA control module in which control techniques borrowed from financial intermediaries were applied and artificial intelligence systems were introduced to make decisions on administrative control processes.

GROUP REVENUES

Revenues amounted to € 68.8 million, up 16.4% compared to € 59.1 million in 2019. Within the same consolidation scope, revenues increased by 5.4%, with the acquisitions contributing € 6.5 million. Software revenues in 2020 were € 8.6 million, up 25.1% compared to 2019. Revenues from services amounted to € 60.1 million, up 15.2% compared to 2019. The Aerospace, Aviation and Automotive

Division had revenues of € 38.7 million, up 24.7% compared to 2019. The Fintech Division had revenues for € 27.9 million, up +7.1% compared to 2019.

Commercial costs amounted to € 6.3 million, down by 26% compared to 2019; the impact of these costs on revenues was 9.2% compared to 14.6% in 2019.

General and administrative costs amounted to € 6.4 million, up € 0.8 million compared to 2019 (€ 5.6 million). Costs as a percentage of revenues decreased from 9.4% in 2019 to 9.3% in 2020, mainly due to cost containment and optimisation over a broader scope of activities following the acquisitions of TXT Working Capital Solutions, MAC Solutions S.A. and HSPI.

Gross operating profit (EBITDA) in 2020 was € 8.6 million, up 22.2% compared to 2019 (€ 7.0 million). Profit as a percentage of revenues was 12.5%, compared to 11.9% the prior year. In 2020, EBITDA margin on revenues was 12.5% for the Aerospace, Aviation & Automotive Division and 12.4% for the Fintech Division (6.4% in 2019).

Pre-tax profit came to € 5.9 million, compared to € 2.3 million in 2019. Financial income attributable to the management of financial investments amounted to € 0.6 million. The prudent and diversified management with investments mainly in multi-segment insurance has made it possible to contain the losses generated by the volatility of the financial markets linked to the COVID-19 pandemic. This item also includes a positive non-recurring financial income due to the precise calculation of the value of the PUT/CALL option on the remaining 21% of the capital of PACE.

CONSOLIDATED CAPITAL EMPLOYED

As at 31 December 2020, Capital Employed totalled € 63.8 million, up € 23.2 million compared to 31 December 2019 (€ 40.6 million), mainly due to the acquisitions of the year (€ 20.2 million) and organic growth of € 3.0 million.

The table below shows the details:

(Importi in migliaia di euro)	31.12.2020	31.12.2019	Total variance	of which M&A 2020	of which TXT
Immobilizzazioni immateriali	37.653	24.380	13.273	15.384	(2.111)
Immobilizzazioni materiali nette	7.460	7.929	(469)	341	(810)
Altre attività immobilizzate	2.299	2.325	(26)	155	(181)
Capitale Immobilizzato	**47.412**	**34.634**	**12.778**	**15.880**	**(3.102)**
Rimanenze	4.749	4.156	593	-	593
Crediti commerciali	35.411	19.371	16.040	7.911	8.129
Crediti vari e altre attività a breve	5.782	4.779	1.003	1.306	(303)
Debiti commerciali	(4.176)	(2.122)	(2.054)	(1.559)	(495)
Debiti per imposte	(5.147)	(4.292)	(855)	(1.184)	329
Debiti vari e altre passività a breve	(17.471)	(12.808)	(4.663)	(1.798)	(2.865)
Capitale circolante netto	**19.148**	**9.084**	**10.064**	**4.676**	**5.388**
TFR e altre passività non correnti	**(2.757)**	**(3.110)**	**353**	**(336)**	**689**
Capitale investito	**63.803**	**40.608**	**23.195**	**20.220**	**2.975**

Intangible assets amounted to € 37.7 million, up by € 13.3 million due to acquisitions (€ 15.3 million) net of the amortisation/depreciation for the year on intangible assets for the intellectual property of the software and customer portfolio for the acquisitions of MAC solutions, TXT Working Capital Solutions and HSPI.

Tangible fixed assets of € 7.5 million decreased by € 0.5 million compared to 31 December 2019 due to depreciation for the year net of acquisitions of € 0.3 million. Investments in servers and computers during 2019 (€ 0.3 million) were essentially in line with the depreciation amounts for the period.

Other fixed assets amounted to € 2.3 million and are essentially represented by deferred tax assets. The changes are mainly due to the provision of deferred tax assets (€ 0.4) on losses carried forward for the two innovative start-ups TXT Risk Solutions and TXT Working Capital Solutions and the use of deferred tax assets on revenues deriving from the application of the international accounting standard IFRS 15 by the subsidiary PACE for important contracts executed in 2019.

Net working capital rose by € 10.1 million, from € 9.1 million as at 31 December 2019 to € 19.1 million as at 31 December 2020, due to organic growth (€ 5.4 million), net of the consolidation of the acquisitions carried out during the year. The increase in working capital is mainly due to the increase in trade receivables of € 16.0 million, of which the organic growth was € 8.1 million and € 7.9 million due to the consolidation of the new companies that have joined the Group and the increase € 4.7 million was due to other short-term liabilities against the increase in advances on multi-year contracts (€ 2.7 million).

Liabilities arising from post-employment benefits of Italian employees and other non-current liabilities of € 2.7 million fell by € 0.4 million from the end of 2019 due to the payment of Severance allocated during the years for end of term of office to the Chair Alvise Braga Illa (€ 1.9 million) who was not re-elected in 2020 and to the increase resulting from the acquisition of HSPI (€ 1.5 million).

Pursuant to Consob communication dated 28 July 2006 and in conformity with the scheme envisaged by CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", it is noted that the TXT e-solutions Group's net financial position as at 31 December 2020 is as follows:

(€ thousand)	**31.12.2020**	**31.12.2019**	**Change 31.12.2020-31.12.2019**
Cash and cash equivalents	11,932,508	11,426,083	506,425
Financial instruments at fair value	68,160,917	87,320,066	(19,159,149)
Current bank loans	(28,181,251)	(17,353,013)	(10,828,238)
Options related to acquisitions (PUT/CALL - Earn-Out)	(960,000)	(6,647,604)	5,687,605
Current financial liabilities - IFRS 16	(1,493,718)	(1,305,000)	(188,718)
Short-term financial resources	**49,458,456**	**73,440,532**	**(23,982,076)**
Non-current financial liabilities - IFRS 16	(3,579,852)	(4,517,020)	937,168
Non-current bank loans	(18,874,269)	(23,525,454)	4,651,185
Options related to acquisitions (PUT/CALL - Earn-Out)	(4,944,217)	(3,986,529)	(957,688)
Financial resources - non-current portion	**(27,398,339)**	**(32,029,003)**	**4,630,664**
Net Available Financial Resources	**22,060,117**	**41,411,529**	**(19,351,412)**

The Net Financial Position as at 31 December 2020 is detailed as follows:

- Cash and cash equivalents of € 11.9 million are mainly in Euro, held with major Italian banks. Last year liquidity was deposited in current accounts for € 11.4 million.

- Financial instruments at fair value of € 68.2 million are composed of investments in partial return multi-segment insurance funds (€ 59.9 million) and in bond funds, balanced and absolute return funds with a medium-low risk profile (€ 0.5 million) and treasury management for € 7.8 million.

- Current financial liabilities as at 31 December 2020 amounted to € 30.6 million and refer (a) for € 28.2 million to current bank loans of which the short-term portion of medium- to long-term loans amounts to € 10.3 million and of which short-term loans (hot money) amount to € 17.9 million; (b) for € 1.0 million to the estimated disbursement for the first Earn Out of the Assioma shareholders (€ 0.8 million) and the PUT/CALL option for the shareholders of TXT Risk Solution (€ 0.2 million); and (c) for € 1.5 million to the short-term portion of the debt for the payment of rent and lease of offices, cars and printers for all instalments until the end of the related contracts following the adoption of the new accounting standard (IFRS 16).

- Non-current financial liabilities as at 31 December 2019 of € 27.4 million refer (a) for € 18.7 million to the short-term portion of new medium- to long-term loans for the portion with a maturity of more than 12 months; (b) for € 2.7 million to the valuation of the debt for the PUT/CALL option for the acquisition of TXT Working Capital Solutions S.r.l., as an estimate of the additional disbursements for exercising the Put/Call option in the 2021-2025 period for the purchase of the remaining 40% of the company's shares and for the acquisition of TXT Risk Solutions (€ 0.2 million); (c) for € 1.6 million estimated disbursement for the second Earn Out of the Assioma shareholders; (d) for € 0.5 million the payable related to the Restricted Share Price Adjustment for the acquisition of HSPI S.p.A.; (e) for € 0.5 million the long-term portion of the Put/Call related to TXT Risk Solutions S.r.l. after renegotiation; (f) for € 3.6 million to the medium/long-term portion of the debt for the payment of rent and lease of offices, cars and printers for all instalments until the end of the relevant contracts following the adoption of the accounting standard IFRS 16; and (g) for € 0.2 million to the debt for interest rate risk hedging (fair value interest rate swap).

<u>Liquidity management</u>

As at 31 December 2020, most of the negotiable financial instruments (€ 68.2 million) had been invested in multi-segment insurance products (€ 58.8 million) from which the company can decide to divest at any time and without specific charges to deal with investment opportunities.

Multi-segment insurance products allow you to combine:

- Separate Management - First Line (€ 54.2 million), which has the characteristic of a substantial guarantee on invested capital, stability of returns over time, as investments are made in high quality securities, is easily liquidated, with minimum exposure to strong and rapid fluctuations in value.
- Bond, balanced and insurance funds - Third Line (€ 4.6 million) that allow for participation in the performance of financial markets.

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

Q4 2020 ANALYSIS

Analysis of the operating results for the fourth quarter of 2020, compared with those for the third quarter of the previous year, are presented below:

(€ thousand)	Q4 2020	%	Q4 2019	%	% Change
REVENUES	**20,927**	**100.0**	**16,557**	**100.0**	**26.4**
Direct costs	13,125	62.7	8,264	49.9	58.8
GROSS MARGIN	**7,802**	**37.3**	**8,293**	**50.1**	**(5.9)**
Research and development costs	1,639	7.8	1,616	9.8	1.4
Marketing costs	1,881	9.0	2,750	16.6	(31.6)
General and administrative costs	1,841	8.8	1,722	10.4	6.9
GROSS OPERATING PROFIT (EBITDA)	**2,441**	**11.7**	**2,205**	**13.3**	**10.7**
Depreciation, amortisation and impairment	2,429	11.6	872	5.3	n.m.
Reorganisation charges	(242)	(1.2)	(12)		
OPERATING PROFIT (EBIT)	**(230)**	**(1.1)**	**1,321**	**8.0**	**(117.4)**

Financial income (charges)	228	1.1	57	0.3	n.m.
Financial income (charges) related to acquisitions	1,331	6.4	(3,432)	-20.73	n.s.
EARNINGS BEFORE TAXES (EBT)	**1,329**	**6.4**	**(2,054)**	**(12.4)**	**n.m.**
Taxes	(224)	(1.1)	(646)	(3.9)	n.m.
NET PROFIT (LOSS)	**1,105**	**5.3**	**(2,700)**	**(16.3)**	**n.m.**
Net profit from discontinued operations (sale of TXT Retail)	-		-		
NET PROFIT (LOSS)	**1,105**		**(2,700)**		

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

- Net revenues amounted to € 20.9 million, up by 26.4% compared to the fourth quarter of 2019 (€ 16.6 million). Within the same consolidation scope, revenues increased by 4.1%, with the acquisitions contributing € 3.7 million. Revenues from software, subscriptions and maintenance amounted to € 2.1 million, in line with the fourth quarter of 2019 (€ 1.9 million). Revenues from services amounted to € 18.8 million, up by 28.7% compared to € 46.6 million in 2019.
- EBITDA in the fourth quarter of 2020 was € 2.4 million, up by 10.7% compared to the fourth quarter of 2019 (€ 2.2 million), also thanks to significant savings in commercial costs. Profitability on revenues in the fourth quarter of 2020 was 11.7%.
- Financial and non-recurring income and (charges) were positive by € 2.2 million. Investments in cash and cash equivalents generated financial income of € 0.2 million (€ 0 million in the fourth quarter 2019). Income of € 1.3 million was recorded under this item for the lower cost to be paid for the PUT/CALL option linked to the acquisition of the ownership interest of the share capital of TXT Risk Solutions. In the fourth quarter of 2019, financial charges also included (i) a cost of € 4.1 million due to the adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the remaining 21% of the capital of PACE; and (ii) income of € 0.7 million due to the lower cost to be paid for the Earn-Out related to the average EBITDA performance of Cheleo.
- The Result before taxes was therefore a positive € 1.3 million, compared to a negative € 2.1 million in the fourth quarter of 2019.
- Net profit in the fourth quarter of 2020 was a positive € 1.1 million, compared to a negative € 2.7 million in the same period of 2019 after provisions for taxes in the amount of € 0.2 million.

EMPLOYEES

As at 31 December 2020, there were 996 employees, an increase of 210 employees compared to 786 personnel units as at 31 December 2019 due to a growth in the business and to the acquisition (159 employees).

PARENT COMPANY'S PERFORMANCE

TXT's results for 2020, compared with 2019 figures, are presented below:

DATI ECONOMICI (Importi in migliaia di Euro)	2020	%	2019	%	VAR %
RICAVI	**27.518**	**100,0**	**24.219**	**100,0**	**13,6**
EBITDA	**2.958**	**10,7**	**988**	**4,1**	**199,4**
UTILE OPERATIVO (EBIT)	**1.650**	**6,0**	**99**	**0,4**	**1.566,7**
UTILE NETTO CONTINUING OPERATIONS	**1.758**	**6,4**	**2.466**	**10,2**	**(28,7)**
Utile netto Discontinued Operations	-		742		
UTILE NETTO	**1.758**		**3.208**		

DATI PATRIMONIALI E FINANZIARI (Importi in migliaia di Euro)	31.12.2020	31.12.2019	Var
Capitale immobilizzato	57.727	32.841	24.886
Capitale circolante netto	15.115	9.399	5.716
TFR e altre passività non correnti	(812)	(2.305)	1.493
Capitale investito	**72.030**	**39.935**	**32.095**
Posizione finanziaria netta	13.077	44.119	(31.042)
Patrimonio netto del gruppo	85.107	84.054	1.053

ALTRE INFORMAZIONI	31.12.2019	31.12.2019	Var
Numero di dipendenti	420	485	(65)
Quotazione del titolo TXT	7,88	9,66	(1,78)

As at 31 December 2020, the Parent Company employed 420 people, a net decrease of 65 people compared to the headcount of 485 people as at 31 December 2019 due to the contribution of the B&F business unit to Assioma.Net on 1 January 2020 (121 people) and the growth of activities in the Aerospace sector.

On 15 October 2020, the Extraordinary Shareholders' Meeting of TXT e-solutions ("TXT e-Solutions") has approved, among other things, i) the integration of the corporate purpose in order to allow the company to carry out holding activities (so-called mixed holding company) and consequent amendment to Article 4 of the Articles of Association; and ii) the introduction of a 40% share capital or voting right threshold for the promotion of a take-over bid, in compliance with the introduction of Article 7-bis of the Articles of Association.

The change in the core business was necessary in view of the growing activities of the company aimed at acquiring equity investments in companies and undertakings of any kind, Italian and foreign, relating to the company's core business of creating value for the shareholders, the customers and the Group.
The legitimate shareholders who did not participate in the approval of the resolutions had the right to withdraw in accordance with the law.

RECONCILIATION OF NET SHAREHOLDERS' EQUITY PARENT COMPANY - CONSOLIDATED.

	Patrimonio Netto			Utile Netto		
(Euro/000)	31.12.2020	31.12.2019	31.12.2018	31.12.2020	31.12.2019	31.12.2018
Come da bilancio TXT e-solutions S.p.A.	**85.107**	**84.054**	**85.279**	**1.758**	**3.209**	**(670)**
Eccedenza dei patrimoni netti dei bilanci comprensivi dei risultati di esercizio, rispetto ai valori di carico delle partecipazioni in imprese consolidate	(31.478)	(17.443)	(7.618)	3.131	2.849	1.467
Rettifiche di consolidamento, al netto dell'effetto fiscale, per:						
- differenza tra prezzo di acquisto e corrispondente patrimonio netto contabile (goodwill)	30.431	19.640	12.785			
- differenza allocata a IP, CR e DTA con PPA	6.682	4.586	4.958	(1.336)	(1.194)	(831)
- imposte differite passive su differenza allocato a IP e CR con PPA	(1.864)	(1.279)	(1.344)	373	294	142
- Put/call minority	(3.015)	(7.537)	(8.193)	789	(4.229)	(24)
- eliminazione dividendi infragruppo						-
- ripresa svalutazione partecipaione Sense iR		-	(39)		39	(39)
- altre rettifiche		-	520	-	(520)	520
Ricalcolato TXT Group	**85.864**	**82.021**	**86.347**	**4.715**	**448**	**565**

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

In 2020, the share price of TXT e-solutions reached an official high of € 10.10 on 10 January 2020 and a low of € 4.63 on 18 March 2020. As at 31 December 2020, the share price was € 7.8.

Average daily trade volumes in 2020 amounted to 24,916 shares, an increase on the daily average of 23,829 shares in 2019.

As at 31 December 2020, 1,401,429 treasury shares were held (1,220,971 as at 31 December 2019), accounting for 10.78% of shares outstanding, with an average carrying amount of € 3.75 per share. In 2020, 727,945 treasury shares were purchased at an average price of € 7.31.

On 15 January 2020, the Chair of TXT e-solutions S.p.A. Alvise Braga Illa announced that he had sold 1,200,000 ordinary shares of TXT e-solutions S.p.A. at a price of € 9.00 per share for a total equivalent value of € 10,800,000. The transaction was carried out through an accelerated bookbuilding procedure reserved for professional investors in Italy and institutional investors abroad.

On 1 July 2020, the first meeting of the Board of Directors of TXT e-solutions, appointed by the Shareholders' Meeting on 18 June 2020, was held. The Board of Directors appointed Enrico Magni as Chair of the Board of Directors and Daniele Misani as Chief Executive Officer.

On 23 July 2020, TXT sold 224,604 treasury shares in blocks, at a price of € 9.00 each, for a total consideration of € 2.0 million as part of the extraordinary acquisition of Mac Solutions S.A. - a Swiss company that joined TXT's scope of consolidation on 14 July 2020.

On 21 December 2020, in exchange for the acquisition of the shares of the company HSPI S.p.A., as partial consideration for the price agreed with its shareholders, 322,885 shares were transferred at the agreed price of € 7.79 each.

The treasury share buying programme was renewed by the Shareholders' Meeting of 18 June 2020. 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.

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES AND RISK MANAGEMENT

On 19 October 2020, following the acquisition of a stake of 92% of the share capital of HSPI S.p.A. corresponding to 100% of the ordinary shares that give voting rights in the Shareholders' Meeting, Laserline, the majority shareholder of HSPI, sold 117.392 HSPI ordinary shares to TXT, for a total nominal value of € 117,392.00, representing 53.36% of the share capital of the latter. Laserline is controlled by Enrico Magni, the majority shareholder, currently the Chair of Board of Directors of TXT, and the latter payment was also subject to assessment, approval and disclosure, in the context of the HSPI acquisition transaction, by a Related Party.

With regard to the termination of the office of Chair of the Board of Directors, the end-of-term indemnity allocated over the years was paid for an amount of € 1,207,217.

###

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

Directors and managers with strategic responsibilities shall declare, every six months,

the execution of any transactions carried out with the Parent Company and with subsidiaries, including through third parties, in accordance with the provisions of IAS 24.

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

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

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

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

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

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

Appendix 3 includes the Report on the remuneration of directors.

Appendix 4 includes the Declaration on non-financial information.

ADDITIONAL INFORMATION

TXT e-solutions S.p.A. directly or indirectly controls a number of companies with registered offices in non-European countries (non-EU companies), which are of significant importance in terms of

Article 36 of Consob Regulation 16191/2007 concerning the regulation of markets ("Market Regulation"). The Company has practices and procedures in place to ensure respect of the provisions pursuant to the aforementioned Consob regulation.

In compliance with the provisions of Article 2428, paragraph 4, of the Italian Civil Code, we certify that TXT e-solutions S.p.A., at the closing date of the financial year, has secondary offices in Orbassano (TO), Via Torino 43/45 and Pomigliano d'Arco (NA), Via ex-aeroporto consorzio II sole.

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

On 11 January 2021, the Company purchased from Andrea Serra its shareholding in Assiopay S.r.l., representing 49% of its share capital, for a consideration of € 1.6 million. The Price for purchase of the shareholding was agreed by the parties to be the algebraic sum of the following amounts:

- an amount of € 1,650,000 (“Price”) of which:
  - i) € 0.8 million in cash (“Cash Price”); and
  - ii) € 0.8 million through the payment of ordinary TXT treasury shares (“Share Price”);
- an amount - which may be negative (and therefore due from the seller to the buyer) or positive (and therefore due from the buyer to the sellers) - equal to the NFP Closing (defined as the value of Assiopay's NFP recorded on the last day immediately prior to the closing date).

On 28 January 2021, as part of its policy to optimize the asset allocation of available liquidity, it made a financial investment of approximately € 14.3 million in the share capital of Banca del Fucino S.p.A. (“Bank”), against the issue of new shares equal to approximately 9% of the share capital (post-money). The share capital increase reserved for TXT took place on the basis of a delegation granted to the Bank’s Board of Directors, which today has accepted the TXT’s investment proposal. Banca del Fucino is the parent company of the Igea Banca Banking Group and, inter alia, fully controls Igea Digital Bank S.p.A., a digital bank with excellent growth prospects in the current market context. The capital strengthening of the Bank, which in the last month recorded a total of more than € 45 million in capital increase paid in cash, is aimed at implementing the 2020-2023 business plan, focused on the business model of a specialty bank with a strong Fintech vocation. In line with the business plan, the management’s objective is to promote the Bank’s listing.

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

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

The first quarter of 2021, taking into account the significant negative effects linked to the spread of Covid-19, could have a more limited level of profitability than expected, despite the fact that in the first two months of the year management managed to maintain revenue and margin levels in line with expectations.

Manager responsible for preparing corporate accounting documents The Chief Executive Officer

Eugenio Forcinito Enrico Magni

Milan, 9 March 2021

TXT e-solutions S.p.A.

2020 REPORT ON CORPORATE GOVERNANCE AND SHAREHOLDING STRUCTURE

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

Contents

GLOSSARY

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

Civil Code: the Italian Civil Code.

Board: the Board of Directors of the Issuer.

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

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

Consob Issuers' Regulation: Regulation no. 11971/1999 (and subsequent amendments) concerning issuers, issued by Consob.

Consob Regulation on Markets: Consob Regulation no. 20249/2017 concerning markets.

Consob Regulation on transactions with related parties: Regulation no. 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: 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 to the Stock Exchange Regulations.

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.

The Group's corporate bodies are listed below:

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

The Shareholders' Meeting ("Meeting"), duly constituted, is the body that expresses the Company's will through its resolutions. Resolutions passed by the Shareholders' Meeting in accordance with law and the Articles of Association are binding on all shareholders, including absent and dissenting shareholders.

The Board of Directors ("Board") is exclusively responsible for managing the company. It is appointed by the Meeting every three years. Its members appoint a Chair and a CEO/CEOs and define their powers.

The Remuneration Committee is constituted by Board members and has consultative and advisory functions. In particular, it expresses opinions and makes proposals to the Board of Directors regarding the determination of the remuneration of executive directors and managers with strategic responsibilities.

The Risks and Internal Controls Committee is a committee of the Board that assesses the adequacy of the internal control and risk management system and expresses its opinion on the control procedures.

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

The Board of Statutory Auditors is a supervisory body responsible for ensuring compliance with the law and the Company's Articles of Association as well as management controls. It is not assigned with the task of auditing Company accounts, which is the responsibility of Independent Auditors named on a specific Register, which is the control entity external to the Company. 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 the relevant regulations.

The corporate bodies’ powers and tasks comply with the law, the Company’s Articles of Association 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.

The Company falls under the definition of SME since 2014 pursuant to Article 1, paragraph 1, letter w-*quater* 1) of the Consolidated Law on Finance and Article 2-*ter* of the Consob Issuers’ Regulation. The average capitalisation in 2020 was € 91 million and 2020 Revenues came to € 69 million.

2. INFORMATION ON THE SHAREHOLDING STRUCTURE (Article 123-*bis*, paragraph 1 of the Consolidated Law on Finance) as at 31 December 2020

a) Share capital structure (pursuant to 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. As at 31 December 2020, the subscribed and paid-in share capital was equal to € 6,503,125.00, broken down into 13,006,250 shares with a par value of € 0.50 each.

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

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

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

There are no share transfer restrictions.

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

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

These shareholdings derive from deposits made at the time of the last Shareholders' Meeting held on 15 October 2020 and the company has not received any communications or notifications of changes as at 31 December 2020.

This information is based on the information contained in the Shareholders' Register and in communications by shareholders pursuant to Article 120 of the Consolidated Finance Law as at 31 December 2020.

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

No shares with special controlling rights have been issued.

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

The Articles of Association do not envisage any provisions on the exercise of voting rights by employee shareholders.

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

There are no restrictions on voting rights.

g) Shareholders' agreements (pursuant to 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 (pursuant to Article 123-*bis*, paragraph 1, letter h) of the Consolidated Law on Finance) and provisions on takeover bids as per the Company's Articles of Association (Article 104, paragraph 1-*ter* and Article 104-*bis*, paragraph 1)

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

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

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

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

As at 31 December 2020, 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 Articles of Association, if different from the relevant supplementary legal and regulatory provisions

As at 31 December 2020, there were no provisions different from the applicable legal or regulatory provisions.

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

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

As at 31 December 2020, there were no delegated powers to increase share capital.

On 18 June 2020, the company's ordinary Shareholders' Meeting revoked the previous authorisation to purchase treasury shares and empowered the Board of Directors to proceed, also through delegated parties, pursuant to Article 2357 of the Italian Civil Code, with the purchase, in one or more tranches, for a period of 18 months as from the resolution, of TXT e-solutions S.p.A. ordinary shares up to the legal maximum amount of 20% of the share capital. The minimum payment for the purchase must not be lower than the par value of TXT e-solutions S.p.A. shares, and the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00 (twenty-five/00).

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

a) to conduct operations such as the sale and exchange of treasury shares for the acquisition of shareholdings, or as part of any strategic agreements within the realm of the Company's investment policy;

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

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

As at end of the reporting period, the company owned 1,401,429 treasury shares (1,220,971 as at December 2019), accounting for 10.78% of shares outstanding, with an average carrying amount of € 3.75 per share. During 2020, 727,945 shares were purchased at an average price of € 7.30. As regards disposals, the following transactions took place:

- in July 2020, in exchange for the acquisition of the shares of the company Mac Solution S.a.g.l., as partial consideration for the price agreed with its shareholders, 224,604 treasury shares were sold at the agreed price of € 9,00 each;
- in October and December 2020, in exchange for the acquisition of the shares of the company HSPI S.p.A., as partial consideration for the price agreed with its shareholders, 322,883 treasury shares were sold at the agreed price of € 7.79 each.

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

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

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

The Company adopted the Corporate Governance Code for listed companies of March 2006 (and subsequent amendments). Approved by the Corporate Governance Committee, this Code is available to the public on the Committee's website at https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm, in the edition of July 2018.

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 (pursuant to 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 are appointed by the Shareholders' Meeting.

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

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

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

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

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

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

The appointment of directors is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

Board members' term of office lasts for three financial years; afterwards they may be re-elected. The current Board includes 7 members, of whom 2 are executive directors, 1 is a non-executive director and 4 are independent directors. Pursuant to Article 3 of the Code, they 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 18 June 2020 and shall remain in office up until approval of the Financial Statements at 31 December 2022.

During the Shareholders' Meeting held on 18 June 2020, three lists were submitted.

The majority list was submitted by Laserline S.p.A. with the names of Enrico Magni, Daniele Stefano Misani, Stefania Saviolo (candidate for independent director), Valentina Cogliati (candidate for independent director) and Matteo Magni (all elected).

The minority lists were presented by:

- Alvise Braga Illa with Fabienne Anne Dejean Schwalbe, Paola Generali, Alessandro Arrigoni, Marilena Cederna and Raffaele Valletta, all candidates for independent directors. Fabienne Anne Dejean Schwalbe and Paola Generali, the first two candidates on the list, were appointed directors from this list;
- Eurizion Capital SGR S.p.A., Fideuram Asset Management, Fideuram Investimenti SGR S.p.A., Interfund Sicav - Interfund Equity Italy, Mediolanum Gestione Fondi SGR S.p.A., Mediolanum International Funds Ltd. - Challenge Funds - Challenge Italian Equity with the names of Elena Pagnoni, Marcella Elvira Antonietta Logli and Luca Aldo Giovanni Di Giacomo, all independent directors. No director was appointed from this list.

The shareholders declared that there are no connections between the lists. The majority list obtained 56.45% of the voting capital, the minority list submitted by Alvise Braga Illa obtained 30.73% of the voting capital while the third list obtained 12.82% of the voting capital.

The Directors Enrico Magni, Daniele Paolo Misani, Valentina Cogliati, Stefania Saviolo and Fabienne Anne Dejean Schwalbe, elected by the Shareholders' Meeting held on 18 June 2020, had already been serving as directors.

On the Board's Meeting of 1 July 2020, Enrico Magni was appointed Chair of the Board of Directors and Daniele Stefano Misani was appointed Chief Executive Officer.

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

Enrico Magni (in office as from 19 April 2018)

Born in Sulbiate (MI) on 17 January 1956.
Enrico Magni is a qualified industrial technician and has created and developed numerous entrepreneurial initiatives over the last 30 years. He is the Chair of the Board of Directors of numerous companies outside of the TXT Group: Laserline, Laserfin, Laserline Digital Signage, Laserline Lighting Solutions, Nanotech Analysis. He acquired and developed for over 10 years the Lutech group, establishing a process of strong growth in revenues with a solid systematic development and numerous acquisitions. From May 2018 until June 2020, he held the position of CEO of the TXT Group and from July 2020 he became Chair of the Company's Board of Directors.

Daniele Misani (in office as from 15 July 2019)

Born in Milan on 14 October 1977.
After a degree in Software Engineering at the Politecnico di Milano, Daniele Misani received a Master's degree in Electrical Engineering from the University of Illinois in Chicago and then an MBA from the London Business School.
He joined TXT in 2001 as a Computer Engineer and subsequently held various positions of increasing responsibility in both technical, commercial and management departments.
In 2010 he became Key Account Manager for TXT's largest aerospace customer, and in 2016 he was appointed Vice Chair to lead international business. In this role, he supported the integration process of PACE GmbH with the definition of the joint offer on a global scale. Since 2019, Daniele Misani has held the position of Chief Executive Officer and member of the Board of Directors.

Stefania Saviolo (in office since 16 April 2014)

Born in Milan on 14 March 1965.
She graduated in 1989 in Business Economics from Bocconi University of Milan, where in 1993 she earned her PhD in International Business, completed in 1992-1993 at the Stern School of Business - New York University.
She qualified as a Chartered Accountant in 1994 and is registered on the Milan Register of Accountants. Since 1993, she has been a Lecturer in Management and Technology at Bocconi University and the SDA Bocconi School of Management, where she teaches undergraduate, graduate and executive courses. She has been an independent director since 2014 of the Natuzzi Group (NYSE-listed) and since 2017 of the Stefanel Group, where she is also the Chair of the

Appointments and Remuneration Committee. For over 20 years she has provided management consultancy to fashion, design and luxury companies in the areas of brand management, international growth and organisational development.

Fabienne Dejean Schwalbe (in office since 5 May 2015)

Born in Dakar (Senegal) on 5 May 1964.
She graduated in 1985 with a Master's Degree from HEC Paris, with subsequent specialisations at the IMD Business School in Lausanne (2003) and at the Harvard Business School (2012). She gained key experience in the Media & Digital sectors in the United States, with growing responsibilities in the Bertelsmann Group in Paris. In Italy, she has held the position of CEO in the Bertelsmann Gruner+Jahr/Mondadori joint venture and provides consulting on digital transformation in France and Italy. She has completed projects for leading companies in the Media as well as Fashion sectors and has collaborated with Boston Consulting Group. She is currently advisor to the Chief Executive Officer of ASM Group, company specialised in customer care for Luxury brands, present in Europe, the USA and Asia.

Valentina Cogliati (in office as from 19 April 2018)

Born in Merate (LC) on 4 May 1981.
She graduated in 2005 in international law from Università Cattolica di Milano with first class honours and in 2009 she passed the Bar exam. Since 2006, she has been the Managing Director of Elemaster SpA and other Italian and foreign companies of the Group and since 2020 she has been Chair & CEO of the Elemaster Group. She has participated in training courses of the Borsa Italiana Elite project. She is fluent in English and speaks French and German.

Paola Generali (in office since 18 June 2020)

Born in Calcinate (BG) on 14 January 1975.
She graduated in 2000 in Banking and Insurance Business from the Università Cattolica del Sacro Cuore in Milan, with full marks. Since 2003 she has been the Owner and Managing Director of GetSolution. She is the Chair of Assintel, Director of the Chamber of Commerce of Milan, Monza, Brianza and Lodi, Chair of EDI Confcommercio S.r.l., the National Digital Innovation Hub of Confcommercio, member of the Board of Confcommercio of Milan, Monza, Brianza and Lodi, Director of Confcommercio Nazionale and independent director of Tinexta S.p.A., a company listed on the STAR segment of the Italian Stock Exchange. She has experience both nationally and internationally in Compliance, Cybersecurity and Governance consulting.

Matteo Magni (in office since 18 June 2020)

Born in Vimercate (MB) on 28 March 1982.
He graduated in 2006 in General Management from Bocconi University of Milan.
He is the Chief Executive Officer of Laserline S.p.A. and Chair of the Board of Directors of Sacs S.r.l. and Sistec S.r.l..

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

Diversity policies and criteria

The Company has applied diversity criteria, also with regard to gender, in the composition of the Board of Directors, in observance of the priority objective of ensuring adequate expertise and professionalism of its members (Standard 2.P.4.). In particular, the least represented gender, male, has three directors, equal to 43% of the total and therefore greater than two fifth of the Board of Directors (*Criterion 2.C.3.* - as amended by Consob resolution no. 21359 of 13 May 2020).

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

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

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

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

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

- the international projection of the TXT Group's activities should be taken into consideration, ensuring the presence of Directors who have gained suitable experience in the international sphere;

- in order to pursue a balance between the needs for continuity and renewal in the management, it would be necessary to ensure a balanced combination of different lengths of service in office - in addition to age brackets - within the Board of Directors;

- the non-executive Directors should be represented by figures with an entrepreneurial, managerial, professional, academic or institutional profile such as to achieve a series of skills and experience which are diverse and complementary. Furthermore, in consideration of the diversity of the roles carried out by the Chair and the CEO, the policy describes the expertise, the experience and the soft skills deemed most appropriate for the effective performance of the respective duties.

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

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

The Board of Directors in office fully meets the objectives established by said policy for the various types of diversity.

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

As at 31 December 2020, the Board had the following diversity elements:

- Gender diversity: 43% men, 57% women;
- Age diversity: <50 years 57%; >50 and <60 years 29%; 60-80 years 14%;
- Diversity of length of service: 1-3 years 71%; 4-6 years 29%.

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 Chair has made it possible for directors to participate in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, the principles of correct management of risks, as well as the relevant regulatory framework of reference (*Criterion 2.C.2.*). Application of this principle is fulfilled for the independent directors through discussions and meetings with management and participation in operational events and initiatives. In particular, for the new directors appointed in 2020, Matteo Magni and Paola Generali participated in a specific *Induction* meeting on business, markets, customers, opportunities and risks.

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

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

No other change has occurred since the end of the 2020 reporting period to date.

4.3. Role of the Board of Directors (pursuant to 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/CEOs' mandates, defining his/her operational environment and powers;
2. undertakes commitments which are not included in the ordinary management of the Company and previously approved budgets;
3. determines the remuneration of the directors for offices, after examining the Remuneration Committee's proposal and after consulting with the Board of Auditors;
4. examines and approves transactions having a significant impact on the Company's profitability, assets and liabilities and 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 2020 financial year, the Board of Directors held 14 meetings with an average duration of 1 hour and 58 minutes. Directors had an average attendance of 91%, while that of the Statutory Auditors was 88%.

5 meetings have been scheduled for 2020, and the first was held on 5 March 2020. As set forth in the regulatory provisions in effect, the Company has disclosed, in its press release issued on 30 January 2020, the following dates of the Board of Directors' meetings and the Shareholders' Meeting to be held in 2020, for a review of the economic-financial data, according to the following schedule:

- 5 March 2020: Board of Directors for approval of the draft 2019 Financial Statements;
- 22 April 2020: Shareholders' Meeting for approval of the 2019 Financial Statements (single call);
- 12 May 2020: Board of Directors for approval of the interim report as at 31.3.2020;
- 6 August 2020: Board of Directors to approve the half-yearly financial report as at 30 June 2020;
- 5 November 2020: Board of Directors for approval of the interim report as at 30.9.2020.

The Chair organises all the Board activities, ensuring that directors are promptly provided with all documentation and information necessary to make any decision. In order to ensure that all the directors make informed decisions and that a proper and complete assessment of the agenda items is performed, all documentation and information – and in particular draft interim reports – shall be made available to the Board members an average of 4 days before the meeting, a better timeframe than the 3 days in advance indicated as adequate by the Risk and Internal Controls Committee *(Criterion 1.C.5.).* During 2020, 52% 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 (38% in 2019). 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 Chair 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 Chair 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 Chair, 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; 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, managers in charge of relevant functions, the Company's auditors and legal, financial or tax consultants may be invited to join the Board meetings with the aim of providing in-depth analysis of the items on the agenda (*Criterion 1.C.6.*). During 2020, several managers of the TXT Group participated in the Board meetings: Eugenio Forcinito, CFO, Andrea Favini, CEO

Assistant, Luigi Piccinno, Internal Auditor and Secretary of the Board. Regular updates were provided by the Company's consultants and lawyers.

The Board assessed the suitability of the organisational, managing and accounting structure of the Company and its strategically significant subsidiaries set up by the CEO, Enrico Magni, and after his appointment as Chair of the Board of Directors, by the Chief Executive Officer Daniele Misani, 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 has 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 12 March 2020, the Board assessed the size, composition and functioning of the board itself and of its committees (*Criterion 1.C.1., letter g*).

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

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

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

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

4.4. Delegated bodies

Managing Directors

On 10 May 2018, the Board of Directors appointed Enrico Magni as Chief Executive Officer; on 1 July 2020, following the appointment of Enrico Magni as Chair of the Board of Directors, the Board appointed Daniele Misani as Chief Executive Officer.

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

a. of those strictly reserved by law or by the Articles of Association to the Shareholders' Meeting and the Board of Directors;
b. purchase and sale of real estate property assets;
c. purchase and sale of shareholdings, businesses and business segments.

CONTRACTS

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

Insurance agreements

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

General agreements

Conclude, amend, transfer and terminate, including with public administrations or entities, in the name and on behalf of the Company, setting the prices and conditions, with all the clauses deemed appropriate, including the arbitration clause, and providing the necessary guarantees and deposits, contracts of all kinds, including those relating to motor vehicles, which may be useful or necessary for the pursuit of corporate purposes, carrying out all the necessary procedures at the relevant Public Register and any competent office, including, but not limited to, the following contracts:

a. contracts for the purchase and sale of products, systems, plants, equipment, goods, machinery, software, IT assets and other movable assets (including those recorded in public registers), as regards the purchase, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual deed, or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative;

b. supply and administration contracts for all types of users;

c. rentals, leases, including financial or operating leases, licenses, subleases and free-of-charge loans relating to movable assets, whether registered or not, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual deed, or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative;

d. procurement agreements executed with third parties, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual deed, or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative;

e. contracts for the supply of goods and services, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual deed, or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative;

f. agency, mediation, procurement, commission agency, distribution and brokerage contracts, with or without representation, within the limits of an annual financial commitment for the Company of € 500,000.00 (five hundred thousand/00), for each individual deed, or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative;

g. contracts for the establishment of joint ventures or temporary business combinations, including the assignment or acceptance of the collective representation mandate, as well as for the establishment, among the merged companies, of a company, including consortium, for the combined execution, total or partial, of contract work.

Tenders

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

Intellectual Property

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

GUARANTEES

Issue endorsements, sureties and guarantees in general on behalf of the company, for a value per individual transaction not exceeding € 500,000.00 (five hundred thousand/00) or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative;

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

BANKING AND FINANCIAL AREA

Collection of sums

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

Deposits

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

Deposits and current accounts

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

Requesting credit facilities, credit lines and sureties.

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

Endorsement for collection

Endorse and receipt, deposit securities and valuables, bank cheques, promissory notes, bills of exchange, with crediting into the current accounts of the Company and signing of the related payment slips.

Cheques

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

Payments

Arrange and receive credit transfers, make payments, collections of drafts with charging to the account, signing the related documentation, and obtain the related receipts, and in general transact on the bank current accounts of the Company in the name and on behalf of said Company, for amounts no greater than € 500,000.00 (five hundred thousand/00) for each individual deed, or, for a higher amount, with joint signature with another Chief Executive Officer or Legal Representative.

Arranging the payment of the salaries of the employees.

Payment of taxes

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

Discounting of bills

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

Charging of taxes and contributions to accounts

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

Factoring of receivables

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

Intercompany transactions

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

DISPUTES

Representation before the legal authorities

Represent the company before any legal, administrative, tax, ordinary or special authority, at any level, stage or venue and therefore also vis-à-vis the Council of State, the Supreme Court of Cassation and before the Tax Commissions, with powers to sign applications, petitions and agreements for any matter, submit and refer oaths; submit and reply to interrogations or questioning also with regard to civil forgery, intervene in bankruptcy proceedings (with the faculty to present bankruptcy applications), compulsory administrative liquidation, arrangement with creditors, receivership and any other insolvency or pre-insolvency procedure and further the related declaration, collect sums on account or as balance and issue receipt; propose petitions and challenges and vote in said procedures; further summary, precautionary and executive proceedings before any authority, furthering attachments and distraints by hand of debtors or third parties, with the faculty to take part in judicial auctions, make declarations as third party under attachment or confiscation, fulfilling all that is laid down by the current provisions of the law, establishing all the formalities relating therefore also to the release of special or general mandates or power of attorney for the disputes, including therein the special attorneys as per Article 420 of the Italian Code of Civil Procedure, for taking and opposing legal action, to legal counsel in general, defence counsel and domiciliary representatives, business accountants and experts, electing the appropriate domiciles; see to the execution of the sentences.

Representation in labour disputes

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

LABOUR AREA

Employing and dismissing employees

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

Duties, promotions and sanctions

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

Social security and welfare fulfilments

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

CORRESPONDENCE AND TRANSACTIONS

Correspondence and invoicing

Signing and keeping all the correspondence of the Company and the invoicing; signing requests for information and documents, requests for clarification and solicitation; signing letters of an informative, interlocutory nature, solicitation and forwarding letters, as well as any other document which requires the signature of the Company and which concerns business included within the limits of the powers delegated therein.

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

Tax representation

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

Sign tax declarations

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

Contract registration

Registering contracts, corporate deeds and documents in general.

Administrative procedures

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

Representation care of public and private bodies

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

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

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

Intercompany representation

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

APPOINTMENT AND REMOVAL OF LEGAL REPRESENTATIVES - PRIVACY

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

Represent the employer to sign entry permits, certifications and administrative procedures for customers and suppliers.

Privacy

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

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

Chair of the Board of Directors

On 1 July 2020 (following the appointment of 18 June 2020), the Board of Directors assigned the following special responsibilities to the Chair of the Board of Directors (*Criterion 2.C.1.*):

- identification, coordination and review of development strategies;
- identification and implementation of commercial collaboration proposals with other operators, including through acquisitions, partnerships or joint ventures;
- promotion of activities to major customers and investors, coordinating all internal related activities;
- monitoring of the international situation, with particular regard to the markets in which the company operates through its subsidiaries, in order to update the strategy of the company and the group as a result of the continuous changes in market conditions.

The Chair is granted the same powers, listed in paragraph 4.4, conferred on the Chief Executive Officer, Daniele Misani.

The Chair is not the main party responsible for the management of the Issuer and although he is not the controlling shareholders of the Issuer, he is the relative majority shareholder.

Executive Committee (pursuant to 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

There are no other executive directors (*Criterion 2.C.1*).

4.6. Independent directors

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

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

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

As at 31 December 2020, four out of five non-executive directors are qualified as independent: Stefania Saviolo, Fabienne Dejean Schwalbe, Valentina Cogliati and Paola Generali.

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

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

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

On 8 March 2016, the Board adopted a Procedure to Assess the Independence Requirements, with a number of additional requirements with respect to those envisaged by the code. The Board states that a director is not generally considered independent if they have or had during the prior year business, financial or professional dealings with the Company, with one of its subsidiaries or with any of the relative significant parties, or with a party that controls the Issuer, or with the relative significant parties, if the total value of said dealings exceeds:
i) 10% of the turnover of the legal person, organisation or professional firm in which the director has control or is a significant member or partner; or
ii) 10% of the annual income of the director as natural person or of the annual turnover generated directly by the director as part of the activities carried out for the legal person, organisation or professional firm in which the director has control or is a significant member or partner; or
iii) 100% of the remuneration received as member of the Board of Directors and Committees *(Criterion 3.C.4.).*

On 12 March 2020, the Board of Directors assessed the independence of non-executive directors by considering, among other things, the principle of substance over form (*Criteria 3.C.1.* and *3.C.2.*), and making use not only of information provided by those concerned, but also of all information available to the Company; it therefore confirmed Stefania Saviolo, Fabienne Dejean Schwalbe, Valentina Cogliati and Alessandro Arrigoni as independent directors. On 1 July 2020, the Board carried out, using the same criteria, the assessment on the independence of the non-executive directors appointed by the Shareholders' Meeting of 18 June 2020, confirming Stefania Saviolo, Fabienne Dejean Schwalbe, Valentina Cogliati and Paola Generali 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 in office from time to time had the opportunity to meet and discuss, in the absence of the other directors, on the following occasions (*Criterion 3.C.6.*):

- 16 and 17 January 2020 discussion on the sale of the equity package by the Chair Alvise Braga Illa;
- 21 and 24 January 2020 for the remuneration of the Chair and the granting of proxies;
- 14 March 2020 on the topic of the 2019 management MBOs and the new internal organisation;
- 7 April 2020 on the internal and external communication plan and on the Covid emergency;
- 22 July 2020 for the introduction and alignment with the new director Paola Generali.

The independent directors have the opportunity to participate, on a regular basis, in the meetings of the Remuneration Committee, the Risks and Internal Controls Committee and the Transactions with Related Parties Committee, of which they are members.

4.7. Lead Independent Director

The role of Chair of the Board of Directors is separate from the role of Chief Executive Officer, and the Chair is not the individual who controls the company; nevertheless, a Lead Independent Director has been appointed. On 1 July 2020, the Board of Directors confirmed the qualification previously conferred to Stefania Saviolo as *Lead Independent Director* (*Criterion 2.C.4.*).

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

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

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

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

5. PROCESSING COMPANY INFORMATION

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

The Regulation is available on the Company’s website at the following address: https://www.txtgroup.com/it/governance/altre-informazioni/.

The Regulation is divided into various sections, including the definition of privileged information, confidentiality obligations, prohibited and legitimate conduct, information management processes, access by third parties, the publication process, delays in communication, external relations, rumours, forecast data, subsidiaries, the register of person with access to privileged information, limitations on securities transactions in the 30 days preceding the announcement of profit/loss and before extraordinary transactions.

According to the company's best practices on confidential information, press releases on resolutions regarding the approval of Financial Statements , half-yearly and quarterly reports, extraordinary decisions and transactions are approved by the Board, without prejudice to the power assigned to the Chair 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 shall comply with the procedure adopted for disclosure to third parties of such documents and information.

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

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

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

The registration of the names in the register takes place by individual recurrent or on-going activity/process, or by each individual project/event (including with the possibility of the same party being registered several times in different information contexts), indicating the initial moment of availability of the specific market-sensitive information and if applicable the moment from which such availability is revoked (entry to/exit from the relevant information context). Upon registration, the system automatically produces a notification message to the interested party, accompanied by an appropriate information note regarding obligations, prohibitions and responsibilities relating to access to market-sensitive information.
On 28 January 2013, the Company published on its website a press release stating that the Board of Directors had decided to take advantage of the option not to comply with the obligations to publish information documents in the case of significant merger, demerger, capital increase by non-monetary contribution, acquisition and assignment transactions.

Code of Conduct on Internal Dealing.

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

The Procedure is available on the Company’s website at the following address:
https://www.txtgroup.com/it/governance/altre-informazioni/.

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

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

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

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

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

7. NOMINATION COMMITTEE

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

8. REMUNERATION COMMITTEE

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

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

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

The Remuneration Committee is composed of three independent directors: Stefania Saviolo, Fabienne Dejean Schwalbe and Paola Generali (appointed on 1 July 2020 to replace the leaving director Alessandro Arrigoni) (*Criterion 4.C.1., letter a*) (*Principle 6.P.3.*). Stefania Saviolo is the Committee Chair. Minutes of the Remuneration Committee meetings have been duly taken (*Criterion 4.C.1., letter d*) and the Chair of the committee has informed and updated the Board on the activities carried out and decisions made during the next relevant meetings.

During the 2020 financial year, the Committee held three meetings on 2 March, 15 June and 1 July, with an average duration of 0.5 hours. 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 78%. Each director's participation is shown in Table 2 attached to this Report. Three meetings have been scheduled for 2021. The first meeting of the Committee for 2021 is scheduled for 5 March 2021.

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*). During 2020, the Internal Auditor Luigi Piccinno participated in three meetings of the committee, called to act as secretary, and the Administrative and Financial Director Eugenio Forcinito and the Chief Executive Officer Enrico Magni, in office at that time, participated in one meeting.

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

Functions of the Remuneration Committee

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

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

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

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

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

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

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

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

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

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

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

- reviewed information on the 2019 remuneration policy, including it in the Remuneration Report;
- assessed the proposal to grant an extraordinary bonus to two executives;
- reviewed the 2020 remuneration policies for managers;
- expressed its opinion on the appointment of the Chief Executive Officer;

- submitted proposals to the Board with regard to the 2020 remuneration of the Chair and the CEO, with respect to both the fixed and variable portion of remuneration.

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

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

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

9. REMUNERATION OF DIRECTORS

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

General Remuneration Policy

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

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

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

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

Share-based compensation plans

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

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

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

a. the options assigned to directors to purchase shares or to be remunerated based on the share price performance have a vesting period of three years;
b. vesting pursuant to paragraph a) is subject to predetermined measurable performance objectives;
c. the directors keep a portion of the shares assigned or purchased following exercise of the options until the end of their term of office, and 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 in advance and determined in compliance with the guidelines included in the general remuneration policy defined by the Board of Directors (*Principle 6.P.2.*).

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

Remuneration of managers with strategic responsibilities

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

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

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

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

Remuneration of non-executive directors

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

The Shareholders' Meeting held on 18 June 2020 approved the Directors' Remuneration Report prepared by the Board of Directors.

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

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

An end-of-term severance package equal to 25% of the fee for particular offices resolved upon and accrued each year was confirmed by the Shareholders’ Meeting held on 21 April 2017 in favour of the Chair of the Board of Directors. It shall be paid when the term of office as Member of the Board of Directors ends. With the termination of the office at the Shareholders' Meeting of 18 June 2020, the Company paid this emolument. At the time of the appointment of the new Board of Directors, the Shareholders' Meeting of 18 June 2020 did not renew the recognition of an emolument for the end-of-term indemnity in favour of the Chairman of the Board of Directors.

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 market disclosure (*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-competition agreements, describing the main contents;
   5) any other compensation assigned for any reason and in any form;
b) information on the compliance or non-compliance of the severance package and/or other

benefits with the guidelines contained in the remuneration policy, and in the event of even partial deviations with regard to the guidelines in said policy, information on the resolution procedures followed in application of the Consob regulations on transactions with related parties;

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

10. RISKS AND INTERNAL CONTROLS COMMITTEE

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

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

The Risks and Internal Controls Committee, until the date of appointment of the new administrative body (18 June 2020), was composed of four independent directors (Fabienne Dejean Schwalbe, Stefania Saviolo, Valentina Cogliati and Alessandro Arrigoni) (*Principle 7.P.4.*) (*Criterion 4.C.1., letter a*). Fabienne Dejean Schwalbe was the Committee Chair. As a result of the appointment of the new administrative body, from 1 July 2020, the Risks and Internal Controls Committee is composed of four directors, of which three independent (Paola Generali - Chair, Stefania Saviolo and Valentina Cogliati) and one non-executive (Matteo Magni); the minutes of the meetings of the Risks and Internal Controls Committee were duly taken (*Criterion 4.C.1., letter d*) and the Chair of the Committee has informed and updated the Board on the activities carried out and the decisions made during the first useful meetings.

The Committee held seven meetings in 2020, coordinated by the Chair, on 2 March, 14 April, 7 May, 15 June, 6 August, 14 September and 9 December. The directors participated in all committee meetings held during their effective term of office. At least 4 meetings have been scheduled for 2021. The first meeting of the Risks and Internal Controls Committee for 2021 was held on 5 March 2021.

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

The Chair 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 76%.

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 2020, Eugenio Forcinito, Chief Financial Officer and Manager responsible for preparing corporate accounting documents, and Luigi Piccinno, Internal Auditor, called upon to act as secretary, regularly attended the meetings of the committee.

Depending on the items on the agenda, the Committee meetings were attended by the partner and the senior manager of the external auditors EY S.p.A.. Andrea Favini, CEO Assistant, and the Managers Daniele De Stradis and Daniele Misani also participated in some of the meetings.

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, after consulting the external auditor and the board of statutory auditors, the correct implementation of the accounting standards and their consistency for the purposes of preparing 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 Chair 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 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 2019 consolidated Financial Statements, the 2020 half-yearly report and the results on the auditing process, as well as the interim reports;
- the assessments of the impairment tests;
- the assessment of the risks deriving from the Covid-19 pandemic;
- the assessments of the adequacy of the accounting standards used and their consistency;
- the transactions with related parties;
- the analysis of the results of the Board's and Committees' self-assessment process (at the meeting of the Board where this topic was discussed);
- the reports by the Supervisory Board on Law 231 and activities for updating the Organisation Model;
- the report on Corporate Governance and shareholding structure;
- the Group's risk assessment activities;
- the risk and opportunity assessment of the various acquisition transactions presented to the Committee;
- the risk assessment for the 2021 Budget.

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

The financial resources made available for the Risks and Internal Controls Committee for carrying 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 definition of this system, on the basis of the Corporate Governance Code indicates: "The set of rules, procedures and organisational structures aimed at making possible, through appropriate identification, measurement, management and monitoring of the main risks, an effective and correct management of the Company, consistent with pre-set goals".

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

i) the Board of Directors that sets the system guidelines and assesses its adequacy and effective operations, through the appointment of the Risks and Internal Controls Committee and its regular reporting activities;

ii) the CEOs who implement the guidelines defined by the Board of Directors and, in particular, identify the main corporate risks thanks to the support of directors in charge of internal control;
iii) the Risks and Internal Controls Committee with consultative and advisory functions, relating also to the assessment of the adequacy and correct use of the Company's accounting standards;
iv) the 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, separation of duties and allocation of privileges and access rights for IT applications;

- controls at process level, such as the issue of authorisations, the performance of reconciliations, the performance of consistency checks, etc. This category includes controls relating to operating processes, those on accounting closure processes and so-called “transversal” 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 actions 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 Articles of Association and internal procedures.

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

On 1 August 2019, the Board of Directors appointed Enrico Magni 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*);
- has 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*);
- has aligned the system with the operating activities and with the current regulatory framework (*Criterion 7.C.4., letter c*);
- 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 Chair of the Board, the Chair of the Risks and Internal Controls Committee and the Chair of the Board of Statutory Auditors (*Criterion 7.C.4., letter d);*
- confirmed Luigi Piccinno as Internal Auditor in compliance with the resolution issued by the Board at the meeting of 12 May 2011 (*Principle 7.P.3., letter c*).

11.2. Manager responsible for Internal Audit

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

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

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

The Manager responsible for internal audit:

a. is a Member of the 231 Supervisory Body. 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 main risks' structured analyses and priorities (*Criterion 7.C.5., letter a*);
c. has had direct access to useful information for carrying out his duties (*Criterion 7.C.5., letter c*);
d. has 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 Chair of the Board of Statutory Auditors, the Chair of the Risks and Internal Controls Committee and the Chair 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. has 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. Has verified, within the scope of the audit plan, the reliability of the information systems including the accounts registration systems (*Criterion 7.C.5., letter g).*

In 2020, the Manager responsible for internal audit, in carrying out his functions, did not use the support of hn external consultant. (*Criterion 7.C.6.*).

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

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

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

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

The TXT model is composed of:

a) the General Part;
b) the Code of Ethics and the organisation procedures that are already in force within TXT and pertain to the control of conducts, events or acts relevant pursuant to Legislative Decree No. 231/2001n 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, along with the Code of Ethics, the Supervisory Board’s regulations and the “Organisation and Management Model 231” manual.

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

The Board of Directors on 1 July 2020 appointed Paolo Passino as Chair of the Supervisory Body. Paolo Passino is a Senior associate care of Studio Ferrari, Pedeferri & Boni, with experience in the sphere of corporate law, corporate governance, extraordinary transactions, M&A, mercantile law and the administrative liability of corporate bodies with appointments in the supervisory bodies of industrial and service companies and experience with regard to organisation, management and control models and risk assessment. The Board also confirmed Mario Basilico, former Chair of the Board of Statutory Auditors, as a member of the Supervisory Board and Luigi Piccinno, who has been a member for many years and internal auditor. The TXT Supervisory Board is therefore made up of 3 members.

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

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

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

11.4. External Auditors

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

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

11.5. Manager responsible for preparing corporate accounting documents

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

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

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

The Company parties involved in the internal control and risk management system (the Board in charge of the internal control and risk management system, the Risks and Internal Controls

Committee, the Manager responsible for internal audit, the Manager responsible for preparing corporate accounting documents and other company roles and functions with specific duties of internal control and risk management, and the Board of Statutory Auditors) shall coordinate their own activities and exchange relevant information during periodic meetings and, if necessary, during specially convened meetings (*Principle 7.P.3.*). In particular, during 2020, the parties involved in the internal control system met and exchanged information in two meetings: 2 March and 6 August (*Criterion 7.C.1., letter d.*).

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

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

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

"Significant Transactions with Related Parties" refer to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The resolutions of the TXT Board of Directors on the transactions shall provide full information on the interests of the Company, reasons, profitability and material correctness of the transactions for the Company and the group to which the Company belongs (the “TXT Group”). Should said transactions be the responsibility of the Shareholders’ Meeting or should they be authorised by the latter, pursuant to the law or the Articles of Association, 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 managers and directors who cover particular offices not included in the aforementioned examples and of Managers with strategic responsibilities are excluded from this procedure, provided that:

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

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

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

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

This procedure is available on the Company's website at the following address: https://www.txtgroup.com/governance/articles-of-association-and-policies/

The Transactions with Related Parties Committee was composed of Fabienne Schwalbe (Chair), Stefania Saviolo and Alessandro Arrigoni, all independent directors, until the term of office of the Board of Directors and, subsequently, from July 2020, Paola Generali (Chair), Stefania Saviolo and Valentina Cogliati, all independent directors.

The Transactions with Related Parties Committee met on 14 September 2020 to assess the fairness of the acquisition price of the company HSPI S.p.A..

The Committee was asked to assess the existence of the Company's interest in completing the acquisition as well as the suitability and substantial correctness of the contractual conditions of acquisition. Following this analysis, the Committee delivered a favourable opinion on the transaction.

13. APPOINTMENT OF STATUTORY AUDITORS

The Board of Statutory Auditors' appointment is expressly governed by the Company's Articles of Association.

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 Chair of the Board of Statutory Auditors and an Alternate Auditor.

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

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

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

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

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

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

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

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

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

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

Two standing auditors and two alternate auditors are drawn from the list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which they were listed. The Chair 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 Chair of the Board of Statutory Auditors is to be replaced, the other standing Auditor drawn from the same list as the outgoing Chair shall take over the Chair; 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 Chair 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 Chair 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 Chair 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 (pursuant to Article 123-*bis*, paragraph 2, letters d) and d-*bis*), of the Consolidated Law on Finance)

The current Board of Statutory Auditors was elected, in compliance with the procedures described above, by the Shareholders' Meeting held on 18 June 2020, and it shall hold office until approval of the Financial Statements for the year ending 31 December 2022. On 15 and 20 May 2020, 3 lists of candidates for appointment to the company's Board of Statutory Auditors were filed at the registered office. The majority list was submitted by Laserline S.p.A. with Luisa Cameretti, Franco Vergani, Fabio Maria Palmieri e Giada D'Onofrio as candidates (two standing auditors and two alternate auditors, as respectively appointed). The minority lists were submitted by Alvise Braga Illa and included Mario Basilico and Massimiliano Alberto Tonarini (elected Chair of the Board of Statutory Auditors and Alternate Auditor respectively), and by Eurizion Capital SGR S.p.A., Fideuram Asset Management, Fideuram Investimenti SGR S.p.A., Interfund Sicav - Interfund Equity Italy, Mediolanum Gestione Fondi SGR S.p.A., Mediolanum International Funds Ltd - Challenge Funds - Challenge Italian Equity and included Luca Laurini and Valeria Maria Gabriella Scuteri. The shareholders declared that there are no connections between the lists. The majority list obtained 56.45% of the voting capital, the minority list submitted by Alvise Braga Illa obtained 30.73% of the voting capital while the third list obtained 12.82% of the voting capital.

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.

Until 18 June 2020, the Board of Statutory Auditors consisted of Mario Basilico (Chair), Giampaolo Vianello, Luisa Cameretti (Standing Auditors) and Laura Grimi, Pietro Antonio Grignani and Massimiliano Alberto Tonarini (Alternate Auditors) in accordance with the resolution of the Shareholders' Meeting of 21 April 2017.

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

Mario Basilico

Born in Milan on 27 February 1960.
Graduated in Law from Università Cattolica di S. Cuore in Milan in 1991 and in Economics and Business in 2011. Enrolled in the register of External Auditors since 1995 under No. 3991.

Partner of the professional firm of the same name, Mario Basilico is responsible for tax affairs and national and international corporate law and has experience of organising and starting up SMEs and companies in the financial sector, launching and managing supplementary pension funds, corporate Financial Statements for real estate brokerage, preparation of organisation models and Supervisory Board 231/01. He is a published author and lecture on specialist courses.

Franco Vergani

Born in Lecco on 13 March 1966
He graduated in Economics from Università degli Studi di Bergamo in 1991. Enrolled in the register of Chartered Accountants and bookkeepers of Lecco since 1993. Enrolled in the register of External Auditors since 1995 under no. 65880.

Chartered Accountant with many years of professional experience, holding offices in multiple Boards of Statutory Auditors as well as director positions in various companies; specialised in tax and corporate assistance.

Luisa Cameretti

Born in San Giorgio a Cremano (province of Naples) on 11 November 1965.
Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1990. Enrolled in the register of Chartered Accountants and bookkeepers of Milan since 1996. Enrolled in the register of External Auditors under no. 91224.
Partner of the firm Zazzeron & Cameretti Associati, which operates in the field of corporate and tax consulting for companies, cooperatives, associations and foundations, she has administrative, corporate and tax experience with particular reference to balance sheet and tax planning activities.
She is a member of the control bodies of several companies and entities and exercises patronage with the Tax Commissions.

Diversity policies and criteria

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

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

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

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

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

- in order to pursue a balance between the needs for continuity and renewal in the management, it would be necessary to ensure a balanced combination of different lengths of service in office - in addition to age brackets - within the Board of Statutory Auditors;

- the Auditors must, in their entirety, be competent in the sector in which the TXT group operates, or rather with reference to the software business and IT services or in their similar, pertinent and adjoining sectors;

- the Statutory Auditors should be represented by figures with a professional and/or academic and/or managerial profile such as to achieve a series of skills and experience which are diverse and complementary. Specifically, at least one of the Standing Auditors and at least one of the Alternate Auditors must be enrolled in the register of chartered accountants and have exercised official accounts audit activities. The additional professional requisites envisage that the Auditors who are not in possession of the requisite described above must have gained overall experience of at least three years with regard to the following: a) management or control activities or executive duties care of joint-stock companies; and/or b) university lecturing or professional activities with regard to legal, economic, financial and technical-scientific subjects pertaining to TXT’s activities;

- the Chair must be an individual with such a standing as to ensure a suitable coordination of the work of the Board of Statutory Auditors with the activities carried out by other parties involved for various purposes in the governance of the internal control and risk management system, for the purpose of maximising the efficiency of the latter and reducing the duplication of activities. The Chair also has the task of creating spirit of cohesion within the Board of Statutory Auditors so as to ensure an efficient accomplishment of the supervisory functions assigned to this body, at the same time representing, on a par with the other Auditors, a guarantee for all the Shareholders.

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

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

The Board of Statutory Auditors in office fully satisfies the objectives established by said policy for the various types of diversity.

During the 2020 financial year, the Board of Statutory Auditors held 6 meetings, with an average duration of 2 hours and 45 minutes. 5 meetings have been scheduled for 2021, the first of which was held on 18 January 2021.

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

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

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

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

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

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

15. RELATIONSHIP WITH SHAREHOLDERS

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

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

Mr Andrea Favini, CEO Assistant of TXT, is responsible for managing relations with shareholders (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 2020, the Company took part in the spring and fall event "Virtual Star Conference", organised by Borsa Italiana, held in Milan and in London. The Company also participated in the events organized by Intermonte called "European MidCap Events" held in Frankfurt and Paris (the latter via teleconference) and organized further meetings with investors, mainly via teleconference.

The CEO as at 31 December 2020 has powers of communication with regard to rules and regulations and in the interests of the Company, shareholders, employees and customers, carefully assessing the subject matter and content of external communications and communications to the market. The content of communications is the responsibility of the Chair with the support of the CEO and CFO and in consultation with the Board of Directors for particularly sensitive matters. In order to provide regular updates on the Company, an email-based communication channel is operational (txtinvestor@txtgroup.com). Everyone can sign up for this service in order to receive, in addition to press releases, specific communications to Investors and Shareholders.

16. SHAREHOLDERS' MEETINGS (pursuant to 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 Articles of Association 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 Extraordinary Shareholders' Meeting of 15 October 2020 also amended the provisions relating to the Shareholders' Meetings, providing for the possibility, pursuant to Article 135-*undecies* of the Consolidated Law on Finance, to designate a representative in charge of receiving proxies and voting instructions at the Shareholders' Meeting as well as the possibility of providing for participation in the Shareholders' Meeting also by means of telecommunications.

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. The Ordinary Shareholders' Meeting held to approve the Financial Statements shall be convened by the Administrative Body within 120 days from the end of the relevant reporting period.

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

Each shareholder entitled to participate can be represented during the Shareholder's Meeting by means of a written proxy. The relevant form is available on the Company's website (www.txt.com, 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. As already reported, as from 15 October 2020, it was possible to allow participation in the Shareholders' Meeting through the designated representative.

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

Shareholders entitled to participate in the Shareholders' Meeting may submit questions on the agenda even before the Shareholders' Meeting, by sending a registered letter to the Company's registered office or by email to infofinance@txtgroup.com. 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' Chair 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 Articles of Association, the appointment and powers of receivers in case of liquidation as well as on any other issues pursuant to the law.

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

The recommendation included in the Corporate Governance Code considering the Shareholders' Meetings as an opportunity for developing a constructive dialogue between the Board of Directors and shareholders has been carefully analysed and fully shared by the Company. All directors in office and all standing auditors have participated in the Shareholders' Meeting of 18 June 2020, while five out of seven directors and two out of three auditors attended the Shareholders' Meeting of 15 October 2020. During the course of the Meeting of 18 June 2020, the Board of Directors, through the Chair 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 shareholder participation, taking into account the provisions of Law Decree 18/2020 regarding participation in the Shareholders' Meetings during the Covid-19 emergency period, the Shareholders' Meetings were held in 2020 exclusively by video conference through the designated representative (*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*).

As at 31 December 2020, the Company's market capitalisation was € 91.4 million, compared to € 125.6 million at 31 December 2019.

The company has not been informed of any significant changes in the shareholding structure. In this respect, it was not deemed necessary to submit to the Shareholders' Meeting amendments to the Articles of Association 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.*).

In 2020, two Shareholders' Meetings were convened, one ordinary and the other extraordinary.

The Ordinary Shareholders' Meeting of 18 June 2020 has approved the 2019 Financial Statements, the Remuneration Report, the remuneration for directors, the renewal of the treasury share purchase plan, and has appointed the Board of Directors and the Board of Statutory Auditors, determining their remuneration.

The Extraordinary Shareholders' Meeting of 15 October 2020 approved the proposals submitted by the Board of Directors to amend Article 4 (extension of the corporate purpose) and Article 10 (provision for the possibility of appointing the representative in charge and introduction of the possibility of participation in the Shareholders' Meeting also through telecommunication means) of the Articles of Association.

In reference to Article 7 of the Corporate Governance Code relating to the remuneration of directors and managers with strategic responsibilities, the Shareholders' Meeting of 18 June 2020 approved the remuneration policy document prepared by the Remuneration Committee and the Board of Directors.

17. OTHER CORPORATE GOVERNANCE ISSUES (pursuant to 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: Information on the shareholding structure

SIGNIFICANT SHAREHOLDINGS				
Shareholder	Direct shareholder	No. of shares	As a % of ordinary capital	As a % of voting capital
Enrico Magni (through Laserline S.p.A.)	NO	3,853,081	29.62%	33.20%
Kabouter Management LLC	YES	1,152,153	8.86%	9.93%
Treasury shares (with suspended voting right)	YES	1,401,429	10.78%	-
Market	YES	6,599,587	50.74%	56.87%
Total shares		13,006,250	100.00%	100.00%

TABLE 2: Composition of the Board of Directors and Committees

Consiglio di Amministrazione													Comitato Controllo e Rischi		Comitato Remun.		Comitato Parti Corr.	
Carica	**Componenti**	**Anno di nascita**	**Data di prima nomina ***	**In carica da**	**In carica fino a**	**Lista ****	**Esec.**	**Non-esec.**	**Indip. Codice**	**Indip. TUF**	**N. altri incarichi (**)**	**Partecipazione (*)**	(**)	(*)	(**)	(*)	(**)	(*)
Presidente	Enrico Magni	1956	18.04.2020	01.01.2020	31.12.2020	M	x					**13/14**						
Amministratore delegato	Daniele Misani	1977	15.07.2019	01.01.2020	31.12.2020	M	x					**14/14**						
Amministratore	Matteo Magni	1982	18.06.2020	18.06.2020	31.12.2020	M		x				**7/7**	**M**	**2/3**				
Amministratore	Paola Generali	1975	18.06.2020	18.06.2020	31.12.2020	m		x	x	x	1	**7/7**	**P**	**3/3**	**M**	**1/1**	**P**	**1/1**
Amministratore	Stefania Saviolo	1965	17.04.2014	01.01.2020	31.12.2020	M		x	x	x		**12/14**	**M**	**7/7**	**P**	**3/3**	**M**	**1/1**
Amministratore	Fabienne Dejan Schwalbe	1964	05.05.2015	01.01.2020	31.12.2020	m		x	x	x		**10/14**	**P (***)**	**4/4**	**M**	**3/3**	**P (***)**	**0/0**
Amministratore	Valentina Cogliati	1981	18.04.2018	01.01.2020	31.12.2020	M		x	x	x		**12/14**	**M**	**5/7**			**M**	**1/1**
-------------------------------AMMINISTRATORI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO-------------------------------																		
Presidente	Alvise Braga Illa	1939	03.07.1989	01.01.2020	18.06.2020	M	x					**7/7**						
Amministratore	Alessandro Arrigoni	1949	15.07.2019	01.01.2020	18.06.2020			x	x	x		**7/7**	**M**	**4/4**	**M**	**2/2**	**M**	**0/0**
n. Riunioni svolte durante l'esercizio 2020	**CDA: 14**	**CCR: 7**	**CR: 3**															
Quorum richiesto per la partecipazione delle liste da parte della minoranza per l'elezione di uno o più membri (ex. Art. 147-ter TUF): 4,5%																		

NOTE

* Per data di prima nomina di ciascun amministratore si intende la data in cui l'amministratore è stato nominato per la prima volta (in assoluto) nel CdA dell'emittente.

** In questa colonna è indicata la lista da cui è stato tratto ciascun amministratore ("M": lista di maggioranza; "m": lista di minoranza; "CdA": lista presentata dal CdA).

*** In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati, anche esteri, in società finanziarie, bancarie, assicurative o di rilevanti dimensioni. Nella Relazione sulla corporate governance gli incarichi sono indicati per esteso.

(*). In questa colonna è indicata la partecipazione degli amministratori alle riunioni rispettivamente del CdA e dei comitati (indicare il numero di riunioni cui ha partecipato rispetto al numero complessivo delle riunioni cui avrebbe potuto partecipare; p.e. 6/8; 8/8 ecc.).

(**). In questa colonna è indicata la qualifica del consigliere all'interno del Comitato: "P": presidente; "M": membro.

(***) Presidente fino al 18 giugno 2020; dal 1 luglio 2020 Presidente Paola Generali

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	No. Other offices
Chair	Mario Basilico	1960	21.04.2017	01.01.2020	31.12.2020	Minority	x	6/6	-
Standing Auditor	Luisa Cameretti	1965	17.04.2014	01.01.2020	31.12.2020	Majority	x	6/6	-
Standing Auditor	Franco Vergani	1966	18.06.2020	18.06.2020	31.12.2020	Majority	x	3/3	-
Alternate Auditor	Fabio Maria Palmieri	1962	18.06.2020	18.06.2020	31.12.2020	Majority			
Alternate Auditor	Giada D'Onofrio	1976	18.06.2020	18.06.2020	31.12.2020	Majority			
Alternate Auditor	Massimiliano Tonarini	1968	21.04.2017	01.01.2019	31.12.2020	Minority			
WITHDRAWING AUDITORS DURING 2020									
Standing Auditor	Giampaolo Vianello	1970	21.04.2017	01.01.2020	18.06.2020	Majority	x	3/3	-
Alternate Auditor	Pietro Antonio Grignani	1964	29.04.2002	01.01.2020	18.06.2020	Majority	Alternate Auditor		
Alternate Auditor	Laura Grimi	1975	17.04.2014	01.01.2020	18.06.2020	Majority	Alternate Auditor		
No. of meetings held in 2020: 6									
Quorum required to submit lists by minorities to elect one or more members (pursuant to Article 148 of the Consolidated Law on Finance): 4.5%									

TXT e-solutions S.p.A.

REMUNERATION REPORT

2020

Milan, 9 March 2021
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 9 March 2021, the Company's Board of Directors, at the instruction of the Remuneration Committee, adopted the "2020 Remuneration Policy", to be subject to a non-binding vote by the Shareholders' Meeting of 22 April 2021.

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 2020", illustrating the policy implemented by the TXT e-solutions Group during the 2020 financial year and providing a summary of compensation based on the different types of beneficiaries.

PART 1 – GENERAL REMUNERATION POLICY

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

1. Principles

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

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

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

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

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

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

2. Remuneration Committee

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

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

The Remuneration Committee as at 31 December 2020 is composed of three independent directors: Stefania Saviolo, Chair, Fabienne Dejean Schwalbe and Paola Generali.

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

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

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

For a more detailed description of the composition, of how the Remuneration Committee operates and the activities carried out during the 2020 financial year, please refer to the 2020 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 2020 Remuneration Policy was approved by the Shareholders' Meeting of 18 June 2020. The 2021 Remuneration Policy was approved by the Remuneration Committee in its meeting of 5 March 2021 and by the Board of Directors' meeting of 9 March 2021, and it will be submitted to the scrutiny of and a non-binding vote by the Shareholders' Meeting on 22 April 2021.

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 2020, the two groups were composed as follows:

- Executive directors:
    - Enrico Magni (Chair)
    - Daniele Stefano Misani (Chief Executive Office)
- Non-executive directors:
    - Matteo Magni
- Non-executive and independent directors:
    - Stefania Saviolo
    - Fabienne Anne Dejean Schwalbe
    - Valentina Cogliati
    - Paola Generali

The TXT Shareholders' Meeting of 18 June 2020 set the annual compensation of each director at € 15,000, plus an additional annual compensation of € 5,000 for the participation of each director in the Risks and Internal Controls Committee, another € 5,000 for the participation of each director in the Remuneration Committee (unchanged from the previous year) and another € 5,000 for the participation of each director in the Transactions with related parties Committee. Maximum fixed and variable overall fees assignable to the Directors with specific offices, have not been established.

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

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

5. Remuneration of executive directors and managers with strategic responsibilities

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

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

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

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

The Chair is not granted variable medium/long-term incentives.

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

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

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

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

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

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

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

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

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

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

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

6. Managers and senior managers

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

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

a. the fixed component may represent 60% to 95% of total remuneration;
b. an (annual) MBO incentive up to a set maximum amount per person, conditional on the achievement of objectives. Some managers and senior managers in the sales department may have a short-term incentive scheme tied to the volume of licence sales. The MBO may represent between 5% and 40% of total remuneration;
c. in some cases, a medium/long-term variable component is also assigned; it may weigh between 0% and 10% of the total remuneration. The medium/long-term component consists entirely of the Stock Option Plan proposed for approval by the Shareholders' Meeting of 18 April 2019 and measured on the basis of the fair value of the options pertaining to each year.

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

7. MBO and long-term incentive plan

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

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

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

Vesting of the variable annual component is conditional on the fulfilment of an access condition (known as on/off) and is proportional to a quantitative annual performance indicator (in 2020 Gross operating profit - EBITDA). The Group sets a maximum "cap" for the bonus payable.

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

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

The Plan provides for the allocation of a maximum of 600,000 Shares to beneficiaries. In order to ensure the gradual development of the Plan over time, no more than 200,000 Options may be allocated in the first tranche. The vesting of the Options is subject to the following conditions:
(i) on the Assignment Date the Beneficiary must be employed by one of the Companies of the Group and not during the notice period following resignation and/or termination; and
(ii) the achievement of predetermined joint performance objectives of:
    a. Profitability objectives, referring to the operating profit (EBITA, Earning Before Interest, Taxes & Amortisation; or EBIT, Earning Before Interest & Taxes; or EBITDA, Earning Before Interest, Taxes, Depreciation & Amortisation);
    b. Growth objectives, referring to the development of Revenues.

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

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

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

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

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

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

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

If the conditions envisaged by Article 106 of Legislative Decree 58/1998 (Consolidated Law on Finance) (so-called (Mandatory takeover bid) occur between the Grant Date and the Minimum Vesting Date and in any case upon occurrence of an event that could affect the rights of Beneficiaries or the possibility to exercise the Options (such as, for example, mergers, de-mergers, revocation of the listing of Shares, promotion of takeover bids, or other events that could impact the ability to exercise Options), the Options may become immediately exercisable in proportion to the period of time elapsed from the beginning of the vesting period until the date of the event, with respect to the regular vesting period of 36 months ("Partial vesting"). The remaining Options would be cancelled. Upon transfer to third parties of investments and company branches, the Options assigned to the Beneficiaries transferred would become immediately exercisable in proportion to the period of time from the beginning of the vesting period until the date of the event, with respect to the regular vesting period of 36 months ("Partial vesting"). The remaining Options would be cancelled.
The information document for the Stock Option Plan, drawn up pursuant to Article 84-bis of the Consob Regulation, is available at the company's website in the section:
http://www.txtgroup.com/it/governance/shareholders-meetings/.

8. Severance package for directors in the event of resignation, dismissal or termination of the relationship following a public takeover bid (pursuant to Article 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"). As at 31 December 2020, there were no such agreements with directors or managers.

There is no severance package for any of the 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-competition agreements

The Group may enter into non-competition 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 – 2020 REMUNERATION REPORT

Compensation paid to directors and auditors

Emoluments paid during 2020 are reported in the annexed Table 1:

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

Nominativo	Società	Carica	Periodo per cui è stata ricoperta la carica	In carica fino a	Compensi fissi	Compensi per partecipazione a comitati	Compensi variabili (Bonus e altri incentivi)	Benefici non monetari	Altri compensi	Totale	Fair value dei compensi equity	Indennità fine carica o cessazione rapporto di lavoro
Amministratori												
Enrico Magni	TXT e-solutions SpA	Presidente	1.1-31.12	Bil 2022	256.667	-	100.000	-	-	356.667	-	
Stefania Saviolo	TXT e-solutions SpA	Amm. Ind.	1.1-31.12	Bil 2022	15.000	15.000	-	-	-	30.000	-	-
Fabienne Dejean Schwalbe	TXT e-solutions SpA	Amm. Ind.	1.1-31.12	Bil 2022	15.000	10.000	-	-	-	25.000	-	-
Valentina Cogliati	TXT e-solutions SpA	Amm. Ind.	1.1-31.12	Bil 2022	15.000	10.000	-	-	-	25.000	-	-
Daniele Stefano Misani	TXT e-solutions SpA	Amm. Del.	1.1-31.12	Bil 2022	175.000	-	100.000	-	-	275.000	5.438	17.778
Matteo Magni	TXT e-solutions SpA	Amm.	18.6-31.12	Bil 2022	7.500	2.500	-	-	-			
Paola Generali	TXT e-solutions SpA	Amm. Ind.	18.6-31.12	Bil 2022	7.500	7.500	-	-	-			
Alvise Braga Illa	TXT e-solutions SpA	Presidente	1.1-17.6	Cessato	15.833	-	-	-	-	15.833	-	3.958
Alessandro Arrigoni	TXT e-solutions SpA	Amm. Ind.	1.1-17.6	Cessato	7.500	7.500	-	-	-	15.000	-	-
Dirigente con responsabilità strategiche			-	-	100.000	-	40.000	-	-	140.000	-	10.370
Collegio sindacale												
Mario Basilico	TXT e-solutions SpA	Presidente	1.1-31.12	Bil 2022	26.000	-	-	-	9.250	35.250	-	-
Luisa Cameretti	TXT e-solutions SpA	Sindaco	1.1-31.12	Bil 2022	21.000	-	-	-	-	21.000	-	-
Franco Vergani	TXT e-solutions SpA	Sindaco	18.6-31.12	Bil 2022	10.500	-	-	-	-	10.500	-	-
Massimiliano Tonarini	TXT e-solutions SpA	Supplente	1.1-31.12	Bil 2022	-	-	-	-	-	-	-	-
Fabio Maria Palmieri	TXT e-solutions SpA	Supplente	18.6-31.12	Bil 2022	-	-	-	-	-	-	-	-
Giada D'Onofrio	TXT e-solutions SpA	Supplente	18.6-31.12	Bil 2022	-	-	-	-	-	-	-	-
Giampaolo Vianello	TXT e-solutions SpA	Sindaco	1.1-17.6	Cessato	10.500	-	-	-	-	10.500	-	-
Pietro Antonio Grignani	TXT e-solutions SpA	Supplente	1.1-17.6	Cessato	-	-	-	-	-	-	-	-
Laura Grimi	TXT e-solutions SpA	Supplente	1.1-17.6	Cessato	-	-	-	-	-	-	-	-
TOTALE					683.000	52.500	240.000	-	9.250	959.750	5.438	32.106

The Table includes the emoluments paid to directors and auditors that were in office until the mandate term ended with the approval of the financial statements on 18 June 2020, as well as new corporate bodies appointed by the Shareholders' Meeting and in office until the approval of the 2022 financial statements.

On the basis of the Group's organisational structure, Eugenio Forcinito, the Group CFO, was identified as the Executive with Strategic Responsibilities.

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

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

Fixed compensation is detailed as follows:

Nominativo	Emolumenti deliberati Assemblea	Compensi per la carica	Comitati	Retribuzione fisse lavoro dipendente	Compensi fissi
Amministratori					
Enrico Magni	15.000	241.667	-	-	256.667
Stefania Saviolo	15.000	-	15.000	-	15.000
Fabienne Dejean Schwalbe	15.000	-	10.000	-	15.000
Valentina Cogliati	15.000	-	10.000	-	15.000
Daniele Stefano Misani	15.000	20.000	-	140.000	175.000
Matteo Magni	7.500		2.500	-	7.500
Paola Generali	7.500		7.500	-	7.500
Alvise Braga Illa	7.500	8.333	-	-	15.833
Alessandro Arrigoni	7.500	-	7.500	-	7.500
Dirigente con responsabilità strategiche	-	-		100.000	100.000

The Shareholders' Meeting of 18 June 2020 resolved to set the compensation of each director at € 15,000 for the financial year 2020. The Meeting also resolved an additional annual compensation of € 5,000 for the participation of each director in the Risks and Internal Controls Committee, another € 5,000 for the participation of each director in the Remuneration Committee (unchanged from the previous year) and another € 5,000 for the participation of each director in the Transactions with related parties Committee.

"**Remuneration for participation in committees**" indicates the remuneration received for the year 2020 by Stefania Saviolo, Fabienne Dejean Schwalbe, Valentina Cogliati and Paola Generali. The remuneration indicated for Alessandro Arrigoni refers to his participation in the Risks and Internal Controls Committee and Transactions with Related Parties Committee on a pro-rata basis until the approval of the financial statements as at 31 December 2019.

The breakdown of the remuneration for participation in committees is as follows:

Nominativo	Periodo per cui è stata ricoperta la carica	Comitato per il Controllo e Rischi	Comitato per la Remunerazione	Comitato Operazioni con Parti Correlate	Totale
Amministratori					
Stefania Saviolo	1.1-31.12	5.000	5.000	5.000	15.000
Fabienne Dejean Schwalbe	1.1-17.6	2.500	2.500	2.500	7.500
Fabienne Dejean Schwalbe	18.6-31.12	-	2.500	-	2.500
Valentina Cogliati	1.1-31.12	5.000	-	5.000	10.000
Matteo Magni	18.6-31.12	2.500		-	2.500
Paola Generali	18.6-31.12	2.500	2.500	2.500	7.500
Alessandro Arrigoni	1.1-17.6	2.500	2.500	2.500	7.500

The column "**Bonuses and other incentives**" includes portions of variable compensation vested and not yet paid, according to the corporate Management by Objectives – MBO plan for the financial year 2020. The listed bonuses relate to the 2020 financial year, vested following the achievement of performance targets during the financial year, and are fully payable because they are not subject to any further conditions. No part of the bonus is deferred.

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

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

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

The column "**Fair value of equity-based compensation**" shows the fair value of the compensation for the year as part of the incentive plans based on financial instruments, estimated according to international accounting standards.
The Board of Directors' meeting of 27 May 2019 assigned Stock Options to 8 people comprising directors and managers of the Group, with vesting over the three-year period 2019-2020-2021. The amounts shown refer to the fair value at the assignment date (€ 0.7804 per share) of the options assigned.

The column "**Severance package for end of term of office or employment termination**" shows severance pay accrued and not yet paid to the exiting Chair as Termination Benefits accrued on fixed and variable compensation. With regard to the exiting Chair, Alvise Braga Illa, who was not in managerial employment, the Company has set out a severance package equal to 25% of compensation paid, as resolved by the Shareholders' Meetings of 16 April 2014 and 21 April 2017. 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.

The Shareholders' Meeting of 18 June 2020 did not resolve maximum overall fees assignable to the Directors with specific offices. Fixed and variable compensation in 2020 amounted to € 350,000.

Nominativo	Carica	Compensi fissi per cariche	Compensi variabili per cariche	Indennità di fine mandato	Totale
Enrico Magni	Presidente	250.000	100.000	-	350.000
Daniele Misani	Amm. Delegato	20.000	-	-	20.000
TOTALE		270.000	100.000	-	370.000

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

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

On 18 April 2019, the Shareholders' Meeting approved a Stock Option Plan for up to a maximum of 600,000 shares.

The Board of Directors' meeting of 27 May 2019 assigned 135,000 Stock Options to 8 people comprising directors and managers of the Group, with vesting over the three-year period 2019-2020-2021. In 2020, 27,000 options were cancelled following the resignation of two executives assigned options.

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

	Totale	di cui Amministratori e Dirigenti con Responsabilità strategiche
Stock Options assegnate, maturate ed esercitate	-	-
Stock Options assegnate non maturate	108.000	18.000
Stock Options non assegnate	492.000	
Totale Piano deliberato assemblea	600.000	

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

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

Nome e Cognome	Carica	Piano	Opzioni detentue all'inzio dell'esercizio 2020			Opzioni assegnate nel corso dell'esercizio 2020					Opzioni esercitate nel corso dell'esercizio 2020			Opzioni scadute nel 2020	Opzioni detentue alla fine del 2020	Opzioni di competenza 2020
			Numero opzioni	Prezzo di esercizio Euro	Periodo possibile esercizio	Numero opzioni	Prezzo di esercizio Euro	Periodo possibile esercizio	Data di assegnazione	Prezzo di mercato all'assegnazione	Numero opzioni	Prezzo di esercizio Euro	Prezzo di mercato delle azioni alla data di esercizio	Numero opzioni	Numero opzioni	Fair Value (€)
Amministratori																
Daniele Misani	Amm.	Stock Option 18.4.2019	18.000	8,67	1.3.2022 - 31.3.2023	-	-	-	-	-	-	-	-	-	-	5.438

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

There are no incentive plans of this type.

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

Pursuant to Article 79 of the Consob Regulation approved by resolution no. 11971 of 14 May 1999, here below is a list of the holdings in the company TXT e-solutions S.p.A. by directors and managers with strategic responsibilities, as well as by their spouses who are not legally separated or their minor children, directly or through subsidiaries, trust companies or a third party, resulting as at 31 December 2020 from the shareholders' register, communications received and other information acquired.

The auditors have no holdings in the company.

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

COGNOME E NOME	CARICA	SOCIETA' PARTECIPATA	NR. AZIONI POSSEDUTE AL 31.12.2019	NR. AZIONI ACQUISTATE/ SOTTOSCRITTE	NR. AZIONI VENDUTE	NR. AZIONI POSSEDUTE AL 31.12.2020
Amministratori						
Alvise Braga Illa	Cessato	TXT	622.954	-	622.954	0
Enrico Magni	Presidente	TXT	3.452.011	401.070	-	3.853.081
Daniele Stefano Misani	Amm. Del.	TXT	1.000	5.500	-	6.500
Stefania Saviolo	Amm. indip.	TXT	825	-	-	825
Dirigente con responsabilità strategica			1.000	5.000	-	6.000
TOTALE			4.077.790	411.570	622.954	3.866.406

Enrico Magni:
- on 29 December 2020, it purchased 401,070 shares following the exercise of the option and pre-emption pursuant to Article 2437-quater of the Italian Civil Code.

Daniele Misani:
- on 13 March 2020, purchased 4,500 shares
- on 16 March 2020, purchased 1,000 shares

Eugenio Forcinito as executive with strategic responsibilities:
- on 13 March 2020, purchased 1,000 shares
- on 16 March 2020, purchased 2,000 shares
- on 29 December 2020, purchased 2,000 shares following the exercise of the option and pre-emption pursuant to Article 2437-quater of the Italian Civil Code.

Significant events after the end of the year.

In February 2021, Enrico Magni purchased 67,412 ordinary shares.

TXT e-solutions Group

Consolidated financial statements

as at 31 December 2020

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

In office until approval of the financial statements as at 31 December 2022:

Enrico Magni	Chair	
Daniele Misani	Chief Executive Office	
Matteo Magni	Director	(2)
Fabienne Anne Dejean Schwalbe	Independent Director	(1)
Stefania Saviolo	Independent Director	(1) (2) (3)
Valentina Cogliati	Independent Director	(2) (3)
Paola Generali	Independent Director	(1) (2) (3)

(1) Member of the Remuneration and Appointments Committee.
(2) Member of the Risks and Internal Controls Committee.
(3) Member of Related Parties Committee.

BOARD OF STATUTORY AUDITORS

In office until approval of the financial statements as at 31 December 2022:

Mario Basilico	Chair
Luisa Cameretti	Standing auditor
Franco Vergani	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Fabio Maria Palmieri	Alternate auditor
Giada d'Onofrio	Alternate auditor

EXTERNAL AUDITORS EY S.p.A.

INVESTOR RELATIONS

Andrea Favini
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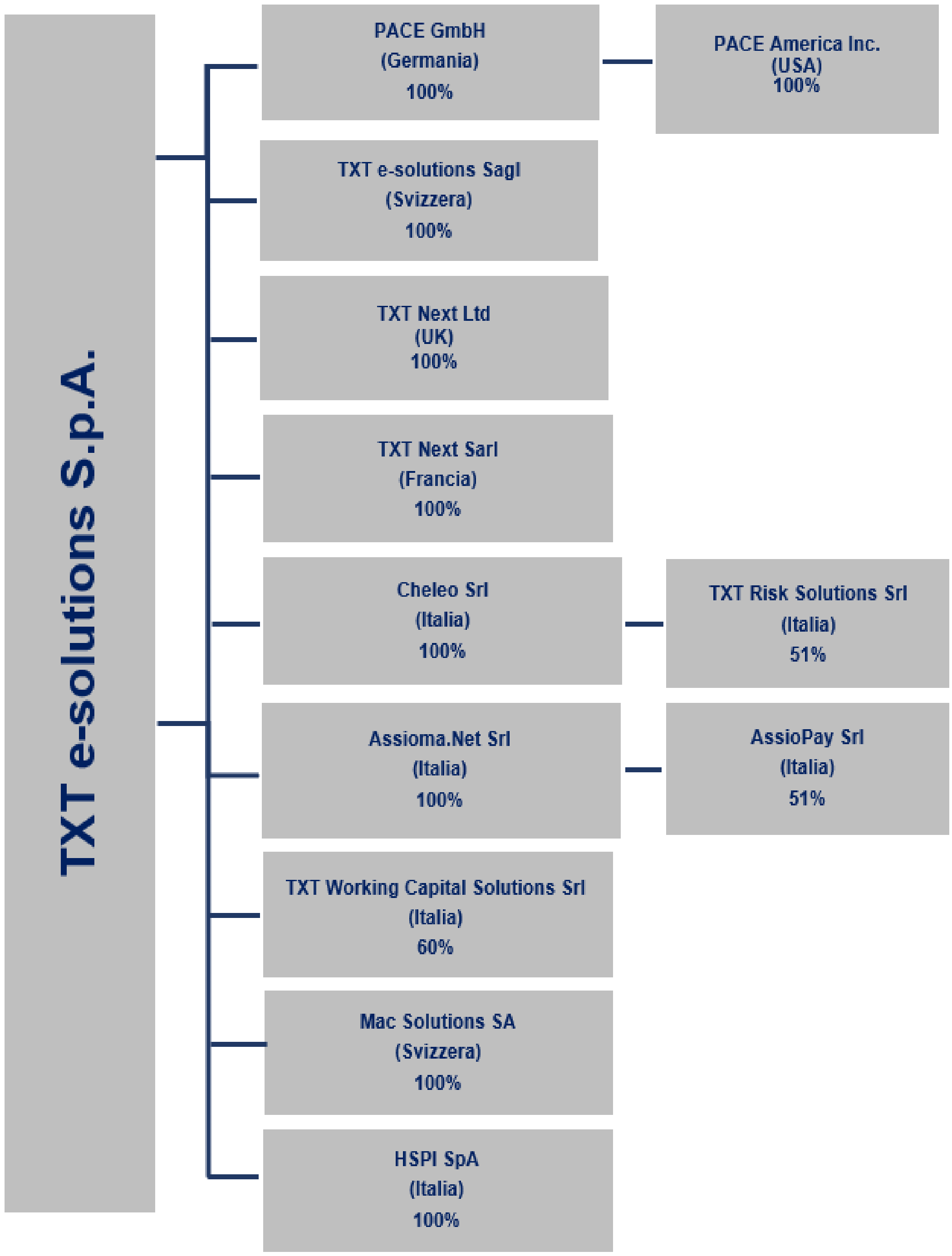
Tel: +39 02 25771.1

Organisational structure and scope of consolidation



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Consolidated financial statements

as at 31 December 2020

Consolidated Balance Sheet

ASSETS	Notes	31.12.2020	Of which with related parties	31.12.2019	Of which with related parties
NON-CURRENT ASSETS					
Goodwill	8.1	30,431,313		19,639,673	
Intangible assets with a finite useful life	8.2	7,221,447		4,740,503	
Intangible assets		**37,652,760**		**24,380,176**	**-**
Property, plant and equipment	8.3	7,460,326		7,928,901	
Tangible assets		**7,460,326**		**7,928,901**	**-**
Investments in associates	8.4	-		-	
Sundry receivables and other non-current assets	8.5	227,066		258,607	
Deferred tax assets	8.6	2,072,381		2,066,759	
Other non-current assets		**2,299,447**		**2,325,366**	
TOTAL NON-CURRENT ASSETS		**47,412,533**		**34,634,443**	
CURRENT ASSETS					
Contractual assets	8.7	4,749,088		4,155,631	
Trade receivables	8.8	35,410,803		19,370,598	
Sundry receivables and other current assets	8.9	5,782,068		4,779,327	
Financial instruments at fair value	8.10	68,160,917		87,320,066	
Cash and cash equivalents	8.11	11,932,508		11,426,083	
TOTAL CURRENT ASSETS		**126,035,384**		**127,051,704**	
TOTAL ASSETS		**173,447,917**		**161,686,147**	

LIABILITIES AND SHAREHOLDERS' EQUITY			Of which with related parties		Of which with related parties
SHAREHOLDERS' EQUITY					
Share capital		6,503,125		6,503,125	
Reserves		13,858,858		14,730,521	
Retained earnings (accumulated losses)		60,617,969		60,303,632	
Profit (loss) for the period		4,474,067		314,337	
TOTAL SHAREHOLDERS' EQUITY (Group)		**85,454,019**		**81,851,614**	**-**
Shareholders' Equity attributable to minority interests		409,158		168,226	
TOTAL SHAREHOLDERS' EQUITY	8.12	**85,863,178**		**82,019,841**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	8.13	27,398,339		32,029,003	
Provision for post-employment benefits and other employee provisions	8.14	2,757,450	-	3,110,062	1,207,217
Deferred tax provision	8.6	1,864,250		1,279,762	
Provisions for future risks and charges	8.15	118,905		118,905	
TOTAL NON-CURRENT LIABILITIES		**32,138,944**	**-**	**36,537,732**	**1,249,026**
CURRENT LIABILITIES					
Current financial liabilities	8.16	30,634,968		25,305,617	
Trade payables	8.17	4,176,210		2,122,206	40,870
Tax payables	8.18	3,282,649		3,012,776	
Sundry payables and other current liabilities	8.19	17,351,970	155,600	12,687,975	123,794
TOTAL CURRENT LIABILITIES		**55,445,796**	**155,600**	**43,128,574**	**164,664**
TOTAL LIABILITIES		**87,584,740**	**155,600**	**79,666,306**	**1,371,881**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**173,447,917**	**155,600**	**161,686,147**	**1,371,881**

Income Statement

	Notes	31.12.2020	Of which with related parties	31.12.2019	Of which with related parties
Revenues and other income		68,752,872	-	59,090,675	1,900
TOTAL REVENUES AND OTHER INCOME	9.1	**68,752,872**	**-**	**59,090,675**	**1,900**
Purchases of materials and external services	9.2	(15,183,289)	(6,800)	(12,598,386)	(58,316)
Personnel costs	9.3	(45,102,515)	(561,145)	(39,611,915)	(1,004,551)
Other operating costs	9.4	(497,470)		(593,609)	
Depreciation and amortisation/Impairment	9.5	(4,818,893)		(2,734,482)	
OPERATING RESULT		**3,150,705**	**(567,945)**	**3,552,283**	**(1,062,867)**
Financial income (charges)	9.6	2,726,084		(1,275,935)	
Share of profit (loss) of associates		-	-	(38,804)	
EARNINGS BEFORE TAXES (EBT)		**5,876,790**		**2,315,152**	
Income taxes	9.7	(1,161,790)		(1,867,137)	
NET PROFIT (LOSS) FOR THE PERIOD		**4,714,999**		**448,015**	
Attributable to:					
Parent Company shareholders		4,474,067		314,337	
Minority interests		240,932		133,678	
EARNINGS PER SHARE		0,38		0,03	
DILUTED EARNINGS PER SHARE		0,38		0,03	

Consolidated Statement of Comprehensive Income Statement

	31.12.2020	31.12.2019
NET PROFIT (LOSS) FOR THE PERIOD	**4,714,999**	**448,015**
Attributable to:		
Minority interests	**240,932**	**133,678**
Parent Company shareholders	**4,474,067**	**314,337**
Profit/(Loss) from foreign currency translation differences	(23,019)	13,398
Profit/(loss) on the effective portion of hedging instruments (cash flow hedge)	42,054	(169,708)
Total items of other comprehensive income statement that will be subsequently reclassified to profit/(loss) for the year net of taxes	**19,035**	**(156,310)**
Defined benefit plans actuarial gains (losses)	(170,099)	(51,579)
Total items of other comprehensive income statement that will not be subsequently reclassified to profit/(loss) for the year net of taxes	**(170,099)**	**(51,579)**
Total profit/(loss) of Comprehensive Income Statement net of taxes	**(151,064)**	**(207,889)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**4,563,935**	**240,126**
Attributable to:		
Minority interests	**240,932**	**133,678**
Parent Company shareholders	**4,323,003**	**106,448**

Statement of Cash Flows

	31 December 2020	31 December 2019
Net profit (loss) for the period	**4,714,999**	**448,015**
Non-monetary costs for Stock Options	32,628	23,793
Non-monetary interest	150,687	74,768
Change in fair value of monetary instruments	(1,700,911)	833,264
Current income taxes	381,198	3,667,762
Change in deferred taxes	(378,694)	(1,558,755)
Depreciation/amortisation, impairment and provisions	3,438,896	2,730,117
Other changes	52,969	4,715
Cash flows from (used in) operating activities (before change in working capital)	**6,691,772**	**6,223,680**
(Increase) / Decrease in trade receivables	(9,592,400)	(2,667,219)
(Increase) / Decrease in inventories	(593,457)	(995,020)
Increase / (Decrease) in trade payables	145,535	(111,527)
Increase / (Decrease) in other assets/liabilities	3,547,704	(3,024,156)
Increase / (Decrease) in post-employment benefits	(1,185,674)	(259,822)
Changes in operating assets and liabilities	**(7,678,292)**	**(7,057,744)**
Paid income taxes	(172,000)	(470,552)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**(1,158,520)**	**(1,304,616)**
of which with related parties	*(1,216,281)*	*(1,201,689)*
Increase in tangible assets	(781,972)	(902,391)
Increase in intangible assets	(25,790)	(14,432)
Capitalisation of Development expenses	(347,625)	
Decrease in tangible and intangible assets	64,875	75,840
Net cash-flow from acquisition of subsidiaries	(11,765,948)	(2,253,658)
(Increase) / Decrease in trading securities	20,000,000	25,225,790
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	**7,143,540**	**22,131,149**
of which with related parties	(6,745,750)	*(48,000)*
Loans issued	16,000,000	6,700,000
Loans repaid	(10,570,211)	(13,790,335)
Payment of lease liabilities	(1,540,393)	(1,143,541)
Increase / (Decrease) in other financial receivables	-	-
Increase / (Decrease) in financial payables	-	-
Net change in financial liabilities	(5,902,292)	7,081
Distribution of dividends	-	(5,780,767)
Interest expense	(141,907)	-
Other changes in shareholders' equity	-	-
(Purchase) / Sale of treasury shares	(3,300,772)	(999,412)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**(5,455,575)**	**(15,006,974)**
of which with related parties	-	*(4,900,000)*
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**529,446**	**5,819,559**
Effect of changes in exchange rates on cash flows	(23,020)	13,398
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**11,426,083**	**5,593,125**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**11,932,508**	**11,426,083**

Assets acquired that did not generate cash flows (initial recognition IFRS 16)	(493,832)	(2,992,223)
Liabilities acquired that did not generate cash flows (initial recognition IFRS 16)	493,832	2,992,223

Statement of changes in Shareholders' Equity as at 31 December 2020

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Fair Value Swap	Riserva di traduzione	Utili a nuovo	Utile (perdita) del perido	Totale patrimonio netto	Totale patrimonio netto (Terzi)	Totale patrimonio netto
Saldi al 31 dicembre 2019	**6,503,125**	**1,300,625**	**12,571,450**	**1,911,444**	**-**	**23,793**	**(934,986)**	**(169,708)**	**27,903**	**60,303,632**	**314,337**	**81,851,614**	**168,226**	**82,019,840**
Utile al 31 dicembre 2019										314,337	(314,337)	-		-
Acquisizioni minoranze							-					-		-
Incremento/acquisto						32,628		42,054				74,682		74,682
Distribuzione dividendi												-		-
Aumento di capitale gratuito												-		-
Vendita azioni proprie			4,565,921									4,565,921		4,565,921
Acquisto azioni proprie			(5,319,147)									(5,319,147)		(5,319,147)
Differenze attuariali TFR							(170,099)					(170,099)		(170,099)
Delta cambi									(23,019)			(23,019)		(23,019)
Utile al 31 dicembre 2020											4,474,067	4,474,067	240,932	4,714,999
Saldi al 31 dicembre 2020	**6,503,125**	**1,300,625**	**11,818,224**	**1,911,444**	**0**	**56,421**	**(1,105,085)**	**(127,654)**	**4,884**	**60,617,969**	**4,474,067**	**85,454,019**	**409,158**	**85,863,178**

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

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 2020 (see also the organisational diagram in the section "Organisational structure and scope of consolidation") and the relative share of legal interest in the share capital:

Company name of the subsidiary	Currency	% holding	Share capital
PACE GmbH	EUR	100%	295,000
PACE America Inc.	USD	100%	10
TXT e-solutions S.a.g.L.	CHF	100%	40,000
TXT NEXT S.a.r.l.	EUR	100%	100,000
TXT NEXT Ltd.	GBP	100%	100,000
Cheleo S.r.l.	EUR	100%	99,000
Txt Risk Solutions S.r.l.	EUR	51%	79,592
Assioma.Net S.r.l.	EUR	100%	100,000
AssioPay S.r.l.	EUR	51%	10,000
MAC SOLUTIONS S.A.	CHF	100%	100,000
HSPI S.p.A.	EUR	100%	220,000
Txt Working Capital Solutions S.r.l.	EUR	60%	500,000

In addition to the interests listed above, to be noted is the Group's investment in the Innovative Complex Solution Consortium (consolidated line-by-line) as follows: 45% HSPI S.p.A., 35% TXT e-solutions and 20% Assioma.Net S.r.l..
The Consortium is the commercial vehicle through which the Group has the opportunity to participate in tenders with the central and local Public Administration. The Consortium form allows to add up the administrative and technical references of the individual Consortium companies, thus making it possible for the Consortium to access tenders and qualifications for supply classes and larger volumes.
The Group signed option contracts for the minority interests of TXT Working Capital Solutions S.r.l. and TXT Risk Solutions S.r.l..
Following assessment of the terms and conditions of exercise, they were deemed capable of attributing a present ownership interest as at 31 December 2020. Consequently, for the purposes of presenting the consolidated financial statements, no third-party rights have been restated in the shareholders' equity with reference to said interests. However, these rights are recorded as liabilities with regard to potential payments, including contingent considerations, still to be made on the basis of the aforementioned option contracts.
In the second half of June 2020, the residual 21% of the share capital in the subsidiary Pace was acquired through the payment of the financial liability redetermined to € 5.1 million based on the agreements subsequently defined between the parties. The effect of the change in the estimate compared to 31 December 2019 was recognized in the income statement; for further details, please refer to note 9.6.

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

- Income statement (average exchange rate in the year)

Currency	31.12.2020	31.12.2019
British Pound (GBP)	0.8897	0.8778

US Dollar (USD)	1.1422	1.1195
Swiss Franc (CHF)	1.0705	1.1124

- Balance sheet (exchange rates as at 31 December 2020 and 31 December 2019)

Currency	31.12.2020	31.12.2019
British Pound (GBP)	0.8990	0.8508
US Dollar (USD)	1.2271	1.1234
Swiss Franc (CHF)	1.0802	1.0854

2. Acquisitions

2.1. Txt Working Capital Solutions S.r.l.

On 15 April 2020, TXT e-Solutions formalised the entry, via a capital increase it financed 60% of, in a FinTech start-up, whose company name is TXT Working Capital Solutions S.r.l., an innovative start-up dedicated to the study and development of solutions for the Factoring and Supply Chain Finance market.

At the time of the initial recognition, the fair value of the total consideration was structured as follows:

Component	Euro
Paid share capital increase with premium (60%)	800,000
Put-Call Option (40%)	2,682,426
Total (100%)	3,482,426

The purchase of the 60% shareholding took place via the subscription by TXT e-solutions of a capital increase for € 0.3 million, plus € 0.5 million of share premium, of which € 0.6 million already paid in cash using available liquidity at the date of this report. TXT e-solutions and the shareholders also entered into a Put/Call option contract to purchase the remaining 40% at a price commensurate with the financial and economic results of TXT Working Capital Solutions activities in 2024.

For the purposes of drawing up the Consolidated Financial Statements, the directors also deemed the signing of the put/call option contract to be the acquisition of a present ownership interest also in the residual 40% of the capital of TXT Working Capital Solutions S.r.l., therefore no minority interests were found.

The fair value of the net assets acquired and the recognition of the goodwill, for which the temporary allocation was carried out (therefore, to be confirmed by the end of the so-called measurement period) is the following:

Allocation as at acquisition date		
Consideration (net of paid share capital increase with premium)		2,682,426
Net financial position (net of capital injection)	198,657	
Fair value net assets (liabilities)	(240,287)	
Goodwill (to be allocated)	**2,724,056**	

2.2. Mac Solutions S.A.

On 13 July 2020, the final contract for the acquisition of Mac Solutions S.A., with registered office in Chiasso in Switzerland, was executed.
At the closing date, CHF 5.4 million was paid in cash.
The consideration is increased by additional cash payments based on the Net Financial Position of MAC Solutions S.A..

Component	Euro
Price paid in cash	5,060,162
Price adjustment for NFP	1,321,587
Total (100%)	6,381,749

The fair value of the net assets acquired and the recognition of the goodwill, for which the temporary allocation was carried out (therefore, to be confirmed by the end of the so-called measurement period) is the following:

Allocation as at acquisition date		
Price paid in cash		6,381,749
Net assets (liabilities)	2,015,325	
Goodwill (to be allocated)	**4,366,424**	

As at 31 December 2020, an intangible asset of € 3,432,118 relating to Customer Relationships was identified, which brings the goodwill relating to the acquisition of Mac Solutions S.A. to a value of € 1,891,867.

As at 31 December 2020 the provisional allocation of net assets acquired and the recognition of goodwill (IFRS3) is as follows:

Allocation		
Total price		6,381,749
Other net assets (liabilities)	2,015,325	
Customer Relationship	3,432,118	
Deferred tax liabilities		957,561
Goodwill	**1,891,867**	

2.3. HSPI S.p.A.

On 19 October 2020, the final contract was signed for the acquisition of the company HSPI S.p.A., a company specialising in the digital transformation of large Italian public and private companies.
The Transaction constitutes a related party transaction as Laserline S.p.A., majority shareholder of HSPI S.p.A., is wholly owned by Enrico Magni, Chair of the Board of Directors of TXT.
It also must be noted that the Transaction qualifies as a transaction of "greater importance" with related parties pursuant to the provisions of Article 8, paragraph 1 of the Consob Regulations 17221/2010 and Article 2 of the related party procedure approved by the Company. In this context, an information document was made available on 21 October 2020, in compliance with the provisions of Consob Regulations 17221/2010 and the related parties procedure approved by the Company.

The price paid for the purchase of the Investment is broken down as follows:

- an amount equal to € 9,061,000 paid in cash;
- an amount equal to € 2,547,547 by means of payment of TXT's ordinary treasury shares;
- an amount based on the Net Financial Position of HSPI S.p.A.;
- an additional amount, potential and variable, defined as "Restricted Shares Price Adjustment".

The fair value of the net assets acquired and the recognition of the goodwill, for which the temporary allocation was carried out (therefore, to be confirmed by the end of the so-called measurement period) is the following:

Allocation		
Total price		12,064,168
Other net assets (liabilities)	4,591,600	
Goodwill	**7,472,569**	

3 Operating segments

The TXT Group identifies its Business Units within two operating segments: a) "Aerospace, Aviation & Transportation" and b) "Fintech".

The "Fintech" operating segment includes companies such as Cheleo, TXT Risk Solutions and the Assioma Group, (including the B&F division of TXT e-solutions S.p.A.), HSPI and MAC Solutions S.A..
The "Aerospace, Aviation & Transportation" operating segment includes the activities of TXT e-solutions S.p.A. linked to A,A&A and Pace GmbH.

The two operating segments identified are largely organised and managed separately, depending on the nature of the services and products provided and the reference market.

4 Basis of preparation of the consolidated financial statements

TXT e-solutions Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at the date of drafting these financial statements, as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005 and with any other applicable provisions and Consob regulations on financial statements.
The consolidated financial statements have been prepared on a cost basis, except for derivative financial instruments and other items for which the IFRS prescribe different assessment criteria. The carrying amount of underlying assets and liabilities of fair value hedges which would otherwise be carried at amortised cost is adjusted to take into account the changes in fair value attributable to the hedged risks.
The consolidated financial statements were prepared on the basis of the accounting records as at 31 December 2019 on a going concern basis, taking into account the Group's operating performance and operating, economic and financial outlook referred to in the Directors' report on operations, to which reference should be made for a description of these aspects. The accounting policies applied in preparing the financial statements, as well as the composition of, and changes in, individual items, are illustrated below.
All amounts are expressed in Euro, unless otherwise indicated.
The publication and release of this report were approved by the Board of Directors' Meeting held on 9 March 2021.

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 2020.
The subsidiaries are consolidated line-by-line from the acquisition date, or the date when control is obtained, and cease to be consolidated on the date when control is lost. The financial statements of

the subsidiaries used for consolidation purposes are prepared for the same reporting period as the parent company, using consistent accounting policies. Intragroup balances and transactions, including any unrealised profits and losses resulting from intragroup transactions and dividends, are eliminated in full.
Unrealised profits and losses on transactions with associates or jointly controlled entities are eliminated to the extent of the Group's equity interest in those companies.
Total comprehensive income statement 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 the income statement;
- Reclassifies to the income statement, or transfers directly to retained earnings if required, the Parent Company's share in the amounts previously recognised in other comprehensive income statement.

Foreign currency transactions

The financial statements are presented in Euro, which is the functional and presentation currency adopted by the Group.

Foreign currency transactions are recorded on initial recognition in the functional currency by applying the spot exchange rate at the date of the transaction.

The monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the exchange rate at the reporting date.

Exchange differences are recognised in the income statement 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 statement until the disposal of the net investment, and only then will be recognised in the income statement. 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 statement or the income statement are recognised in other comprehensive income statement or the income statement, respectively).

Consolidation of foreign operations

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Parent Company. Each company of the Group determines its own functional currency, which is used to measure the items included in the individual financial statements. The Group decided to carry forward the gains or losses arising from the application of the direct method of consolidation, which is the method the Group used for its consolidation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation, and therefore are expressed in the functional currency of the foreign operation and translated at the closing rate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and of the recognised amount of the non-controlling interest in the acquiree. For each business combination, the Group defines whether to measure the non-controlling interest in the acquiree at fair value or the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. Acquisition costs are expensed in the year and classified as administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed on the basis of the contractual terms, economic conditions, and other pertinent conditions as they exist on the acquisition date. This includes the assessment of whether an embedded derivative should be separated from the host contract.

If the business combination is achieved in stages, the pre-existing equity interest is carried at fair value at the date of acquisition of control and the resulting gain or loss, if any, is recognised in the income statement or in the statement of comprehensive income statement. This is taken into account in determining goodwill.

The acquirer recognises any contingent consideration at the acquisition-date fair value. The change in fair value of the contingent consideration classified as an asset or liability, within the scope of IAS 9 Financial Instruments, will be recognised in the income statement or in other comprehensive income statement. Where the contingent consideration does not fall within the scope of IFRS 9, it is remeasured at fair value at the reporting date and any changes are recognised in the income statement. If the contingent consideration is classified as equity, it shall not be remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests over the identifiable net assets acquired and liabilities assumed by the Group. If the fair value of net assets acquired exceeds the aggregate of the consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts which are required to be recognised at the acquisition date. If that excess remains after applying the new measurement, the resulting gain is recognised in the income statement.

After initial recognition, goodwill is measured at cost net of any accumulated impairment loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions in previous years

With reference to the PACE business combination that occurred in 2016, which established an immediate acquisition of 79% of the company's shares and an option on the remaining 21% of capital to be exercised by 2021, the directors, for the purposes of drafting the Consolidated Financial Statements, decided to classify the signing of the put/call option contract with PACE minority shareholders as the acquisition of a present ownership interest including in the residual 21% of PACE's capital. Therefore, no minority interests were recorded in the consolidated financial statements.

In addition to considering the acquisition of 79% of the capital and subscription of the put/call option as strictly correlated operations in terms of substance, the assessment made by the directors also took into consideration the following factors: existence of a call/put option with the same exercise conditions - regulation of the rights on any dividends distributable to minority shareholders during the period prior to that of the first possible exercise of the option - existence of qualified majorities to make specific decisions in the Shareholders' Meeting - price that can be determined with a contractually established method, even though variable based on results - integration level designed and launched with the TXT structure.

Similarly, also with reference to the acquisition carried out in 2018 of TXT Risk Solutions S.r.l. (formerly T3M S.r.l.), the related put/call options on minority interests (both equal to 49%) had been equated to the acquisition of a present ownership interest also in the residual share capital. As a result, no minorities were found with regard to these acquisitions. It should be noted that in 2019, following the exercise of the option on Cheleo, the relative share of interest became 100%.

ASSETS AND LIABILITIES

Intangible assets

Intangible assets acquired separately are initially measured at cost, while those acquired in business combinations are recognised at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and the corresponding costs are recognised in the income statement as incurred.

The useful life of intangible assets is assessed as finite or indefinite.

Intangible assets with a finite useful life are amortised systematically over their useful lives and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The changes in the expected useful life or in the expected pattern of consumption of the future economic benefits embodied in the assets are recognised by changing the amortisation period or method, as required, and are accounted for as changes in accounting estimates. The amortisation expense related to intangible assets with a finite useful life is recognised in the income statement 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 the income statement when the asset is derecognised.

Research and development costs

Research costs are recognised as an expense in the income statement when incurred. Development costs incurred in relation to a specific project are recognised as an intangible asset when the conditions provided for by IAS 38 apply.

After initial recognition, development costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation begins when development is completed and the asset is available for use. Development costs are amortised with reference to the period during which the related project is expected to generate economic benefits for the Group. During the period in which the asset is not yet in use, it will be tested for impairment annually.

Software licences

Licences for use of intellectual property are carried at cost and amortised over 3 to 5 years, according to the specific type of licence.

Tangible assets

Tangible assets are measured at acquisition or production cost including directly attributable costs necessary to bring the asset to its working condition.

Tangible assets are depreciated on a straight-line basis over their useful life, i.e. the period over which an asset is expected to be available for use by an entity. Depreciation begins when the asset is available for use and is calculated on a straight-line basis using the rate deemed representative of the asset's estimated useful life. Given the nature of the assets within the separate classes, no significant parts having different useful lives were recognised.

Depreciation is calculated using the straight-line method over the estimated useful life of the relevant asset, as shown below:

Class	Useful life
Furniture and fixtures	8 years
Electronic office machinery	5 years
Motor vehicles	4 years

The costs of maintenance, repair, enhancement, upgrade, and replacement that have not led to any significant and measurable increase in the production capacity or in the useful life of the asset concerned are recognised as an expense in the period in which they are incurred.

Leasehold improvements shall be recognised in the asset class to which they refer and, if separable, they shall be depreciated in accordance with their useful life; if they are not separable, they shall be depreciated based on the shorter of the lease term or the asset's useful life.

Leases

The right to use of assets held under leases is accounted for as tangible fixed assets (historical cost of the asset and accumulated depreciation) and classified in the specific classes, recognising the financial payable to the lessor as a liability.

Lease payments are apportioned between the reduction of the outstanding liability and the finance charge to be allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability at each financial year-end.

The Group as *lessee*

(i) Activities for right to use

The Group recognises the assets for the right to use on the start date of the lease (i.e. the date on which the underlying asset is available for use). Assets for the right to use are measured at cost, net of accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the assets for the right to use includes the amount of the lease liabilities recognised, the initial direct costs incurred and the lease payments made at the effective date or before commencement net of any incentives received. Assets for right to use are amortised on a straight-line basis from the effective date to the end of the useful life of the asset consisting of the right to use or at the end of the lease term, whichever is earlier.
If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right to use asset reflects the fact that the lessee will exercise the purchase option, the lessee must depreciate the right to use asset from the effective date until the end of the useful life of the underlying asset. Assets for the right to use are subject to Impairment. Please refer to the section "Impairment of non-financial assets".

(ii) Lease-related liabilities

At the effective date of the lease, the Group recognises the lease liabilities by measuring them at the present value of the lease payments not yet paid at that date. Payments due include fixed payments (including fixed payments in substance) net of any lease incentives to be received, variable lease payments that depend on an index or rate, and amounts expected to be paid as guarantees of residual value. The lease payments also include the exercise price of a purchase option, if it is reasonably certain that this option will be exercised by the Group, and the penalty payments for termination of the lease, if the lease term takes into account the exercise by the Group of the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognised as an expense in the period (unless they were incurred for the production of inventories) in which the event or condition giving rise to the payment occurs.

In calculating the present value of the payments due, the Group uses the marginal lending rate at the start date if the implicit interest rate is not available or easily determinable. After the effective date, the amount of the lease liability increases to account for interest on the lease liability and decreases to account for payments made. In addition, the carrying amount of lease liabilities is restated in the event of any changes in the lease or for changes in the contractual terms for the change in payments; it is also restated in the event of changes in the valuation of the option to purchase the underlying asset or for changes in future payments resulting from a change in the index or rate used to determine those payments.

The Group's leasing liabilities are included under Non-current Financial Liabilities (8.14) and Current Financial Liabilities (8.17).

(iii) Short-term leases

The Group applies the exemption for the recognition of short-term leases (i.e., leases that have a duration of 12 months or less from the start date and do not contain a redemption option).

The Group as lessor

The Group has no current financial leasing contracts in accordance with IFRS 16.

Application of IFRS 16 in the Group

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

- lease contracts for the main office (Milan);
- lease contracts for the national (Milan, Turin, Brescia and Cesano Boscone) and foreign (PACE – Berlin) secondary offices;
- Portfolio of hire vehicles for the Company's staff.

Lease contracts for offices:	Contractual years	Years remaining	Main Options
Milan	6	4	Renewal
Orbassano (Turin)	6	4	Renewal
Brescia	6	5	Renewal
Berlin	6	5	Renewal
Cesano Boscone	6	4	Renewal
Turin	6	4	Renewal
Palermo	6	4	Renewal
Dallas	3	2	Renewal
Chiasso	3	2	Acquisition
Bologna	3	1	Acquisition
Rome	3	1	Acquisition
Milan	2	1	Acquisition

For the lease contract for the main office in Milan, the contractually envisaged duration was used, just subject to renewal, without taking into account the early termination or further renewal options which are considered unlikely. A similar approach has been followed for leases for which the Group is still in the assessment phase.

As regards vehicle lease contracts, these refer to medium/long-term rental agreements, usually for 4 years with monthly instalments paid in advance with an average value of € 540.

In the absence of a readily available implicit rate, the present value of the liabilities was determined using the Group's marginal lending rate, taking into account the duration, amount funded and underlying asset for each type of contract. The Group has established that the differences between the rates to be applied for the different contract categories do not lead to significant differences in impact.

For further details, see Note 8.3 "Tangible assets" and Note 9.6 "Financial income and charges".

Impairment of non-financial assets

At the end of each reporting year, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when an annual impairment test is required, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. If the carrying amount of an asset is greater than its recoverable amount, said asset has become impaired and is consequently reduced to its recoverable amount.

In measuring value in use, the Group discounts estimated future cash flows using a rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If it is not possible to determine such transactions, an appropriate measurement model is used. These calculations are corroborated by the appropriate valuation multipliers, quoted share prices of investee companies whose securities are publicly traded, and other available indicators of fair value.

The Group bases its impairment test on detailed budgets and forecasts prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts generally cover a period of five years. For longer periods, a long-term growth rate used to extrapolate cash flow projections beyond the fifth year is calculated.

Impairment losses on operating assets, including losses on inventories, are recognised in the income statement in the expense categories consistent with the intended use of the impaired asset. An exception is represented by revalued assets for which the revaluation has been recognised in other comprehensive income and classified as a revaluation surplus. In these cases, the impairment loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus.

At the end of each reporting period, the Group assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. An impairment loss recognised in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal of an impairment loss shall not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

The following criteria are used to recognise impairment losses on specific types of assets:

a) Goodwill

Goodwill is tested for impairment at least annually (as at 31 December) and, more frequently, when the circumstances indicate that the carrying amount may be impaired.

The impairment loss on goodwill is determined by measuring the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill can be allocated. Wherever the recoverable amount of the cash-generating unit is lower than the carrying amount of the cash-generating unit to which goodwill was allocated, an impairment loss is recognised. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

b) Intangible assets

An intangible asset with an indefinite useful life is tested for impairment at least annually (as at 31 December) both as an individual asset and as a cash-generating unit, whichever is more appropriate to determine whether any impairment exists.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaced the corresponding regulations previously set forth in IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the project on the accounting of financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard from the effective date (1 January 2018).

Classification and measurement of financial assets and liabilities

The Group does not hold financial liabilities designated at FVTPL due to the adoption of the optional regime or equity instruments designated at the FV recognized in other items of the comprehensive income statement. For completeness it is reported that the change in financial liabilities relating to the acquisition of minority shares in the extraordinary transactions described in the previous paragraphs will continue to be recorded entirely in the income statement. With regard to financial assets, the new principle establishes that the classification of assets depends on the characteristics of the financial flows relating to these assets and the business model used by the Group for managing them. The Group signed the following contracts during the year:

- 6 multi-segment life insurance contracts for € 59,874,094 (€ 77,725,206 as at 31 December 2019);
- Bond loan for € 501,000 subscribed below par for € 498,000;
- Treasury management for € 7,785,822;
- Multi-year Treasury Bills for € 1,048,535.

In view of the characteristics of these instruments, the Company arranged their designation at Fair Value as at 31 December. Furthermore, the Company does not have financial investments in the form of shareholdings that could fall within the scope of IFRS 9. With regard to derivative financial instruments, embedded or otherwise, the Company has exclusively entered into interest rate swap contacts linked to bank loans expenses for which hedge accounting has been activated. Trade receivables are held for the purposes of collection at the contractual due dates of the cash flows relating to them in capital share and interest, where applicable. The Company has analysed the characteristics of the contractual cash flows of these instruments and has concluded that they comply with the criteria for valuation at amortised cost in accordance with IFRS 9. Similar conclusions can be reached for the items relating to cash and cash equivalents.

Initial recognition and measurement of financial assets

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income statement (OCI) and at fair value through the income statement. The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Group uses to manage them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied a practical expedient, the Group initially values a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied a practical expedient are valued at the transaction price determined in accordance with IFRS 15.

For a financial asset to be classified and measured at amortised cost or at fair value through OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid ('solely payments of principal and interest (SPPI)'). This assessment is referred to as the SPPI test and is carried out at instrument level.

The Group's business model for the management of financial assets refers to the way in which it manages its financial assets in order to generate financial flows. The business model determines whether the cash flows will arise from the collection of contractual cash flows, the sale of financial assets or both.

A purchase or sale of a financial asset that requires delivery within a time frame generally established by regulation or convention in the marketplace (regular way trade) is recognised on the trade date, i.e. the date on which the Group commits itself to purchase or sell an asset.

Subsequent measurement of financial assets

For the purposes of subsequent measurement, financial assets are classified into four categories:
- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value recognised in other comprehensive income statement with re-classification of cumulative gains and losses (debt instruments);
- Financial assets at fair value recognised in other comprehensive income statement without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through the income statement.

In general the most important categories for the Group are the first and the fourth.

<u>Financial assets at amortised cost</u>

The Group measures financial assets at amortised cost if both of the following requirements are met:
- the financial asset is owned as part of a business model whose objective is to own financial assets for the purpose of collecting contractual cash flows;
- the contractual terms of the financial asset provide for cash flows at certain dates represented solely by payments of principal and interest on the amount of principal to be repaid.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.

Group financial assets at amortised cost include trade receivables and other receivables as well as investments that pass the SPPI test.

<u>Financial assets at fair value through the income statement</u>

This category includes financial assets held for trading and assets designated as at fair value through profit or loss upon initial recognition with changes recognised in the income statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for the purpose of selling or repurchasing them in the near term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments (the Group does not currently hold derivatives that are not designated as hedges). Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value through the income statement, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be recognised at fair value through the income statement at initial recognition if this results in the derecognition or significant reduction of an accounting mismatch.

Financial instruments at fair value through the income statement are recognised in the balance sheet at fair value and net changes in fair value are recognised in the statements of profit/(loss) for the year.

<u>Impairment of financial assets</u>

The Group recognises an expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through the income statement. ECLs are based on the difference between the contractual cash flows payable under the contract and all cash flows expected to be received by the Group, discounted at an approximation of the original effective interest rate. Expected cash flows will include cash flows arising from the application of collateral held or other credit guarantees that are an integral part of the contractual conditions. Expected losses are recognised in two phases. With regard to credit exposures for which there has been no significant increase in credit risk since the initial recognition, it is necessary to recognise credit losses resulting from the estimate of default events that are possible within the next 12 months (12-month ECL). For credit exposures for which there has been a significant increase in credit risk since initial recognition, expected losses relating to the residual duration of the exposure must be fully recognised, regardless of when the default event is expected to occur ("Lifetime ECL").

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected losses. Therefore, the Group does not monitor changes in credit risk, but fully recognises the expected loss at each reference date. The Group has defined a matrix system based on historical information, revised to consider forward-looking elements with reference to specific types of borrowers and their economic environment, as a tool for determining expected losses.

A financial asset is derecognised when there is no reasonable expectation that the contractual cash flows will be recovered.

Initial recognition and measurement of financial liabilities

Upon initial recognition, financial liabilities are classified under financial liabilities at fair value through the income statement, under loans and borrowings, or under derivatives designated as hedging instruments.

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

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

Subsequent measurement of financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through the income statement

Financial liabilities at fair value through the income statement include liabilities held for trading and financial liabilities designated as at fair value through the income statement upon initial recognition.

Liabilities held for trading are all those taken on with the intention of settling or transferring them in the near term.

Gains and losses on financial liabilities held for trading are recognised in the statements of profit/(loss) for the year.

Financial liabilities are designated upon initial recognition as at fair value through the income statement only if the conditions in IFSR 9 are met.

Loans and receivables

This is the most important category for the Group. After initial recognition, loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement only when the liability is extinguished, as well as through amortisation.

The amortised cost is calculated accounting for acquisition discounts or premiums, fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised in financial charges in the statement of profit/(loss). This category generally includes interest-bearing loans and receivables.

Cancellation

A financial liability is cancelled when the obligation underlying the liability is extinguished, annulled or fulfilled. If an existing financial liability is replaced by another one from the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a cancellation of the original liability, accompanied by the recognition of a new liability, with any differences in carrying amounts recognised in the statements of profit/(loss) for the year.

Derivative financial instruments and hedge accounting

The Group uses interest rate swaps to hedge against interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is signed and, subsequently, are re-measured at fair value. Derivatives are recorded as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, the aforementioned hedges are referred to as “cash flow hedges”.

When a hedging transaction is initiated, the Group formally designates and documents the hedge relationship to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and how the Group will assess whether the hedge relationship meets the hedging efficacy requirements (including analysis of sources of hedge ineffectiveness and how the hedge relationship is determined). The hedge relationship meets the eligibility criteria for hedge accounting if it meets all of the following hedging efficacy requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk effect does not prevail over the changes in value resulting from the aforementioned economic relationship;
- the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and how the Group will assess whether the hedge relationship meets the hedging efficacy requirements (including analysis of sources of hedge ineffectiveness and how the hedge relationship is determined).

The transactions carried out by the Group, since they meet all the criteria for hedge accounting, have been accounted for as follows:

The portion of gain or loss on the hedged instrument relating to the effective portion of the hedge is recognised in other comprehensive income statement in the cash flow hedge reserve, net of tax, while the ineffective portion is recognised directly in statements of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

Investments in associates

An associate is a company over which the Group exercises significant influence. Significant influence refers to the power to participate in determining the financial and operating policies of the associate without having control or joint control of the same.

The considerations made to determine significant influence are similar to those required to determine control over subsidiaries.

The Group's shareholding in associates is valued using the equity method.

Under the equity method, an investment in an associate is initially recognised at cost. The carrying amount of the investment is increased or decreased to reflect the investor's share of the profits and losses of the investee after the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not subject to a separate impairment test.

The statement of profit/(loss) for the year reflects the Group's share of the associate's profit for the year. Any change in the other components of the comprehensive income statement relating to these investees is presented as part of the Group's comprehensive income statement. Furthermore, if an associate recognises a change that is directly attributable to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised gains and losses arising from transactions between the Group and associates are eliminated in proportion to the shareholding in the associates.

The Group's aggregate share of the result for the year of associates is recognised in the statement of profit/(loss) for the year after the operating result and represents the result after taxes and the shares due to the other shareholders of the associate.

The financial statements of associates are prepared on the same date as the Group's financial statements. Where necessary, the financial statements are adjusted to bring them into line with Group accounting standards.

Following the application of the equity method, the Group shall assess whether it is necessary to recognise a loss in value of its equity investment in associates. At each reporting date, the Group assesses whether there is objective evidence that the investment in associates has suffered a loss in value. In this case, the Group calculates the amount of the loss as the difference between the recoverable value of the associate and the carrying amount of the same in its financial statements, recording this difference in the statement of profit/(loss) for the year under the item "share of profit/loss of associates".

Upon the loss of significant influence over an associate, the Group values and recognises the residual investment at fair value. The difference between the carrying value of the investment at the date of the loss of significant influence and the fair value of the residual investment and the consideration received is recognised in the income statement.

Contractual assets

Contractual assets are measured at the lower of acquisition or production cost and market value. This refers mainly to consumables measured at acquisition cost, determined by the last cost incurred, which is an excellent approximation of FIFO.

Contract work in progress, consisting of services not yet completed at the end of the financial year relating to indivisible contracts that will be completed during the next twelve months, are measured on the basis of the considerations agreed in relation to the stage of completion determined using the cost-to-cost method and recognised as revenues if they meet the requirements for recognition as indicated in the "revenues from contracts with customers" section. Advance payments received from customers are deducted from inventories, to the extent that they do not exceed the consideration accrued; the remaining part is recognised as a liability.

Cash and cash equivalents and short-term deposits

Cash and cash equivalents and short-term deposits comprise cash on hand and demand and short-term deposits with maturity of up to three months.

Treasury shares

Treasury shares purchased are measured at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale or cancellation of an entity's treasury shares. Any difference between the consideration paid and received, when treasury shares are reissued, is recognised in the share premium reserve. Voting and dividend rights attached to treasury shares are suspended. If stock options are exercised, they are serviced with treasury shares.

Employee benefits expense

Post-employment benefits

The liability relating to employee benefits paid upon or after the end of employment and relating to defined benefit plans, net of any plan assets, is determined based on actuarial assumptions made to estimate the amount of benefit that employees have earned to date. The liability is recognised on an accrual basis over the vesting period.

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

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

- Post-employment benefits earned since 1 January 2007 are considered elements of a Defined Contribution Plan even if the employee exercised the option to allocate them to the Treasury Fund at INPS. These benefits, determined based on statutory provisions and not

subject to any actuarial valuation, therefore represent negative income components recognised as labour costs;
- Post-employment benefits earned as at 31 December 2006 continue instead to represent the liability for the company's obligation under a Defined Benefit Plan. This liability will not be increased further in the future with additional provisions; therefore, unlike in the past, the component relating to future increases in salaries was excluded from the actuarial calculation made to determine the balance as at 31 December 2012.

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

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of TXT's obligations at the end of the period, due to the change in the previously used actuarial parameters (described above), are recognised outside the income statement (in comprehensive income statement) 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 the income statement as a cost during the vesting period, with a specific reserve recognised in equity. This implicit cost is determined using specific income-equity models.

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

Guarantees issued, obligations

As at 31 December 2020, 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.

Contingent liabilities

The Group's companies may be involved in legal proceedings regarding various issues. Owing to the uncertainties inherent to said issues, it is normally hard to make a reliable estimate of the outflow of resources that could arise from said disputes. In the ordinary course of business, the management consults with legal advisors as well as legal and fiscal experts. TXT recognises a liability for said disputes when it deems it probable that an outflow of financial resources will be required and when the amount of the losses resulting from it can be reliably estimated. If an outflow of financial resources is possible, this fact is reported in the notes to the financial statements.

Dividends distributed

Dividends payable are recognised as movements in equity in the period in which they are approved by the Shareholders' Meeting.

Intragroup and transactions with related parties

The following are considered related parties of the Group:

Entities that, directly or indirectly, even through subsidiaries, trustees or third parties:

- control TXT e-solutions S.p.A.;

- are subject to joint control with TXT e-solutions S.p.A.;
- have an interest in TXT e-solutions S.p.A. such as to exercise a significant influence.

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

As for transactions with related parties, it should be noted that they cannot be classified as atypical or unusual, as they fall within the course of ordinary activities of the Group's companies. Said transactions are conducted at arm's length, considering the characteristics of the goods and services provided.

Detailed information is provided in section **Error! Reference source not found.**

REVENUES AND COSTS

Revenues from contracts with customers

Revenues from contracts with customers are recognised when control of goods and services is transferred to the customer for an amount that reflects the fee that the Group expects to receive in exchange for those goods or services. The Group has generally concluded that it acts as the principal for agreements that generate revenue as it controls the goods and services before they are transferred to the customer.

The Group considers whether there are other commitments in the contract that represent obligations to be carried out, for which a portion of the transaction fee is to be allocated (e.g. guarantees, customer loyalty schemes). In determining the price of the equipment sale transaction, the Group shall consider the effects of variable fees, significant financing components, non-monetary fees and fees payable to the customer (if any).

If the fee promised in the contract includes a variable element, the Group estimates the fee amount to which it will be entitled, in exchange for the transfer of the goods to the customer.

The variable fee is estimated when the contract is entered into and cannot be recognised until it is highly probable that when the uncertainty associated with the variable fee is subsequently resolved, there will be no significant downward adjustment to the amount of cumulative revenue that has been accounted for.

Application of IFRS 15

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

The standard introduces a new 5-step model applied to revenues deriving from contracts with customers:

1. Identification of the contract;

2. Identification of performance obligations;

3. Determining the price of the transaction;

4. Distribution of the price of the transaction across the performance obligations;

5. Recognition of revenues for each performance obligation.

(a) Revenues from software licences

With reference to the recognition of revenues deriving from the granting of software licences (regardless of whether they are for an indefinite or fixed period), IFRS 15 establishes that in general the recognition may occur at "a certain moment" when there are no residual commitments or obligations or expectations on the customer's part that the entity will make changes or carry out subsequent interventions or "over time" if the entity continues to be involved and carries out significant subsequent activities that could affect the intellectual property on which the customer is claiming rights.

(i) Revenues from licence and maintenance contracts

The Group has analysed whether maintenance services, which include an obligation to provide the customer with the right to updates and evolutions of the licence in addition to support activities, could be classified as a performance obligation distinct and separable from the granting of the right to the licences (granted for an indefinite period) currently developed and part of the commercial offer of the Group. This analysis was conducted both in the abstract and in the context of the contract and was corroborated by evaluating the commercial practices of the Group's business model. As, apart from marginal exceptions, licence rights and maintenance contracts are purchased together by the customer in the expectation of a certain degree of involvement, including subsequently, with reference to the licence itself and these subsequent maintenance activities cannot be carried out by entities other than the Group, since they are proprietary licences, the Group believes that the licence and the maintenance services have to be considered in application of IFRS 15 as a single contractual promise for which the overall fee is recognised over the period covered by the maintenance contract.

(ii) Revenues from subscription contracts

Subscription contracts grant the customer the right to exploit the Group's software licences (which can be installed on the customer's server or provided in a cloud) for a predetermined period with payment of a periodic fee. Software update and support activities carried out periodically can influence the intellectual property that is the subject of the licence and expose the customer to the results of these activities. For this line of revenue, recognition occurs "over time" throughout the contractual period.

(b) Provision of services for projects

The Group previously recognised revenues from the provision of services for technological solutions projects on the basis of the projects' progress status. In accordance with IFRS 15, in order for the revenue to be recognised "over time" one of the following criteria must be satisfied:

• the customer simultaneously receives and uses benefits deriving from the service as and when provided by the entity;

• the entity's service creates or improves the activity (for example work in progress) that the customer controls as and when the activity is created or improved; or

• the entity's service does not create an activity that presents an alternative use for the entity and the entity has the enforceable right to payment for the completed service until the date considered.

The Group has assessed compliance with this provision as well as the consistency of the previous accounting model with the means of measuring project progress as permitted by IFRS 15. Projects are not usually multi-year and the payment conditions do not present significant financial components. Consequently there was no significant impact on profits and the composition of shareholders' equity with reference to the recognition of revenues from services for projects.

(c) Other aspects

(i) Principal vs agent considerations

The Group has not identified, in the commercial relationships currently in existence, situations in which the fee is definitively charged to distributors or retailers only once the product is provided to the end user. Otherwise, for the purposes of IFRS 15, definitive recognition of the fee only once the product is provided to the end user would have resulted in deferring recognition of the revenues until that moment.

(ii) Incremental costs

In accordance with IFRS 15 the entity must record, under assets, incremental costs for obtaining the contract with the customer, if it envisages recovering them. Incremental costs for obtaining the contract are costs that the entity incurs for obtaining the contract with the customer and that would not have been incurred if the contract had not been obtained (for example a sale commission). Costs for obtaining the contract that would have been incurred even if the contract had not been obtained must instead be recorded as expenditure at the moment at which they are incurred (unless they can be explicitly charged to the customer even if the contract is not obtained). For reasons of practical expedience, the entity can record incremental costs for obtaining the contract as expenditure at the moment at which they are incurred, if the amortisation period of the asset that the entity would otherwise have recorded does not exceed one year. In view of the above the TXT Group does not recognise commercial costs incurred under assets as they are considered mostly recurring in nature.

Sales of other assets

Revenues from the sale of licences or other capital goods are recognised when control of the goods passes to the customer. Generally, no unusual commercial deferment terms have been applied.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is measured using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is classified as financial income in the income statement.

COSTS

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

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

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

Government grants

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

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

INCOME TAXES

Current taxes

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and laws used to calculate the amount are those that have been enacted or substantively enacted by the end of the reporting period.

Current tax is recognised outside the income statement if the tax relates to items that are recognised outside the income statement, and is therefore recognised in equity or in other comprehensive income statement, consistently with the recognition of the item it relates to. Management periodically assesses the tax position taken in the tax return with respect to situations in which tax laws are subject to interpretation and makes provisions where appropriate.

Deferred tax

Deferred tax is calculated using the liability method on the temporary differences arising at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that it arises from:

- the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the reversal of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures that may be controlled and is unlikely to occur in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences as well as the unused tax losses and unused tax credits can be utilised, unless:

- the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the deferred tax asset for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures is recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed annually at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised outside the income statement if the tax relates to items that are recognised outside the income statement, and is therefore recognised in equity or in other comprehensive income statement, 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 the income statement, 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 the income statement;
- trade receivables and payables include the tax.

The net amount of indirect sales taxes that can be recovered from or paid to the tax authorities is recognised as part of trade receivables or payables, depending on whether the balance is positive or negative.

FAIR VALUE HIERARCHY

For measurements of financial instruments recognised in the balance sheet, IFRS 13 requires that fair value measurements be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are as follows:

- Level 1: quoted prices in an active market for assets or liabilities subject to measurement;
- Level 2: inputs other than quoted prices included within level 1 that are observable in the market, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data.

No transfers between hierarchical levels occurred during the financial year 2020.

Comparison between fair value and carrying amount of the TXT Group's financial instruments is provided in the table below, subdivided by hierarchy level:

Amounts in €	Notes	31.12.2020	Level 1	Level 2	Level 3
Financial assets for which the fair value is identified					
- other non-current financial assets		-	-	-	-
- HFT securities at fair value	8.10	68,160,917	8,286,822	-	59,874,095
- other short-term financial receivables		-	-	-	-
Total financial assets		**68,160,917**	**8,286,822**	**-**	**59,874,095**
Financial liabilities for which the fair value is identified					
- other non-current financial liabilities	8.13	27,398,338	-	22,454,121	4,944,217
- other current financial liabilities	8.16	30,634,969	-	29,674,969	960,000
Total financial liabilities		**58,033,307**	**-**	**52,129,090**	**5,904,217**

Non-current financial liabilities of Level 3 (note 8.13) include the debt for:

- Earn-Out Gruppo Assioma Net S.r.l. (long term portion);
- the TXT WORKING CAPITAL SOLUTIONS acquisition as an estimate of the additional outlay for exercising the PUT/CALL option in the period 2021-2025 to purchase the remaining 40% of the company’s shares;
- HSPI payable for “Restricted Share Price Adjustment”;
- the long-term portion of the Put/Call linked to the acquisition of TXT Risk Solutions S.r.l. as an estimate of the disbursements for the purchase of the residual minority interest.

Non-current financial liabilities of Level 2 (note 8.13) include the debt for:

- a payable for medium/long-term bank loans;
- a payable to the lessor for leases and rentals pursuant to IFRS 16;
- non-current monetary flow swaps.

While for *current financial liabilities* of level 3 (note 8.16) the following are included:

- Assioma Net S.r.l. Group Earn-Out (short term portion);
- the short-term portion of the Put/Call linked to the acquisition of TXT Risk Solutions S.r.l. as an estimate of the disbursements for the purchase of the residual minority interest.

While for *current financial liabilities* of level 2 (note 8.16) the following are included:

- the short-term portion of the payable to the lessor for leases and rentals pursuant to IFRS 16;
- the portion of short-term payable for bank loans.

The directors have furthermore checked that the fair value of cash and cash equivalents and short-term deposits, trade receivables and payables and other current assets and liabilities is close to the book value as a result of the short-term maturity of these instruments.

Use of estimate and discretionary assessments

The preparation of the consolidated financial statements and the relevant notes in conformity with IFRSs requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures relating to contingent assets and liabilities at the reporting date. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and any changes are immediately recognised in the income statement. Here below are the assumptions made about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenues from contracts with customers

The Group has carried out the following assessments, which have a significant impact on the determination of the amount and timing of revenue recognition from contracts with customers:

Identification of the performance obligation in a joint sale

The Group provides maintenance and assistance services to customers whom have been sold, either separately or together, licenses for use, as well as professional services.

The Group has determined that for the product types offered for which it is reasonable to expect that the customer requires a level of continuous involvement from the Group over a period of time, and which require a certain period of implementation by the customer, the maintenance and assistance service contract cannot be considered separately from the license contract, even if the latter exclusively envisages an up-front fee. The fact that the Group does not regularly grant the right to use its licences separately from the signing of a first maintenance contract, together with the consideration that maintenance services cannot reasonably be provided by other suppliers, are indicators that the customer does not tend to separately benefit from both products independently.

The Group, on the other hand, has established that professional services must be distinguished within the context of the contract and that a price must be independently allocable to them.

Determination of the method for estimating the value of the recognisable variable fee

In estimating any variable fee, the Group must use the expected value method or the most likely quantity method to estimate which method best determines the value of the fee to which it is entitled.

Before including any value of the variable fee in the transaction price, the Group shall assess whether a portion of the variable fee is subject to recognisability limits. The Group has determined that, on the basis of its past experience, economic forecasts and current economic conditions, the variable fee is not subject to uncertainties that could limit its recognisability. Furthermore, the uncertainty to which the variable fee is exposed will be subsequently resolved within a short period of time.

Considerations on the significant financing component in a contract

The Group does not usually sell with formal or expected extension of payment terms exceeding one year, for which it believes that there are no significant financing components in the commercial transactions.

Determination of the time frame for project service satisfaction

The Group has determined that the input method is the best method for determining the progress of services provided for projects (for example, the development of technological solutions, consultancy, integration services, training) since there is a direct relationship between the Group's activities (for example, the hours worked and costs incurred) and the transfer of the service to the customer. The Group recognises revenues on a cost-to-cost basis (versus the total costs expected to be incurred to complete the service). Depending on the contractual clauses, orders can be managed on a Time & Material or Fixed Price basis. With the former type, revenues are recognised on the basis of the hours actually spent on the project, calculated and accepted by the customer. The agreement with the customer is essentially based on a number of hours to be invested in the project, which can be revised, including upwards, depending on the actual use of resources. Revenues for Fixed Price orders, for which a price is fixed in advance with no subsequent adjustments, are instead determined by applying the completion percentage to the amount of the fee for the project. The calculation of the completion percentage, determined using the Cost to Cost method, i.e. the ratio between the costs incurred and the total expected costs, takes into account the hours spent by personnel involved in the project on the reference date and any other direct costs.

Impairment of non-financial assets

An impairment loss occurs when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is measured based on data available from binding sale agreements between knowledgeable, willing parties for similar assets or observable market prices, less the costs of disposal. Value in use is calculated using a discounted cash flow model. Cash flow projections are based on the plan for the next five years and include neither restructurings for which the Group does not have a present obligation, nor significant future investments that will increase the return on the assets of the cash-generating unit subject to measurement. The recoverable amount significantly depends on the discount rate used in the discounted cash flow model, as well as on the expected future cash inflows and the growth rate used to extrapolate.

Taxes

Deferred tax assets are recognised for all unused tax losses, to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. Management is required to make significant estimates to determine the amount of tax assets that can be recognised based on the level of future taxable profits, when they will arise, and tax planning strategies.

Pension funds

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation requires assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates, and future benefit increases. Because of the long-term nature of these plans, the estimates are subject to a significant degree of uncertainty. All assumptions are reviewed annually.

In determining the appropriate discount rate, the directors use the interest rate of corporate bonds with average terms corresponding to the estimated term of the defined-benefit obligation. The bonds are subject to further qualitative analysis and those that present a credit spread deemed excessive are removed from the population of bonds on which the discount rate is based, as they do not represent high-quality bonds.

The mortality rate is based on mortality tables available for each country. Future salary and benefit increases are based on the expected inflation rates for each country.

Fair value measurement of contingent considerations for business combinations

Contingent considerations associated with business combinations are measured at the acquisition-date fair value within the scope of the business combination. Whenever the contingent consideration is a financial liability, its value is subsequently re-measured as at each reporting date.

Fair value is measured using discounted cash flows. Key assumptions take account of the probability of achieving each performance objective and the discount rate.

4.1 Accounting standards and interpretations applied from 1 January 2020

The accounting standards adopted in preparing the condensed consolidated half-yearly financial statements are consistent with those used in drawing up the consolidated financial statements as at 31 December 2019 and illustrated in the Annual Financial Report under note 4 “Accounting standards and basis of consolidation”, with the exception of standards, interpretations and amendments, whose application is compulsory from 1 January 2020. Detailed descriptions of the newly applied standards, interpretations and amendments are provided below.

Moreover, there were no transfers of fair value among hierarchical levels during the first half of 2020 with regard to the existing financial instruments.

- Amendments to IFRS 3: definition of a business

The amendments to IFRS 3 clarify that, in order to be considered a *business*, an integrated set of activities and assets must include at least one input and an underlying process that, together, contribute significantly to the ability to create an output. Furthermore, it was clarified that a business can exist without including all inputs and processes necessary for creating an output. The Group's directors applied their judgment and took into account the updated definitions to identify and evaluate the business subject to a combination in the year as such. These amendments must also be considered at the time of upcoming acquisitions in order to evaluate whether the set of assets and activities acquired constitute a business or not pursuant to IFRS 3 and, subsequently, whether the acquisition method is deemed applicable.

- Amendments to IFRS 7, IFRS 9 and IAS 39: Reform of the interest rate benchmark

The amendments to IFRS 9 and IAS 39 Financial instruments provide a series of expedients, which apply to all hedging relations that are directly concerned by the reform of the interest rates benchmark. A hedging relationship is influenced if the reform generates uncertainties over the timing and/or extent of the cash flows based on the benchmarks of the hedged element or the hedging instrument.

The Group currently has the following hedges in place on floating interest rates linked to the Euribor:

• a € 14.0 million loan of the Parent Company with Unicredit, 5 years, with a quarterly amortisation plan, a floating interest rate and an Interest Rate Swap to hedge interest rate risk;
• a € 6.5 million loan of the Parent Company with BNL, 5 years, with a quarterly amortisation plan, a floating interest rate and an Interest Rate Swap to hedge interest rate risk.

The application of the expedients would allow, if the requirements of the standard are confirmed and the uncertainties over the hedged risk, the instrument or the underlying are resolved, the modification of the formal designation of a hedging relationship in response to a change in the reference benchmark rate without this constituting neither an interruption of the hedging relationship nor the designation of a new hedging relationship.

- Amendments to IAS 1 and IAS 8: definition of material

The amendments provide a new definition of materiality in which it is reiterated that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. These amendments had no impact on the consolidated financial statements and no future impact is expected for the Group.

5 Risk management

With regard to business risks, the main financial risks identified and monitored by the Group are as follows:

- Currency risk
- Interest rate risk
- Credit risk
- Liquidity and investment risk
- Other risks
    - (COVID-19)
    - Brexit

The Group is exposed to financial risks deriving from exchange rate and interest rate fluctuations, and from its customers' capacity to meet their obligations to the Group (credit risk).

Currency risk

The Group's exposure to currency risk derives from the different geographical distribution of the Group's production operations and commercial activities. This exposure is mainly the result of sales in currencies other than the functional currency (in 2020, 17.40% of the Group's revenues were earned outside Italy).
Given the exposure in currencies other than the relatively low functional currency, in 2020 the Group did not enter into forward sale contracts to mitigate the impact of exchange rate volatility on the income statement.
The Group also holds controlling interests in entities that prepare their financial statements in currencies other than the Euro – the Group's functional currency. This exposes the Group to a translation risk generated as a consequence of the conversion of those subsidiaries' assets and liabilities into Euro. Management periodically monitors the main exposures to translation risk; at present, the Group has chosen to not adopt specific hedging policies against such exposures.
The currencies other than the Euro are: the British Pound Sterling (0.3% of consolidated revenues as at 31 December 2020), the US Dollar (10.6% of consolidated revenues as at 31 December 2020), the Swiss Franc (6.5% of consolidated revenues as at 31 December 2020).
Indicated below are the effects on profit/loss for the year of a hypothetical appreciation/depreciation of currencies versus the Euro, other conditions being equal. The effects refer to companies outside the Euro area.

US Dollar	Increase/Decrease	Effect on profit (loss)
2020	+5%	(34,792)
	-5%	38,454

British Pound Sterling	Increase/Decrease	Effect on net profit (loss)
2020	+5%	(862)
	-5%	953

Swiss Franc	Increase/Decrease	Effect on profit (loss)
2020	+5%	(48,368)
	-5%	53,459

Interest rate risk

The Group's active financial exposure is subject to floating interest rates, and therefore the Group is exposed to the risk deriving from their fluctuation.

At the closing date of the financial year, the company had Interest Rate Swap derivative contracts in place to hedge the interest rate risk on financial payables. For further details, reference should be made to the IFRS9 Financial instruments section of these explanatory notes.

The table below shows the impact on the consolidated income statements, deriving from a 1% increase or decrease of the interest rates to which the Group is exposed with all other conditions being equal:

(Amounts in € thousands)	31.12.2020	Interest rate change	Financial income/charges
Net Financial Position (NFP)	22,060,118		
Fixed rate payables	58,033,307		
Financial exposure (floating rate)	(35,973,189)	+1%	(359,732)
		-1%	359,732

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 €	Concentration %
Total receivables due from customers	35,410,803	
Receivables due from customers (Top 5)	17,670,927	49.90%
Receivables due from customers (Top 10)	19,619,244	55.40%

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

Receivables from an important Italian customer operating in the Aerospace business account for 43% of the Group's total trade receivables. The first five and ten customers respectively account for 49.90% and 55.40% of the total trade receivables collectible.

Liquidity and investment risk

On the basis of cash and cash equivalents of € 11,932,508, and a positive Net Financial Position of € 22,060,118 (see note 11), the TXT e-solutions Group does not deem to be exposed to significant liquidity risks at present.

The net financial position (NFP) of the Group was positive at € 22,060,118.

The Group's financial instruments are exposed to market risk deriving from uncertainties around the market values of assets and liabilities produced by changes in interest rates, exchange rates and asset prices. The Group manages price risk through diversification and by setting individual or total limits on securities. Portfolio reports are regularly submitted to the Group's management. The Group's Board of Directors reviews and approves all investment decisions.

At the reporting date, the fair value of financial instruments was € 87 million. It should be noted that these instruments may be divested at any time, even before maturity, without incurring any charges.

Other risks

Covid-19

Covid-19, an infectious disease caused by a new virus, was declared a global pandemic by WHO on 11 March 2020. The measures to contain the spread of Covid-19 have had a significant impact on the global economy. Entities must consider the impacts of Covid-19 when preparing their financial statements.

The impact of Covid-19 may give rise to the need to apply further considerations in the areas subject to estimates and assessments. Given the evolution of Covid-19 and the limited experience with regard to the economic and financial impacts of the pandemic, changes in estimates in the measurement of assets and liabilities may also be necessary in the future.

The areas related to the preparation of the financial statements identified as potentially susceptible to greater impacts were:

• determination of expected losses on financial assets;

• impairment of both current (e.g. inventories) and non-current assets (e.g. tangible and intangible assets);

• recovery of assets due to deferred tax assets;

• revised estimates on the useful life and residual value of fixed assets;

• provisions for risks and liabilities deriving from contractual or criminal breaches.

Specific comments in relation to the individual areas are presented in the relevant notes where relevant.

With reference to the shares and contributions to which the company has had recourse or has had access, the following should be noted:

- In May 2020, TXT e-solutions S.p.A. and Assioma.Net S.r.l. requested and obtained, from the financial institutions with which they signed medium/long-term loan agreements, BNL, UBI and Unicredit, the deferment of the payment of solely the principal portions for the third and fourth quarters of 2020. This transaction will make it possible to deal with any delays in collections from customers with an impact on current operations;

- In 2020, the Group made use of social safety nets, in particular the Redundancy Fund: for a few months, the redundancy fund for the “Covid-2019 emergency” was activated in order to mitigate the effects of the pandemic, with the intention of returning to normal work once the events attributable to the health emergency are overcome.

Regarding operations, information is provided on the measures put in place, in line with the recommendation of WHO and national authorities, to preserve the health of its employees and support the prevention of contagion in their administrative and operating offices, such as work from home incentives, reduced shifts in operating areas to minimize the movement of workers, cleaning of work spaces, distribution of personal protective equipment, testing of suspicious cases and measurement of body temperature.

Brexit

The Group operates in the United Kingdom exclusively through its subsidiary TXT Next Ltd. Revenues from the United Kingdom's only end customers amount to € 1.306 thousand. The Group analysed the effects of Brexit and classified them as not being particularly significant.

6 Going concern

Pursuant to IAS 1, paragraph 25, the Directors, while preparing the financial statements as at 31 December 2020, have assessed that there are no material uncertainties regarding the Company's compliance with the going concern assumption.

Without prejudice to the inherent unpredictability of the potential impacts of the epidemic, management took into account the existing and foreseeable effects of the epidemic on the entity’s activities. In assessing the going concern assumption, management took into account all available information on the future that was obtained at a date after the end of the financial year pursuant to IAS 10. This information included, but was not limited to, measures undertaken by governments and banks to provide support to entities in difficulty.

In particular, in support of the assessment and conclusions reached on the going concern assumption, the directors highlighted that:

- The Group has a positive net financial position and the loans guarantee the Group's ability to meet liquidity needs;
- The resilience of the Group business model, based on a solid order portfolio and the relationship with large-scale customers, has enabled us to offset the slowdown in activities related to sectors hit particularly hard by the pandemic such as, for example, the "civil aviation" segment.

For further details on the performance of the period and the outlook of operations, refer to the *Directors' Report*.

7 Transactions with related parties

On 8 November 2010, the Board of Directors approved a new procedure governing transaction 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 in the "*Governance*" section.

Transactions with related parties essentially refer to the exchange of services, as well as funding and lending activities with the Parent Company's subsidiaries.

For the Group, related parties are:

a) Entities that, directly or indirectly, even through subsidiaries, trustees or third parties:

- control TXT e-solutions S.p.A.;
- are subject to joint control with TXT e-solutions S.p.A.;
- have an interest in TXT e-solutions S.p.A. such as to exercise a significant influence;

b) Associates of TXT e-solutions S.p.A.;

c) Joint ventures in which TXT e-solutions S.p.A. participates;

d) Managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies;

e) Close members of the family of parties referred to in the above points a) and d);

f) Entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights;

g) An occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity. The following tables show the overall amounts of the transactions carried out with related parties.

Trade transactions

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

As at 31 December 2020	Receivables	Payables	Costs	Revenues
HSPI S.p.A.	-	-	6,800	-

Directors and key management personnel	-	155,600	561,145	-
Total as at 31.12.2020	**-**	**155,600**	**567,945**	**-**

At 31 December 2019	Receivables	Payables	Costs	Revenues
HSPI	-	39,040	52,000	-
AN-LIGHT S.r.l.	-	-	1,500	-
Paradis S.r.l.	-	1,830	4,816	-
Directors and key management personnel	-	1,331,011	1,004,551	-
Total as at 31.12.2019	**-**	**1,371,881**	**1,062,867**	**-**

Financial transactions

The amounts with Related Parties as at 31 December 2020 are shown for financial transactions:

As at 31 December 2020	Receivables	Payables	Charges	Income
Directors and key management person-nel	-	-	-	-
Total as at 31 December 2020	**-**	**-**	**-**	**-**

At 31 December 2019	Receivables	Payables	Charges	Income
Sense-Immaterial Reality S.r.l.	-	-	-	38,804
Directors and key management person-nel	-	-	-	-
Total as at 31 December 2019	**-**	**-**	**-**	**38,804**

	Totale	Entità Correlate	Incidenza
Disponibilità liquide nette derivanti dall 'attività operativa	(1,158,520)	(1,216,281)	105.0%
Disponibilità liquide nette impiegate nell' attività di investimento	7,143,540	(6,745,750)	-94.4%
Disponibilità liquide nette impiegate nell' attività di finanziamento	(5,455,575)	0	0.0%

For further details, please refer to paragraph 2 “Acquisitions”, in particular HSPI S.p.A..

EXPLANATORY NOTES

8. Balance sheet

8.1 Goodwill

Goodwill increased net by € 10,791,640 compared to 31 December 2019. The increase is linked to the acquisition of TXT Working Capital Solutions S.r.l., Mac Solutions S.A. and HSPI S.p.A. described in paragraph 2. The increase due to new acquisitions shows a reduction in value with regard to the goodwill of TXT Risk Solutions S.r.l. against the write-down linked to the actual delay in the realization of the cash flows envisaged in the original plan.
A breakdown of the item as at 31 December 2020 and the comparison with 31 December 2019 is shown below:

Goodwill	Amount as at 31 December 2020	Amount as at 31 December 2019
Acquisition of PACE	5,369,231	5,369,231
Acquisition of Cheleo	6,002,072	6,002,072
Acquisition of TXT Risk Solutions	116,389	1,413,241

Acquisition of Assioma	6,855,129	6,855,129
Acquisition of Working Capital Solutions	2,724,056	-
Acquisition of Mac Solutions S.A.	1,891,867	-
Acquisition of HSPI S.p.A.	7,472,569	-
TOTAL GOODWILL	**30,431,313**	**19,639,673**

Goodwill derives from the acquisition of Pace, which took place in 2016, and the two acquisitions in 2018 of Cheleo S.r.l and TXT Risk Solutions S.r.l., and from the acquisition of the Assioma group in 2019 and TXT Working Capital Solutions S.r.l., Mac Solutions S.A. and HSPI S.p.A. in 2020, and was determined, in its various components, as follows:

- The goodwill of Pace of € 5,369 thousand derives from the acquisition price of € 9,097 thousand, net of the fair value of shareholders' equity on the acquisition date of € 1,352 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 1,112 thousand, "Intellectual property of software" of € 1,350 thousand and deferred tax assets and liabilities of € 86 thousand. The purchase price was determined by including the fixed price agreed in the contract and earn-outs linked to changes in variables such as revenues and EBITDA and by applying the corresponding multiples, and the other variable figures linked to PACE's greater available liquidity on the acquisition date. Furthermore, for the purpose of drafting the Consolidated Financial Statements, the directors had decided to classify the signing of the put/call option contract with PACE's minority shareholders as the acquisition of a present ownership interest in the residual 21% of PACE capital and consequently to designate the liabilities for exercising this option at fair value on the initial recognition date (obtained by means of maturity estimate based on forecast data and the updating of this estimate to take account of the time factor). This liability was extinguished during the year, with the exercise of the option, with the effects specified in note 8.16.

- Cheleo's goodwill of € 6,002 thousand, derives from the acquisition price of € 10,951 thousand, net of the fair value of shareholders' equity on the acquisition date of € 2,613 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 3,239 thousand and deferred tax of € 904 thousand.

- The goodwill of TXT Risk Solutions was impaired by € 1,296 thousand, which brought it to a value of € 116 thousand. The original goodwill of € 1,413 thousand derived from the acquisition price of € 1,910 - net of the fair value of shareholders' equity on the acquisition date of negative € 21 thousand, the valuation of intangible assets with a defined life "Intellectual Property" of € 287 thousand and the deferred tax assets of € 80 thousand.

- Assioma's goodwill of € 6,855 thousand derives from the acquisition price of € 10,882 thousand, net of the fair value of shareholders' equity on the acquisition date of € 3,439 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 822 thousand and deferred tax of € 229 thousand. It should be noted that, with the measurement period having elapsed, the preliminary allocation of the values was confirmed definitively by the directors in the current year.

- TXT Working Capital Solutions S.r.l.'s goodwill of € 2,724 thousand derives, as described in paragraph 2, from the acquisition price (not considering the increase in share capital with premium) of € 2,682 thousand, net of the fair value of shareholders' equity on the acquisition date of a negative € 42 thousand.

- MAC SOLUTIONS S.A.'s goodwill of € 1,892 thousand, as described in paragraph 2, derives from the acquisition price of € 6,382 thousand, net of the fair value of shareholders' equity on the acquisition date of € 2,015 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of € 3,432 thousand and deferred tax of € 958 thousand.

- HSPI S.p.A. goodwill of € 7,473 thousand derives, as described in paragraph 2, from the acquisition price of € 12,064 thousand, net of the fair value of shareholders' equity on the acquisition date of € 4,592 thousand.

Impairment test

Pursuant to IAS 36, goodwill is not subject to amortisation, but is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired. For the purposes of this test, goodwill is allocated to the cash-generating units or groups of cash-generating units, in compliance with the highest aggregation which shall not be larger than an operating segment as defined by IFRS 8.

The impairment test consists of measuring the recoverable value of each cash-generating unit and comparing the latter with the net carrying amount of the relevant assets, including goodwill. On 10 December 2020, the methodologies and projections on which the recoverable amounts were measured were approved by the Company's Board of Directors.

In 2020, considering the continuation of the strategy of growth by acquisitions, the Group started a process for the reorganisation of its segments and of the methods and processes for monitoring and analysing the results aimed at highlighting the contribution of each component to the Group's performance. Functional to this process was the transfer of the Banking & Finance business unit of TXT e-solutions S.p.A. to the subsidiary Assioma.Net and the amendment of the Parent Company's Articles of Association in order to also carry out holding activities. In this phase, Management, also taking into account the acquisitions of the year, deemed it appropriate to redesign the scope of the CGUs, so that each company was considered an independent CGU.

Due to the fact that the recent acquisitions are still being integrated and given the specific nature of some products, the reallocation of goodwill took place directly to the CGUs on the basis of the amounts originally arisen at the time of the acquisition of each company.

It should also be noted that it was decided not to carry out impairment on the goodwill not yet allocated definitively of TXT Working Capital, HSPI S.p.A. and Mac Solutions S.A. as at 31 December 2020 as they were acquired during the year and as the projections of the underlying cash flows did not show any changes with respect to those taken at the time of acquisition.

Assumptions made by management were used in making these forecasts, including an estimation of future sales volumes, direct and indirect costs, changes in the working capital and investments.

Terminal Value

The terminal value in the DCF method, recognised at the end of the explicit forecast period of 5 years, is calculated assuming the investment produces a constant cash flow starting from that moment. The approach used consisted of the present value of a perpetuity growing at a constant rate g.

Terminal value = net cash flow at the end of the explicit forecast period adjusted for rate g and divided by the difference between the discount rate (Wacc) and the constant rate g. The residual value is calculated as a perpetuity obtained by capitalising the last cash flow for the explicit period at a specific rate corresponding to Wacc adjusted for a growth or decline factor (g).

The rate g used was equal to 1.50%.

Discount rate

The discount rate used in discounting cash flows represents the estimated rate of return expected for each cash-generating unit on the market.

On the basis of the new structure, a discount rate used for the purposes of discounting cash flows for the **Pace CGU (consolidated)** of **8.52%** was calculated based on the following assumptions:

- the rates on German and US 10-year government bonds as at 31 December 2020 were used as the "Free Risk" rate, based on the relative contribution of each market to the weighted average plan results of 0.02%;
- The "Free Risk" weighted average rate was therefore calculated as shown in the following table: the risk premium relating to the market was estimated at 5.50%;

- An additional 3% risk was considered (based on sector studies), in order to align the WACC with that used by analysts;
- Beta was estimated at 1.00, in line with the previous year.

The cost of own capital is therefore: 0.02% + 3.00%+ 5.50%*1.00 = 8.52%.

The discount rate used to discount cash flows is 9.02%, for the **Cash Generating Unit of Cheleo S.r.l., Assioma.Net and TXT Risk Solutions S.r.l.** based on the following assumptions:

- the rate on 10-year Italian government bonds (BTPs) as at 31 December 2020 was used as the "Free Risk" rate, equal to 0.52%;
- The risk premium relative to the market was estimated at 5.50%;
- An additional 3% risk was considered (based on sector studies), in order to align the WACC with that used by analysts;
- Beta was estimated at 1.00, in line with the previous year.

The cost of own capital is therefore: 0.52% +3.00%+ 5.50%*1.00 = 9.02%.

The decision to consider own capital alone stems from the following considerations.

As at 31 December 2020, the TXT Group had a positive net financial position of € 22,060 thousand, which unlike other years, consists of medium/long-term bank debts and liquidity investments.

In consideration of the Net Financial Position, which remains largely positive and as a precaution, it was decided not to consider, for the purposes of determining the discount rate, medium/long-term loans as a source of financing for invested capital (which would have reduced the cost of capital, given that the loans have gross interest costs between 0.50% and 0.70%), but to consider the entire invested capital covered by equity and therefore calculate the cost of capital entirely consisting of the cost of own capital.

Sensitivity analysis

In order to test the fair value measurement model for changes in variables, changes in four key variables were simulated:

1. An increase in the interest rate used to discount cash flows by 200 bps, other conditions being equal (Pace CGU from 8.52% to 10.52% - Cheleo, Assioma, Risk CGU: from 9.02% to 11.02%);
2. A reduction in the growth rate in calculating the terminal value of 50 bps, other conditions being equal (from 1.50 to 1.00);
3. A reduction in the growth rate of revenues forecast in the business plan for each year of the 2021-2025 period of -75% for the Aerospace CGU and -50% for the Fintech CGU;
4. Reduction in the EBITDA Margin applied to the terminal value of 200 bps, other conditions being equal.

Using the variables indicated above, as those considered most sensitive in relation to the company plans, the recoverable value was recalculated in relation to the baseline scenario and the difference from the carrying value was determined. Below is a table summarising the differences in the various scenarios:

Amounts in € thousand	Recoverable value and carrying value (baseline) difference	Recoverable value and carrying value (post sensitivity) difference			
		Δ WACC	**Δ g-rate**	**Δ Revenue CAGR**	**Δ EBITDA Margin TC**
Assioma CGU	6,068	4,022	5,682	2,322	4,048
Cheleo CGU	2,101	899	1,872	953	1,649
TXT RISK CGU	(1,296)	(1,344)	(1,304)	(1,372)	(1,395)
Pace CGU	35,945	30,398	35,285	33,327	33,972

In all scenarios for Assiona, Cheleo and Pace the difference between the recoverable value and the net book value remains very positive.

The goodwill of TXT Risk Solutions S.r.l. was subject to an impairment test and was consequently written down by an amount equal to that resulting from the test, as shown in the first paragraph of this note.

8.2 Intangible assets with a finite useful life

Net of amortisation, intangible assets with a finite useful life amounted to € 7,221,447 as at 31 December 2020. The changes that occurred during the year are detailed below:

Intangible assets	Software licences	Development costs	Intellectual Property	Intangibles under construction	Customer Relationship	TOTAL
Balances as at 31 December 2019	**154,573**		**846,821**		**3,739,109**	**4,740,503**
Acquisitions	99,353	22,880	-	347,625	3,432,118	6,265,777
Disposals						
Amortisation	(79,673)	(4,368)	(250,257)	-	(1,086,245)	(1,420,543)
Other changes	(490)					(490)
Balances as at 31 December 2020	**173,764**	**18,512**	**596,564**	**347,625**	**6,084,982**	**7,221,447**

The breakdown of the item is as follows:

- Software licences: relate to software use licences acquired by the Company for the enhancement of software programs and for the development of advanced technologies for business purposes.

- Development costs: refer to the design and feasibility studies of the Bari (I-mole) project.

- Intangibles under constructions: this item refers to the capitalization of the costs of personnel employed in the development phases of the i-MOLE project.
  The Research & Development project, entitled "i-MOLE: Innovative - MObile Logistic Ecosystem", provides for the supply of innovative systems and specific support services for the logistics sector. The project is still in progress, and is expected to be completed by the end of the 2021 financial year.

- Intellectual Property and Customer Relationship: these intangible assets were acquired as part of company acquisitions.
  - The value of these assets relating to Pace was allocated in 2016 by the directors with the help of an independent expert and the useful life of the amortisation has been estimated at 7 years. Intellectual Property represents the intellectual property rights over the software developed and owned by Pace; the Pace Group's Customer Relationship was also considered in the allocation of the higher price paid. As at 31 December 2020, the residual value of the intellectual property in question was € 433,930, net of 2020 amortisation of € 192,857. The residual value as at 31 December 2020 of the Customer Relationship is equal to € 357,430 net of 2020 amortisation equal to € 158,857.
  - The value of Cheleo's Customer Relationship was allocated in 2018 with the help of an independent expert and the useful life of the amortisation has been estimated at 7 years. Customer Relationship was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2020 is equal to € 2,120,773 net of 2020 amortisation equal to € 462,714.
  - The value of the Intellectual Property of TXT Risk Solutions was allocated in 2018 by the directors with the help of an independent expert and the useful life of the amortisation has been estimated at 5 years. Intellectual property was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2020 is equal to € 162,633 net of 2020 amortisation equal to € 57,400.
  - The value of Assioma's Customer Relationship was allocated in the previous financial year with the help of an independent expert and the useful life of the amortisation has

been estimated at 3 years. Customer Relationship was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2020 is equal to € 365,333 net of 2020 amortisation equal to € 274,000.

- The value of Mac Solutions S.A.'s Customer Relationship was allocated in the financial year with the help of an independent expert and the useful life of the amortisation has been estimated at 9 years. Customer Relationship was valued as part of the allocation of the higher price paid. The residual value as at 31 December 2020 is equal to € 3,241,445 net of 2020 amortisation equal to € 190,673.

8.3 Tangible assets

Net of depreciation, tangible assets amounted to € 7,460,326 as at 31 December 2020. The changes during the half year and a summary schedule of the results of the application of the new standard are reported below:

Tangible fixed assets	Buildings (lease)	Vehicles (lease)	Electronic machinery (lease)	Buildings	Electronic machinery	Furniture and fixtures	Other tangible fixed assets	TOTAL
Balances as at 31 December 2019	**4,947,022**	**826,961**	**34,799**	**614,373**	**1,142,168**	**247,524**	**116,050**	**7,928,901**
Acquisitions	369,275	358,679	3,195		749,247	74,234	82,590	1,637,220
Disposals	(37,460)	(15,825)			(8,595)	(2,995)		(64,875)
Amortisation	(1,003,497)	(435,277)	(15,575)	(18,716)	(466,110)	(49,881)	(29,295)	(2,018,352)
Other changes	(5,982)	(1,313)		(16,640)	3,838		(2,525)	(22,568)
Balances as at 31 December 2020	**4,269,412**	**733,225**	**22,420**	**579,017**	**1,420,548**	**268,882**	**166,820**	**7,460,326**

Investments in the “Electronic machinery” category mainly refer to the purchase of computer systems and hardware to bolster productive capacity, in line also with the new acquisitions carried out during the year.

The increases in the “Buildings (lease)” category are mainly attributable to the right of use of the properties in Palermo for AssioPay S.r.l., in Seattle for Pace America Inc and the new lease for the Turin office. Moreover, the leases linked to the newly acquired Mac Solutions S.A. and HSPI S.p.A. must be considered.

The increases in the "Vehicles (lease)" category relate to TXT Group's vehicle fleet.

8.4 Investments in associates

On 27 November 2019, TXT sold its equity investment in the start-up Sense immaterial Reality S.r.l., representing 24% of its share capital, for a total value of € 48,000 to its shareholder Alvise Braga Illa, generating a sale proceeds of € 38,804 reported in the comparative income statement.

8.5 Sundry receivables and other non-current assets

“Sundry receivables and other non-current assets” as at 31 December 2020 amounted to € 227,066 compared with € 258,607 as at 31 December 2019. 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.

8.6 Deferred tax assets/liabilities

The breakdown of deferred tax assets and liabilities as at 31 December 2020, compared to the figures as at the end of 2019, is shown below:

	Balances as at 31 December 2020	Balances as at 31 December 2019	Change
Deferred tax assets	2,072,381	2,066,759	5,622
Deferred tax provision	(1,864,250)	(1,279,762)	(584,489)

Total	208,131	786,996	(578,867)

Deferred tax assets mainly refer to the Revenue Recognition according to IFRS15 of the licences of Boeing and America Airlines with respect to the criteria adopted for tax purposes in the relevant foreign jurisdiction.

The deferred tax provision mainly refers to the recognition of deferred taxes on assets acquired in 2016 with the acquisition of Pace GmbH (Customer List and Intellectual Property), in 2018 with the acquisition of Cheleo (Customer List), with the acquisition of TXT Risk Solutions (Intellectual Property), with the acquisition in 2019 of the Assioma Group and of HSPI e Mac Solutions S.A. (Customer List) in 2020.

The total net change of € 578,867 is the result of different movements: a) provision for deferred tax assets on revenues deriving from the application of the new international accounting standard IFRS 15; b) deferred taxation on the assets acquired during the year; c) provision for deferred tax assets on the prior losses of TXT Risk Solutions S.r.l. and TXT Working Capital S.r.l..

The temporary differences of deferred tax assets and liabilities are shown by type in the tables below and compared with the previous year's figures:

	31 December 2019		Change	31 December 2020	
Deferred tax assets	**Temporary differences**	**Tax effect**	**Temporary differences**	**Temporary differences**	**Tax effect**
Recoverable losses (Risk and Wks)	526,189	126,285	(933,551)	1,459,740	350,338
Provisions	118,905	28,537	-	118,905	28,537
Provision for bad debts	355,280	85,267	96,532	258,748	62,100
Write-down on treasury shares	244,664	58,719	-	244,644	58,719
Fair Value MTM Interest Rate Swap	208,875	50,130	49,681	159,194	38,207
Costs allocated on an accrual basis and deductible on a cash basis	166,674	40,002	(195,582)	362,256	86,941
Revenue Recognition IFRS 15	5,561,862	1,668,559	742,964	4,818,898	1,445,669
Other	38,729	9,260	30,937	7,792	1,870
Total	**7,221,178**	**2,066,759**	**(209,018)**	**7,430,196**	**2,072,381**

	31 December 2019		Change	31 December 2020	
Deferred tax liabilities	**Temporary differences**	**Tax effect**	**Temporary differences**	**Temporary differences**	**Tax effect**
Customer Relationship + Intellectual Property (PACE PPA)	1,063,057	318,917	271,699	791,357	220,789
Customer Relationship (CHELEO PPA)	2,583,484	720,792	462,712	2,120,772	591,695
Intellectual Property (TXT Risk Solutions PPA)	220,032	61,389	57,399	162,634	45,375
Assioma (Customer Relationship)	639,337	178,375	274,000	365,337	101,929
MAC SOLUTIONS S.A. (Customer Relationship)	-	-	(3,241,445)	3,241,445	904,363
Other	1,032	288	677	355	99
Total	**4,506,942**	**1,279,762**	**(2,174,958)**	**6,681,900**	**1,864,250**

Not all changes in equity were offset by the income statement. For further details, reference should be made to note 8.12 on shareholders' equity and taxes in the income statement, note 9.7.

8.7 Contractual assets

Contractual assets as at 31 December 2020 amounted to € 4,749,088 and recorded an increase of € 593,457 compared with the end of 2019.

Contract work in progress is recognised on the basis of the stage of completion, using the cost-to-cost method for each order. This is mainly attributable to the Parent Company, and relates to a multitude of projects.

8.8 Trade receivables

Trade receivables as at 31 December 2020, net of the provision for bad debts, amounted to € 35,410,803, up € 16,040,205 compared with the end of 2019.
The average DSO for the year in 2020 is higher than at the end of the previous year, due to the average delay in collections in view of the temporary situation.
The item is detailed in the table below:

Trade receivables	31 December 2020	31 December 2019	Change
Gross value	35,999,872	19,725,878	16,273,995
Provision for bad debts	(589,069)	(355,280)	(233,790)
Net value	**35,410,803**	**19,370,598**	**16,040,205**

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

Provision for bad debts	31 December 2020
Opening amount	**(355,280)**
Allocation	(233,790)
Use	-
Closing amount	**(589,069)**

The breakdown of trade receivables into coming due and past due as at 31 December 2020, compared to 31 December 2019, is shown below:

Due date	Total	Coming due	Past due	
			0-90 days	More than 90 days
31 December 2020	**35,410,803**	23,597,405	7,180,535	4,632,863
31 December 2019	**19,370,598**	14,696,990	3,951,705	721,903

Trade receivables increased compared to 2019, but considering the breakdown of the receivables portfolio by past due brackets and in particular the concentration of receivables on large customers with an established presence on the national and international market, the bad debt provision is adequate.

8.9 Sundry receivables and other current assets

The item "Sundry receivables and other current assets", which included receivables for research grants, tax and other receivables, as well as accrued income and prepaid expenses, amounted to € 5,782,069 as at 31 December 2020, compared to € 4,779,327 as at 31 December 2019. The breakdown is shown below:

Sundry receivables and other current assets	31 December 2020	31 December 2019	Change
Receivables for research grants	1,724,494	1,056,392	668,102
Tax receivables	1,315,339	1,576,414	(261,075)
Other receivables	821,049	820,333	716
Other current assets	1,921,187	1,326,188	594,999
Total	**5,782,069**	**4,779,327**	**1,002,742**

The item "receivables for research grants" includes receivables for research financed by various institutes relating to contributions to expenditure to support research and development activities, subject to specific grant competitions; such grants will be disbursed upon completion of the development stages for the projects concerned.

The decrease in the item tax receivables, amounting to € 261,075, is due mainly to the collection of the receivables due from taxation authorities for IRES credit deriving from the tax-deductibility of IRAP on personnel costs relating to the years 2007-2011 amounting to € 405,147.

Other current assets, amounting to € 1,921,187, consist of accrued income and prepaid expenses (adjustments of costs paid in advance not pertaining to the period).

8.10 Financial instruments at fair value

As at 31 December 2020, this item included "Financial instruments at fair value" of € 68,160,916 million. In particular, the net change with respect to 31 December 2019 is attributable primarily to the partial disinvestments carried out in the period.

They consist of investments in multi-segment life insurance contracts with partially guaranteed capital for a fair value of € 59,874,094 bond loan for € 501,000, treasury management for € 7,785,822.

The figure reported by the issuer was adopted as confirmation of the fair value, where possible (level 1 instruments) comparing this with the market values.

8.11 Cash and cash equivalents

The Group's cash and cash equivalents amounted to € 11,932,508 (€ 11,426,083 as at 31 December 2019). Please refer to the statement of cash flows for details about cash flow generation and changes.

The main impacts, aside from the operating flow in the year, concern:

- disinvestment in financial instruments (note 8.10);
- operations in treasury shares (note 8.12);
- obtainment of loans and settlement of financial liabilities (notes 8.13 and 8.16).

Cash and cash equivalents refer to ordinary current accounts held with Italian banks, amounting to € 8,276,993, as well as with foreign banks for € 3,648,473.
Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability in Italy.

8.12 Shareholders' Equity

The Company's share capital as at 31 December 2020 consisted of 13,006,250 ordinary shares with a par value of € 0.5, totalling € 6,503,125.

The reserves and retained earnings include the legal reserve (€ 1,300,625), the share premium reserve (€ 11,818,224), the merger surplus reserve (€ 1,911,444), the reserves for actuarial differences on post-employment benefits (negative € 1,105,085), the “Cash flow hedge reserve” (negative by € 127,654 net of the related tax effect), the translation reserve (€ 4,884), the reserve for stock options (€ 56,421) and reserves for retained earnings (€ 60,617,969).

Shareholders' Equity attributable to minority interests amounted to € 409.158.

Description	Free	Required by Law	Established by Shareholders' Meeting	TOTAL
Share premium reserve	11,818,224	-	-	11,818,224
Legal reserve	-	1,300,625	-	1,300,625
Merger surplus	-	-	1,911,444	1,911,444
Reserve for actuarial differences on post-employment benefits	-	-	(1,105,085)	(1,105,085)
IRS Fair Value	(127,654)	-	-	(127,654)
Reserve for retained earnings	-	-	60,617,969	60,617,969
Stock option reserve	-	-	56,421	56,421
Translation reserve	-	-	4,884	4,884
Total	**10,628,463**	**1,300,625**	**61,617,428**	**74,476,828**

Incentive plans

The Shareholders' Meeting held on 18 April 2019 approved a stock option plan for the Group's executive directors and senior managers, involving up to 600,000 shares subject to the achievement of specific performance objectives, such as performance of revenues, profit or specific individual performance objectives.

On 27 May 2019, the Board of Directors, upon favourable opinion by the Remuneration Committee, assigned 135.00 options for the purchase of an equal number of shares of the company to 8 individuals, comprising executive directors, managers with strategic responsibilities and other directors and managers of the Group, for the period 2019-2021, at the exercise price of € 8.67.

During the year, 27,000 options were cancelled following the exit of two Group executives.

S.G. PLAN 2019-2021				
Options		**2019**	**2020**	**2021**
(i)	Outstanding at the start of the year/period	0	135,000	108,000
(ii)	granted during the year/period	135,000	0	0
(iii)	forfeited during the year/period	0	(27,000)	0
(iv)	exercised during the year/period	0	0	0
(v)	expired during the year/period			
(vi)	outstanding at the end of the year/period	135,000	108,000	108,000
(vii)	exercisable at the end of year/period	0	0	108,000

Treasury shares

On 10 January 2020, the share price of TXT e-solutions reached an official high of € 10.10 and a low of € 4.63 on 18 March 2020. On 31 December 2020, the share price was € 7.88, € 1.78 below the value of € 9.66 recorded as at 31.12.2019. Average daily trade volumes on the stock market in 2020 amounted to 24,990 shares, a slight increase against the daily average of 22,878 shares in the previous year.

As at 31 December 2020, 1,401,429 treasury shares were held (1,220,971 as at 31 December 2019), accounting for 10.78% of shares outstanding, at an average carrying amount of € 3.75 per share. In 2020, 727,945 treasury shares were purchased at an average price of € 7.31.

8.13 Non-current financial liabilities

"Non-current financial liabilities" amounted to € 27,398,338 (€ 32,029,003 as at 31 December 2019).

Non-current financial liabilities	31 December 2020	31 December 2019	Change
Payable for Assioma Earn-Out	1,592,352	2,369,408	(777,056)
Debt Guaranteed Price	496,339	-	496,339
WKS put-call payable	2,713,526	-	2,713,526
TXT RISK put/call payable	142,000	1,617,121	(1,475,121)
Bank loans	18,671,170	23,268,457	(4,597,287)
Non-current monetary flow swaps	203,099	256,997	(53,898)
Non-current payables to suppliers for leasing	3,579,852	4,517,020	(937,168)
Total non-current financial liabilities	**27,398,338**	**32,029,003**	**(4,630,664)**

This item includes: a) the payable for € 1,592,352 for the earn-out to be paid to Assioma shareholders on verification of the contractual conditions; b) the valuation of the payable for the Put/Call option for € 2,713,526 for the acquisition of TXT Working Capital Solutions S.r.l., as an estimate of the additional outlay for exercising the put/call option in the period 2021-2025 for the purchase of the remaining 40% of the interest in the company; c) the non-current portion of bank loans entered into in 2018 for € 18,671,170; d) the payable for the hedging against interest rate risk (fair value Interest Rate Swap) for € 203,099; e) the non-current portion of the financial debt of € 3,579,852 pursuant to IFRS 16; f) the liability related to the Restricted Share Price Adjustment for the acquisition of HSPI S.p.A.; g) the long-term portion of the Put/Call related to the acquisition of TXT Risk Solutions S.r.l. as an estimate of the disbursements for the purchase of the residual minority interest.

Note that to calculate the present value of the liabilities related to the lease agreements within the scope of IFRS 16, in the absence of a readily available implicit rate, the present value of the liabilities was determined using the Group's marginal lending rate, taking into account the duration, amount funded and underlying asset for each type of contract. The Group has established that the differences between the rates to be applied for the different contract categories do not lead to significant differences in impact.

In May 2020, TXT e-solutions S.p.A. and Assioma.Net S.r.l. requested and obtained, from the financial institutions with which they signed medium/long-term loan agreements, BNL, UBI and Unicredit, the deferment of the payment of solely the principal portions for the third and fourth quarters of 2020. This transaction will make it possible to deal with any delays in collections from customers with an impact on current operations.

The loans referred to in point a) consist of:

- A loan for € 20,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.53% spread, granted to the parent company on 01.08.2018 by UNICREDIT S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.17% per annum. As at 31 December, the residual portion amounted to € 13,026,139, the non-current portion was € 9,028,460.

- A loan for € 10,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.60% spread, granted to the parent company on 27.07.2018 by BANCA NAZIONALE DEL LAVORO S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.08% for a quarter. As at 31 December, the residual portion amounted to € 6,500,000, the non-current portion was € 4,500,000.

- A loan for € 10,000,000.00 at a fixed rate of 0.50%, granted to the parent company on 01.08.2018 by UNIONE DI BANCHE ITALIANE S.p.A.. As at 30 June, the residual portion amounted to € 6,022,407, the non-current portion was € 3,354,112.

- A loan for € 1,700,000 at a 3-month EURIBOR floating rate (360) + 1% spread, granted to Assioma.Net S.r.l. on 01.10.2018 by BANCA NAZIONALE DEL LAVORO S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.68% for a quarter. As at 31 December, the residual non-current portion amounted to € 1,204,166.

- A loan for € 1,100,000 at a 3-month EURIBOR floating rate (360) with a minimum of 1% paid to Assioma.Net S.r.l. on 17.07.2019 by BANCA NAZIONALE DEL LAVORO S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at -0.20% for a quarter. As at 31 December, the residual non-current portion amounted to € 458,333.

- A loan for € 500,000 at a 3-month EURIBOR floating rate (360) + 0.75% spread, granted to Assioma.Net S.r.l. on 29.06.2017 by BANCA NAZIONALE DEL LAVORO S.P.A.. As at 31 December, the residual, short-term portion amounted to € 125,000.

- A loan for € 800,000 at a fixed rate of 1.00%, disbursed by INTESA SANPAOLO S.P.A.. As at 31 December 2020, the residual current portion amounted to € 667,221.

- A loan for € 500,000, interest rate fixed portion 1.10%, variable portion EURIBOR 3 months (360) - 0.32%, disbursed on 27.06.2019 by INTESA SANPAOLO S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0,15% per annum. As at 31 December 2020, the residual portion amounted to € 166,988.29, the non-current portion was € 126,098.

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

- financial covenants based on which the company undertakes to comply with certain levels of financial indexes, contractually defined, the most significant of which relate the gross or net financial indebtedness with the gross operating margin (EBITDA) or the Shareholders' equity, measured on the basis of the consolidated scope of the Group according to the definitions agreed upon with the financing counterparties;
- negative pledge commitments pursuant to which the company may not create security interests or other restrictions on the corporate assets;
- pari-passu clauses based on which the loans have the same degree of priority for their repayment as the other financial liabilities and clauses for change of control, which are activated in the event of a divestment by the majority shareholder;
- limitations to the extraordinary transactions that the company can carry out, if exceeding certain thresholds;
- some obligations toward the issuers, which may make the distribution of reserves or capital, inter alia, subject to prior notification to and consent by the lending party; certain extraordinary transactions; certain transactions for the transfer or assignment of its assets.

The measurement of financial covenants and other contractual obligations is constantly monitored by the Group (annually). These were respected at the measurement date.

Details are presented below:

UNICREDIT S.P.A. Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	8,022,989	8,013,772	(9,271)
Maturity 2-5 years	1,005,470	3,014,678	(2,009,208)
Total	**9,028,460**	**11,028,450**	**(1,999,990)**

BANCA NAZIONALE DEL LAVORO S.P.A. Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	4,000,000	4,000,000	
Maturity 2-5 years	500,000	1,500,000	(1,000,000)
Total	**4,500,000**	**5,500,000**	**(1,000,000)**

UNIONE BANCHE ITALIANE S.P.A. Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	3,354,112	4,690,008	(1,335,896)
Maturity 2-5 years	-	-	-
Total	**3,354,112**	**4,690,008**	**(1,335,896)**

BANCA NAZIONALE DEL LAVORO (Assioma) Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	1,025,000	1,270,833	(245,833)
Maturity 2-5 years	637,500	779,166	(141,666)
Total	**1,662,500**	**2,050,000**	**387,500**

INTESA Mortgage (HSPI)	31.12.2020	31.12.2019	Change
Maturity 1-2 years	126,098	-	126,098
Maturity 2-5 years	-	-	-
Total	**126,098**	**-**	**126,098**

The table required by IAS 7 on changes in liabilities linked to financing activities is provided below.

	01.01.2020	Cash flows	Reclassify Current - Non-Current	Business Combinations IFRS 3	Change in fair value	Interest	New funding	31.12.2020
Payable for WKS PUT/CALL option	-	-		-	-	31,100	2,682,426	2,713,526
Payable for TXT RISK Put/CALL option	1,617,121	-	(160,000)	-	(1,330,780)	15,659	-	142,000
Debt Guaranteed Price							496,339	496,339
Payable for Assioma Earn-Out	2,369,408	-	(800,000)	-	-	22,944		1,592,352
Obligations for financial leases and rental contracts with purchase option - NON-current	4,517,020	-	(1,468,734)		-		531,565	3,579,850
Interest-bearing loans and financing - NON-current	23,525,455	-	(4,723,384)		(53,898)		126,097	18,874,271
Total liabilities deriving from financial assets	**32,029,003**	**-**	**(7,152,118)**		**(1,384,678)**	**69,703**	**3,836,427**	**27,398,338**

8.14 Provision for post-employment benefits and other employee provisions

The “Employee benefits expense” item at 31 December 2020 amounted to € 2,757,450, relating mainly to obligations to employees of the Parent Company.

The breakdown of and changes in the Post-employment benefits/Severance for end of term of office item over the period are presented below:

Provision for post-employment benefits and other employee provisions	31 December 2019	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	30 June 2020
Post-employment benefits	1,902,845	1,612,377	(797,752)	32,810	7,171	2,757,450
Provision for severance for end of term of office	1,207,217		(1,207,217)			-
Total provisions for employee benefits	**3,110,062**	**1,612,377**	**(2,004,969)**	**32,810**	**7,171**	**2,757,450**

Post-employment benefits for personnel of € 2,757,450 as at 31 December 2020 (€ 1,902,845 as at 31 December 2019) were measured as a defined benefit provision.

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

	2020.12	2019.12
Provision for post-employment benefits	**2,406,535**	**1,708,895**
Current cost	(20,304)	(8,824)
Financial charges	7,171	17,836
Actuarial differences	32,810	12,682
Actuarial differences following acquisitions (HSPI S.p.A.)	137,289	38,897
Retained earnings	193,949	133,359
Total	**2,757,450**	**1,902,845**

To calculate the present value of post-employment benefits, the following assumptions regarding the future trends in the variables included in the algorithm have been used:

• The probability of death was estimated based on the census of the Italian population by age and gender taken in 2000 by ISTAT [Italy's National Institute for Statistics], reducing it by 25%.

• The probability of removal due to total and permanent disability of the employee, such as 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 8% staff turnover rate was calculated.

• As for the probability of requests for advance payment of benefits in TXT, an annual 2.00% advance payment rate was estimated, with advance payments amounting to 70% of the post-employment benefits outstanding held with the company.

The estimated trend in salaries of an annual nominal all-inclusive 2% has only an impact on the valuation for the companies AssioPay and Cheleo. Future salaries do not have an impact on the valuation of TXT and Assioma.Net.

The estimated inflation rate used for measurement purposes was 1.0% per year.

The discount rate used for the valuation of TXT was -0.0231% per year, i.e. the rate on Bonds issued by AA-rated European Companies as at 31 December 2020 with maturities of between 7 and 10 years. The average duration of the liability was calculated at 7.9 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 € 2.757.450):

Sensitivity analysis as at 31 December 2020	% Change in liabilities (DBO)			
Type of change for the specific assumption	Decrease	Increase	Decrease	Increase
Decrease or increase of 50% in company staff turnover	3.01%	-2.14%	2,840,449	2,698,441
Decrease or increase of 50% in frequency of advance payments	0.21%	-0.14%	2,763,241	2,753,590
Decrease or increase of inflation by one percentage point	-0.73%	0.74%	2,737,321	2,777,855
Decrease or increase of discount rate by one percentage point	1.36%	-1.32%	2,794,951	2,721,052

The payable for severance for end of term office, relating to the fee for the Chairperson of the Board of Directors to be paid when the term of office ends, was paid at the end of the term of office.

8.15 Provisions for future risks and charges

“Provisions for future risks and charges” as at 31 December 2020 amounted to € 118,905 and mainly includes provisions for contingent liabilities of a contractual nature.

8.16 Current financial liabilities

The “current financial liabilities” item amounted to € 30,634,969 (€ 25,305,617 as at 31 December 2019).

Current financial liabilities	31 December 2020	31 December 2019	Change
Bank loans	28,181,251	17,353,014	10,828,237
IFRS 16 loans	1,493,718	1,304,999	188,719
Pace Put/Call option	-	5,920,000	(5,920,000)
TXT RISK Put/Call option	160,000	-	160,000
Short term Assioma Earn-Out	800,000		800,000

Short-term Cheleo Earn-Out	-	727,604	(727,604)
Total current financial liabilities	**30,634,969**	**25,305,617**	**5,329,352**

The item Bank loans, amounting to € 28,181,251, includes:

- the short-term portion of medium/long-term loans, and in particular primarily includes the following:
  - € 3,997,680 on the loan granted by UNICREDIT S.P.A.
  - € 2,668,293 on the loan granted by UNIONE BANCHE ITALIANE S.P.A.
  - € 2,000,000 on the loan granted by BANCA NAZIONALE DEL LAVORO S.P.A.
  - Short-term payables due to banks/hot money of € 17,900,000
  - € 775,000 on the loan granted by BANCA NAZIONALE DEL LAVORO S.P.A. for the Assioma Group
  - € 834,250 on the loan granted by BANCA INTESA for HSPI S.p.A.

The payable for the earn-out relating to the liability for the shareholders of Cheleo and the payable for the Put/Call option relating to the liability connected with the Pace Group were paid in the first half of 2020.

The short-term Earn-Out of Assioma includes the portion of € 800,000 maturing in June 2021.

The IFRS 16 Loans item includes € 1,493,718 of payable to the Lessors due to the application of IFRS 16, relating to the amount due within 12 months.

The table required by IAS 7 on changes in liabilities linked to financing activities is provided below.

	1 January 2020	Decision on distribution of dividends	Cash flows	FV change	Reclassify Current – Non-Current	Interest	New loan agreements	30.06.2020
Interest-bearing loans and borrowings - current portion	9,453,014	-	(4,729,356)	-	4,723,284		834,209	10,281,251
Pace Put/Call payable	5,920,000	-	(5,100,000)	(820,000)	-	-	-	-
"Hot Money"	7,900,000	-	(6,000,000)	-	-		16,000,000	17,900,000
Assioma put-call payable					800,000			800,000
Obligations for financial leases and rental contracts - current portion	1,304,999	-	(1,540,393)		1,468,734	54,060	206,317	1,493,719
RISK Put/Call Payable					160,000			160,000
Cheleo Earn-Out payable	727,604	-	(727,604)					-
Total liabilities deriving from financial assets	**25,305,617**	**-**	**(18,097,353)**	**(820,000)**	**7,152,118**	**54,060**	**17,040,527**	**30,634,969**

8.17 Trade payables

Trade payables amounted to € 4,176,210 as at 31 December 2020 and increased by € 2,054,004 compared to 31 December 2019. Payables due to suppliers are of a trade, non-interest bearing nature and are due within twelve months.

8.18 Tax payables

Tax payables as at 31 December 2020 totalled € 3,282,649 and refer to VAT payables of the subsidiary PACE GmbH and income taxes of the parent company and other Group companies net of advances paid during the year.

8.19 Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 17,351,970 as at 31 December 2020, compared with € 12,687,975 as at 31 December 2019, as detailed in the table below:

Sundry payables and other current liabilities	31 December 2020	31 December 2019	Change
Other payables	1,586,186	1,594,516	(8,330)
Accrued expenses and deferred income	4,286,727	3,493,160	793,567
Advance payments for multi-year orders	4,151,971	1,469,995	2,681,976
Payables due to social security institutions	1,860,972	1,722,238	138,734
Payables due to employees and external staff	5,466,112	4,408,065	1,058,047
Sundry payables and other current liabilities	**17,351,970**	**12,687,975**	**4,663,995**

“Other payables” mainly included the payables due to taxation authorities for withholding taxes on salaries of employees and external staff, VAT payables, and payables on cost accounting of ongoing projects and funded research projects.

The item “Accrued expenses and deferred income” essentially referred to adjustments to maintenance and service invoices made to recognise only revenues for the period.

The item “Advance payments from customers for professional services” included the advance payments received from customers against orders currently being processed.

The item “Payables due to employees and external staff” included payables for wages and salaries relating to December 2020 as well as payables due to employees for unused annual leave.

9. Income Statement

9.1 Total revenues and other income

Consolidated revenues and other income amounted to € 68,752,872 (€ 59,090,675 as at 31 December 2019), up 16.26% compared with the previous year, as detailed below:

	31 December 2020	31 December 2020	Change	% change
Revenues and other income	68,752,872	59,090,675	9,662,197	16%
Total	**68,752,872**	**59,090,675**	**9,662,197**	**16%**

The increase compared to 31 December 2020 is mainly due to the consolidation of Assioma for the entire year, of Mac Solutions S.A. and of HSPI S.p.A.. A breakdown of revenues into categories, that essentially reflect how their nature, total, distribution over time and any uncertainties affect the recognition of revenues and related cash flows, as well as the analysis of changes and performance compared to the first half of the previous year, is described in the *Directors' Report* to which reference should be made for further details.

9.2 Purchases of materials and external services

Purchases of materials and external services amounted to € 15,183,289, up from 2019, when they totalled € 12,598,386.

The item is detailed below:

	31 December 2020	31 December 2019	Change
Consumables and resale items	1,632,214	1,562,874	69,340
Technical consulting	7,971,146	5,327,360	2,643,786
Travel expenses	715,563	1,525,020	(809,457)
Utilities	522,365	496,920	25,445
Media & marketing services	357,391	414,820	(57,429)
Maintenance and repair	930,854	758,926	171,928
Canteen and ticket services	496,585	711,404	(214,819)
Administrative and legal services	1,263,055	658,129	604,926
Directors' fees	1,245,682	1,113,896	131,786

Subcontractors	48,436	29,036	19,400
Total	**15,183,289**	**12,598,386**	**2,584,906**

As a percentage of consolidated revenues, costs for purchasing materials and services were 22.10%, in line with the previous year (21.32% as at 31 December 2019).

The overall change of € 2,584,906 compared to 31 December 2019 is mainly due to the increase of technical consulting costs of the parent company and of the subsidiaries.

There was a significant reduction in travel and business trips item, by virtue of the restrictions imposed by the global situation linked to the Covid-19 pandemic.

There was an increase in directors' remuneration. For further details, reference should be made to the Remuneration Report.

9.3 Personnel costs

Personnel costs for 2020 amounted to € 45,102,515, growing by € 5,512,153 (14%) compared to 31 December 2019.

This increase is mainly due to the consolidation of the subsidiaries (Mac Solutions S.A., HSPI S.p.A. and TXT Working Capital Solutions S.r.l.) and the expansion of the workforce.

This item includes *non-recurring reorganisation costs* for personnel of € 592 thousand.
For further details see the Directors' Report and paragraph 12 of these notes.

	31 December 2020	31 December 2019	Change
Wages and salaries	33,794,409	30,195,915	3,598,494
Social security costs	8,596,644	7,688,487	908,157
Provision for post-employment benefits and other pension funds	1,612,377	1,471,791	140,586
Other personnel costs	1,099,085	255,722	843,363
Total	**45,102,515**	**39,611,915**	**5,490,600**

The employees of the TXT Group, excluding directors and external consultants, numbered 996 as at 31 December 2020 (786 as at 31 December 2019), with an increase of 210 employees.

	Office workers	Managers	Executives	Total
31.12.2018	491	31	12	534
31.12.2019	726	52	8	786
31.12.2020	907	69	20	996

9.4 Other operating costs

“Other operating costs" in 2020 amounted to € 497,470, compared to € 593,609 in 2019, a decrease of € 96,143 compared to the same period of 2019.

This item mainly included expenses for miscellaneous rentals, not recognised in the accounts according to IFRS 16 and sundry operating costs (including contingent liabilities and deductible taxes).

	31 December 2020	31 December 2019	Change
Rental expense for premises and condominiums	58,424	95,231	(36,807)
Rental expense for motor vehicles	65,673	74,910	(9,237)
Contingent liabilities	112,414	54,712	57,702
Other operating costs	260,957	368,756	(107,801)
Total	**497,470**	**593,609**	**(96,143)**

9.5 Depreciation, amortisation and impairment

Amortisation, depreciation and impairment in 2020 amounted to € 4,818,893. In detail, € 3,438,897 is attributable to amortisation for the period, the remaining € 1,379,996 refers mainly to the write-down of the goodwill of TXT Risk (€ 1,296,852).

The increase is due to the consolidation of the subsidiaries Mac Solutions S.A. and HSPI S.p.A..

Amortisation	31.12.2020	31.12.2019
Intangible assets		
Software licences	79,673	87,812
Research and development	4,368	
Intellectual Property	250,257	250,257
Customer Relationship	1,086,245	804,238
Total intangible assets	**1,420,543**	**1,142,307**
Tangible assets - IFRS16 leases		
Buildings	1,003,497	634,652
Vehicles	435,277	432,594
Electronic machinery	15,575	18,087
Total tangible assets - IFRS16 leases	**1,454,350**	**1,085,333**
Other tangible assets		
Electronic machinery	466,110	432,867
Buildings	18,716	12,477
Furniture and fixtures	49,881	36,451
Other fixed assets	29,295	20,679
Total other tangible assets	**564,003**	**502,477**
TOTAL AMORTISATION AND DEPRECIATION	**3,438,897**	**2,730,119**

9.6 Financial income and charges

At 31 December 2020, the company recognised financial income of € 2,726,084, compared to € 1,275,9351 in financial charges at the end of 2019.
Financial income also includes the result from the management of liquidity invested in financial instruments, which was overall positive during the year.
Under financial income, as non-recurring items and with a greater net impact on the item, note should be taken of the adjustment of the fair value of the liability linked to the acquisition of the ownership interest in the residual 21% of the Pace capital. This amount booked at fair value for € 5.9 million as at 31 December 2019 was redetermined at € 5.1 million based on the agreements subsequently defined between the parties and paid in the second half of June.

Financial income includes the effect of changes in fair value of investments and the positive effect deriving from the revision of the estimate of the fair value of the variable component of the debt linked to the acquisition of TXT Risk Solutions (€ 1,330,780) and the adjustment the fair value of the variable debt component linked to the acquisition of Pace GmbH (€ 826,132).

Financial income (charges) as at 31 December 2020 is broken down as follows:

	31 December 2020	31 December 2019	Change
Bank interest income	4,246	8,600	(4,354)
Exchange rate gains	-		-
Change in instruments valued at FV	3,255,046	3,681,262	(426,216)
Total financial income	**3,259,292**	**3,689,862**	**(430,570)**
Bank interest expense	(165,524)	(249,577)	84,053

Other financial charges	(262,356)	(193,363)	(68,993)
Change in instruments valued at FV	(23,126)	(303,202)	280,086
(Pace) Put/Call change	-	(4,203,997)	4,203,997
Exchange rate losses	(82,201)	(15,657)	(66,543)
Total financial charges	**(533,207)**	**(4,965,797)**	**4,432,589**
Total	**2,726,084**	**(1,275,935)**	**4,002,019**

	31 December 2020	31 December 2019	Change
Bank interest income	4,246	8,600	(4,354)
Exchange rate gains	-	-	
Change in instruments valued at FV	3,255,046	3,681,262	(426,216)
Total financial income	**3,259,292**	**3,689,862**	**(430,570)**
Change in fair value of financial instruments	-	-	-
Bank expenses	-	(86,345)	86,345
Bank interest expense	(165,524)	(249,577)	84,053
Change in financial instruments	(23,126)	(303,202)	280,086
PUT/CALL update - Earn-Out	(62,966)	(62,983)	17
Interest expense IFRS16	(54,061)	(26,198)	27,863
Other financial charges	(138,158)	-	138,158
Pace Put/Call change	-	(4,203,997)	4,203,997
Interest expense for post-employment benefit discounting	(7,171)	(17,836)	10,665
Exchange rate losses	(82,201)	(15,657)	(66,543)
Total financial charges	**(533,207)**	**(4,965,797)**	**4,432,589**
Total	**2,726,084**	**(1,275,935)**	**4,002,019**

9.7 Income taxes

Income taxes as at 31 December 2020 were positive to the tune of € 1,161,790 and are detailed as follows:

	31 December 2020	31 December 2019	Change
Total current taxes	1,553,420	2,787,576	(1,234,155)
Total deferred tax assets	(18,558)	(626,522)	607,964
Total deferred tax liabilities	(373.073)	(293,917)	(79.156)
Total taxes	**1,161,790**	**1,867,137**	**(705,348)**

Deferred tax assets and liabilities correspond to the change in the respective balance sheet items with the exception of those that did not have an impact on the income statement, such as those relating to the value of cash flow hedging instruments linked to interest on loans.

Please refer to the *"Directors' Report"* for further details.

Utile ante-imposte		5,876,789
Aliquota fiscale paese (24.5%)		1,439,813
Rettifiche per imposte periodi precedneti	-	179,811
Utilizzo delle perdite		
Differenze permanenti	-	202,402
Differenze temporanee tassabili in esercizi successivi	-	102,761
Differenze temporanee deducibili in esercizi successivi		63,939
Effetto delle aliquote degli altri paesi		6,878
IRAP*		136,133
	20%	**1,161,790**

10. Seasonality of operating segments

The segments in which the TXT e-solutions Group operates are not subject to any seasonality as far as operations are concerned.

11. Transactions with related parties

Basic net earnings per share

The *basic net earnings per share* for 2020 calculated on the net profit of € 4,474,067 attributable to Parent Company shareholders (€ 314,337 as at 31 December 2019) divided by the average number of ordinary shares outstanding in 2020 of 11,684,590 amounted to € 0.38 (€ 0.03 in 2019).

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.

12. Segment disclosures

For operating purposes, the Group is organised into two Business Units based on the end-use of the products and services provided.

The main financial and operating data broken down by business segment were as follows:

(€ thousand)	Aerospace	Fintech	IC Mark-up	TOTAL TXT 31.12.2020
REVENUES	**40,847**	**27,996**	**90**	**68,753**
Software	7,478	1,148	-	8,626
Services	33,369	26,848	-	60,217
OPERATING COSTS:				
Direct costs	23,106	16,444	80	39,470
Research and development costs	4,124	2,560		6,684
Marketing costs	4,177	3,469	10	7,636
General and administrative costs	4,346	2,057	-	6,403
TOTAL OPERATING COSTS	**35,753**	**24,530**	**90**	**60,193**
EBITDA pre Stock Options	**5,094**	**3,466**	**0**	**8,560**
% of Revenues	12.5%	12.4%		12.5%
Stock options	0	0		0
EBITDA	**5,094**	**3,466**	**0**	**8,560**
Amortisation of intangible assets	401	1,019		1,420
Depreciation of tangible assets	1,197	821		2,018
Write-downs and Restructuring Costs	532	1,440		1,972
OPERATING PROFIT (EBIT)	**2,964**	**186**	**0**	**3,150**
Financial income (charges)	1,164	1,563		2,727
EARNINGS BEFORE TAXES (EBT)	**4,128**	**1,749**	**0**	**5,877**
Taxes	(816)	(346)		(1,162)
NET PROFIT FROM CURRENT ASSETS	**3,312**	**1,403**	**0**	**4,715**
Profit (loss) from current operations				
NET PROFIT	**3,312**	**1,403**	**0**	**4,715**

13. Net financial position

Pursuant to Consob communication dated 28 July 2006 and in conformity with the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the

European Commission's Regulation on Prospectuses", it is noted that the TXT e-solutions Group's net financial position as at 31 December 2020 is as follows:

Amounts in €	31.12.2020	31.12.2019	Change
Cash and cash equivalents	11,932,508	11,426,083	506,425
Financial instruments at fair value	68,160,917	87,320,066	(19,159,149)
Current financial assets	-	-	-
Current bank loans	(28,181,251)	(17,353,014)	(10,828,238)
Liabilities related to acquisitions (PUT/CALL - Earn-Out)	(960,000)	(6,647,604)	(5,687,605)
Current financial liabilities - IFRS 16	(1,493,718)	(1,304,999)	(188,718)
Other short-term financial payables	-	-	-
Short-term financial position	**49,458,456**	**73,440,532**	**(23,982,076)**
Non-current financial liabilities - IFRS 16	(3,579,852)	(4,517,020)	937,168
Non-current bank loans	(18,874,269)	(23,525,454)	4,651,185
Liabilities related to acquisitions (PUT/CALL - Earn-Out)	(4,944,217)	(3,986,529)	(957,688)
Financial position - non-current portion	**(27,398,339)**	**(32,029,003)**	**4,630,664**
Net Financial Position	**22,060,117**	**41,411,529**	**(19,351,412)**

For additional information on changes in the Group's Net Financial Position, see the "Directors' Report on Operations as at 31 December 2020".

14. Disclosure of public funds

This section has been prepared for the purpose of fulfilling the disclosure obligations pursuant to Italian Law no. 127/2017, Article 1, paragraphs 125-129.

In 2020, the Group did not receive considerations from the national public administration for services that were not performed in the ordinary course of business, nor did it underwrite paid assignments to the same counterparty for such activities.

With regard to grants, contributions and economic benefits of any kind granted by the public administration, the following information is provided with reference to that already collected/used in 2020:

Beneficiary	Award date	Date of collection/use	Amount collected/used	Paying entity/ grantor	Purpose
TXT e-solutions (Tax Code: 09768170152)	23.09.2019	04.06.2020	€ 3,600	FonARCom	Regulation for interprofessional funds for continuing training for the granting of state aid exempted pursuant to EC regulation no. 651/2014 and under the de minimis regime pursuant to EC regulation no. 1407/2013
TXT e-solutions (Tax Code: 09768170152)	20.06.2019	27.07.2020	€ 22,865	FONDIR	Provisions for the preparation of the annual and multi-year financial statements of the State (2001 Budget Law)
HSPI S.p.A. (Tax Code 02355801206)	20.06.2019	27.04.2020	€ 4,844	FONDIR	Provisions for the preparation of the annual and multi-year financial statements of the State (2001 Budget Law)

In addition, for the sake of completeness, it should be noted that in 2018 the Group benefited from the following tax incentives and benefits: so-called super-amortisation (Italian Law no. 208 of 28 December 2015, as amended).

Finally, it should be noted that the Group participates in the "New Horizon 2020 - European Framework Programme for Research and Innovation" initiative with six active projects (ADMITTED, FASTEN, ICARUS, QU4LITY, AI REGIO and XMANAI); it also participates in a German national research project (OPSTIMAL) and two Italian regional ones for the Lombardy (SMART4CPPS) and the Puglia region (iMOLE). There are 2 project proposals awaiting evaluation that could lead to funding in 2021.

During 2020, TXT participated in several calls for tenders from the European Commission, acquiring funding from the Commission for an amount of approximately € 1 million.

15. Subsequent events

Please refer to the paragraph "*Significant events after the reporting period and outlook*" included in the Directors' Report on Operations.

16. 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.

17. 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 2020 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.	58
Auditing	Ernst & Young	PACE GmbH	13
Auditing	Ernst & Young	Cheleo S.r.l.	8
Audit of non-financial declarations pursuant to Italian Legislative Decree no. 254/16	Ernst & Young	Parent Company TXT e-solutions S.p.A.	16
Auditing	Ernst & Young	Assioma Group	18

18. Certification of the consolidated financial statements

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

The undersigned Enrico Magni, as CEO, and Eugenio Forcinito, as Manager responsible for preparing corporate accounting documents for TXT e-solutions S.p.A., certify, also pursuant to Article 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy, in relation to the company's characteristics; and

- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2020.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2020 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 2020:

- correspond to the accounting books and records;
- were prepared in compliance with the International Financial Reporting Standards endorsed by the European Union as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005;
- are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer.

Manager responsible for preparing corporate accounting documents

Eugenio Forcinito

The Chief Executive Officer

Enrico Magni

Milan, 9 March 2021

TXT e-solutions S.p.A.

Financial statements as at 31 December 2020

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

In office until approval of the financial statements as at 31 December 2022:

Enrico Magni	Chair	
Daniele Misani	Chief Executive Office	
Matteo Magni	Director	(2)
Fabienne Anne Dejean Schwalbe	Independent Director	(1)
Stefania Saviolo	Independent Director	(1) (2) (3)
Valentina Cogliati	Independent Director	(2) (3)
Paola Generali	Independent Director	(1) (2) (3)

(1) Member of the Remuneration and Appointments Committee.
(2) Member of the Risks and Internal Controls Committee.
(3) Member of Related Parties Committee.

BOARD OF STATUTORY AUDITORS

In office until approval of the financial statements as at 31 December 2022:

Mario Basilico	Chair
Luisa Cameretti	Standing auditor
Franco Vergani	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Fabio Maria Palmieri	Alternate auditor
Giada d’Onofrio	Alternate auditor

EXTERNAL AUDITORS EY S.p.A.

INVESTOR RELATIONS

Andrea Favini
E-mail: infofinance@txtgroup.com
Tel: +39 02 25771.1

Contents

Balance Sheet

ASSETS	Notes	31.12.2020	Of which with related parties	31.12.2019	Of which with related parties
NON-CURRENT ASSETS					
Intangible assets with a finite useful life	8.1	72,536		76,331	
Intangible assets		**72,536**		**76,331**	
Property, plant and equipment	8.2	2,450,069		2,781,524	
Tangible assets		**2,450,069**		**2,781,524**	
Investments	8.3	54,902,694		29,555,456	
Sundry receivables and other non-current assets	8.4	27,182		22,762	
Deferred tax assets	8.5	275,082		261,017	
Other non-current assets		**55,204,957**		**29,839,235**	
TOTAL NON-CURRENT ASSETS		**57,727,562**		**32,697,090**	
CURRENT ASSETS					
Contractual assets	Error! Reference source not found.	3,829,249		4,085,593	
Trade receivables	8.7	20,575,198	3,075,042	9,347,970	850,814
Sundry receivables and other current assets	8.8	1,450,754		2,856,141	
Other short-term financial receivables	8.9	502,440	502,440	200,000	200,000
Financial instruments at fair value	8.10	67,112,382		86,281,566	
Cash and cash equivalents	8.11	4,047,797		6,053,126	
TOTAL CURRENT ASSETS		**97,517,820**	**3,577,482**	**108,824,396**	**1,050,814**
Assets held for sale				2,665,165	
TOTAL ASSETS		**155,245,382**	**3,577,482**	**144,186,651**	**1,050,814**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31.12.2020	Of which with related parties	31.12.2019	Of which with related parties
SHAREHOLDERS' EQUITY					
Share capital		6,503,125		6,503,125	
Reserves		14,063,856		14,768,860	
Retained earnings (accumulated losses)		62,782,274		59,573,709	
Profit (loss) for the period		1,758,007		3,208,566	
TOTAL SHAREHOLDERS' EQUITY	8.12	**85,107,262**		**84,054,260**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	8.13	20,171,618		25,228,715	
Provision for post-employment benefits and other employee provisions	8.14	812,384		2,064,678	1,207,217
Deferred tax provision	8.5	99		288	
Provisions for future risks and charges	8.15	118,905		118,905	
TOTAL NON-CURRENT LIABILITIES		**21,103,006**		**27,412,585**	**1,207,217**
CURRENT LIABILITIES					
Current financial liabilities	8.16	37,911,335	9,994,957	23,073,219	5,190,646
Trade payables	8.17	4,774,570	190,356	2,527,913	155,323
Tax payables	8.18	677,054		387,086	
Sundry payables and other current liabilities	8.19	5,672,155	155,600	5,024,432	123,794
TOTAL CURRENT LIABILITIES		**49,035,113**	**10,340,913**	**31,012,650**	**5,469,763**
TOTAL LIABILITIES		**70,138,119**	**10,340,913**	**58,425,236**	**6,676,980**
Liabilities held for sale				1,707,156	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**155,245,382**	**10,340,913**	**144,186,651**	**6,676,980**

Income Statement

	Notes	31.12.2020	Of which with related parties	31.12.2019	Of which with related parties
Revenues and other income		27,518,055	2,762,851	24,218,635	1,086,684
TOTAL REVENUES AND OTHER INCOME	**9.1**	**27,518,055**	**2,762,851**	**24,218,635**	**1,086,684**
Purchases of materials and external services	**9.2**	(5,289,286)	(639,160)	(5,037,561)	(334,463)
Personnel costs	**9.3**	(19,572,845)	(561,145)	(18,038,771)	(1,004,551)
Other operating costs	**9.4**	(80,439)		(154,228)	
Depreciation and amortisation/Impairment	**9.5**	(925,513)		(888,741)	
OPERATING RESULT		**1,649,972**	**1,562,547**	**99,334**	**(252,330)**
Financial income (charges)	**9.6**	669,971	(70,486)	2,958,776	(40,807)
EARNINGS BEFORE TAXES (EBT)		**2,319,943**	**1,492,060**	**3,058,110**	**(293,137)**
Income taxes	**9.7**	(561,936)		(591,946)	
NET PROFIT (LOSS) FOR THE PERIOD		**1,758,007**		**2,466,164**	
Net profit from discontinued operations				742,403	
NET PROFIT (LOSS) FOR THE PERIOD		**1,758,007**		**3,208,566**	

Comprehensive Income Statement

(Amount in €)	2020	2019
Profit (loss) for the period	**1,758,007**	**3,208,566**
Change in fair value of available-for-sale financial assets	37,758	(31,105)
TOTAL ITEMS OF THE COMPREHENSIVE INCOME STATEMENT THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS) FOR THE YEAR NET OF TAXES	37,758	(31,105)
Defined benefit plans actuarial gains (losses)	(22,164)	6,986
TOTAL ITEMS OF COMPREHENSIVE INCOME STATEMENT THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS) FOR THE YEAR NET OF TAXES	(22,164)	6,986
TOTAL PROFIT/(LOSS) OF COMPREHENSIVE INCOME STATEMENT NET OF TAXES	15,594	(24,119)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,773,601**	**3,184,447**

Statement of Cash Flows

	31 December 2020	31 December 2019
Profit (loss) from continued operations	1,758,007	2,466,163
Profit (loss) from discontinued operations	-	742,403
Net profit (loss) for the period	**1,758,007**	**3,208,566**
Non-monetary costs for Stock Options	32,628	23,793
Non-monetary interest	39,408	24,280
Change in fair value of monetary instruments	(830,816)	(3,323,606)
Current income taxes	289,968	357,421
Change in deferred taxes	(14,254)	374,010
Depreciation/amortisation, impairment and provisions	925,511	959,178
Cash flows from (used in) operating activities (before change in working capital)	**2,200,452**	**1,623,642**
of which with related parties	*1,562,547*	*(400,669)*
(Increase) / Decrease in trade receivables	(9,821,841)	(1,456,999)
(Increase) / Decrease in inventories	256,344	(996,764)
Increase / (Decrease) in trade payables	2,246,657	(967,375)
Increase / (Decrease) in other assets/liabilities	571,096	(97,171)
Increase / (Decrease) in post-employment benefits	(1,274,459)	(270,779)
Changes in operating assets and liabilities	**(8,022,203)**	**(3,789,088)**
Paid income taxes	-	-
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**(5,821,751)**	**(2,165,446)**
of which with related parties	*2,157,761*	*194,546*
Increase in tangible assets	(422,104)	(451,908)
Increase in intangible assets	(18,179)	(2,039)
Net cash flow from acquisition/assignment	(21,305,532)	(10,993,971)
Increase / (Decrease) in trading securities	19,752,073	25,146,438
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	**(1,993,742)**	**13,698,520**
of which with related parties	*6,745,750*	*-*
Loans issued	20,804,310	7,540,646
Loans repaid	(10,182,710)	(8,632,289)
Payment of lease liabilities	(626,441)	(668,158)
Increase / (Decrease) in other financial receivables	-	-
Increase / (Decrease) in financial payables	(742,318)	6,823
Distribution of dividends	-	(5,780,767)
Interest expense	(141,907)	-
Other changes in shareholders' equity	-	-
(Purchase) / Sale of treasury shares	(3,300,772)	(1,038,309)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**5,810,162**	**(8,572,054)**
of which with related parties	5,106,792	(2,150,161)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,005,332)**	**2,961,020**
Effect of changes in exchange rates on cash flows		
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**6,053,126**	**3,092,108**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,047,797**	**6,053,126**
Assets acquired that did not generate cash flows (initial recognition IFRS 16)	(204,493)	(368,199)
Liabilities acquired that did not generate cash flows (initial recognition IFRS 16)	204,493	368,199

Statement of changes in Shareholders' Equity as at 31 December 2020

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	Stock options	Differenze attuariali TFR	Riserva cash flow Hedge	Riserva di traduzione	Utili a nuovo	Utile (perdita) del perido	Totale patrimonio netto	Totale patrimonio netto (Terzi)	Totale patrimonio netto
Saldi al 31 dicembre 2019	6,503,125	1,300,625	12,571,449	1,911,444	23,793	(879,706)	(158,745)	-	59,573,709	3,208,566	84,054,260		84,054,260
Utile al 31 dicembre 2019									3,208,566	(3,208,566)	-		-
Incremento/acquisto					32,628		37,758		-		70,386		70,386
Distribuzione dividendi											-		-
Vendita azioni proprie			4,565,921								4,565,921		4,565,921
Acquisto azioni proprie			(5,319,147)								(5,319,147)		(5,319,147)
Attualizzazione TFR						(22,164)					(22,164)		(22,164)
Delta cambi								-			-		-
Utile al 31 dicembre 2020										1,758,007	1,758,007		1,758,007
Saldi al 31 dicembre 2020	6,503,125	1,300,625	11,818,223	1,911,444	56,421	(901,870)	(120,987)	-	62,782,275	1,758,007	85,107,263		85,107,263

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	Stock options	Differenze attuariali TFR	Riserva cash flow Hedge	Riserva di traduzione	Utili a nuovo	Utile (perdita) del perido	Totale patrimonio netto	Totale patrimonio netto (Terzi)	Totale patrimonio netto
Saldi al 31 dicembre 2018	6,503,125	1,300,625	11,223,612	1,911,444	-	(886,692)	(127,640)	-	66,024,933	(670,457)	85,278,950		85,278,950
Utile al 31 dicembre 2018									(670,457)	670,457	-		-
Incremento/acquisto					23,793		(31,105)		-		(7,312)		(7,312)
Distribuzione dividendi									(5,780,767)		(5,780,767)		(5,780,767)
Vendita azioni proprie			2,386,146								2,386,146		2,386,146
Acquisto azioni proprie			(1,038,309)								(1,038,309)		(1,038,309)
Attualizzazione TFR						6,986					6,986		6,986
Delta cambi								-			-		-
Utile al 31 dicembre 2019										3,208,566	3,208,566		3,208,566
Saldi al 31 dicembre 2019	6,503,125	1,300,625	12,571,449	1,911,444	23,793	(879,706)	(158,745)	-	59,573,709	3,208,566	84,054,260		84,054,260

Introduction

Founded in 1989, TXT e-solutions S.p.A. is a world leader in the supply of software products and strategic solutions. It operates in dynamic markets that require high specialisation and the capacity to innovate. TXT is focused on software for the aerospace, aeronautical and automotive sector, where it offers specific products and specialist engineering services, and for the financial sector, where it concentrates on services linked to testing and software quality. Listed on the Italian Stock Market since July 2000 in the Star segment (TXT.MI), TXT has its registered office in Milan and offices in Italy, France, the UK, Germany, Switzerland and the USA.

The Company adopted the international accounting and financial reporting standards (IAS/IFRS) starting on 1 January 2006.

This report refers to the financial year ended 31 December 2020 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.

1 Basis of preparation of the financial statements

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at the date of drafting these financial statements, as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005 and with any other applicable provisions and Consob regulations on financial statements.

The financial statements for the year ended on 31 December 2020 have been prepared on a cost basis, except for derivative financial instruments and other items for which the IFRS prescribe different assessment criteria. The carrying amount of underlying assets and liabilities of fair value hedges which would otherwise be carried at amortised cost is adjusted to take into account the changes in fair value attributable to the hedged risks.

As for further information relating to the nature of the company's business, business areas and operations, reference should be made to the Directors' report on operations.

The accounting policies applied in preparing the financial statements, as well as the composition of, and changes in, individual items, are illustrated below.

All amounts are expressed in Euro, unless otherwise indicated.

The publication and release of this report were approved by the Board of Directors' Meeting. TXT e-solutions S.p.A. is a joint-stock company listed, registered and domiciled in Italy.

In its capacity as Parent Company, TXT e-solutions S.p.A. has prepared the TXT Group's consolidated financial statements as at 31 December 2020.

2 Extraordinary transactions

Txt Working Capital Solutions S.r.l.

On 15 April 2020, TXT e-Solutions formalised the entry, via a capital increase it financed 60% of, in a FinTech start-up, whose company name is TXT Working Capital Solutions S.r.l., an innovative start-up dedicated to the study and development of solutions for the Factoring and Supply Chain Finance market.

The purchase of the 60% shareholding took place via the subscription by TXT e-Solutions of a capital increase for € 0.3 million, plus € 0.5 million of share premium, of which € 0.6 million already paid in cash using available liquidity.
TXT e-solutions and the shareholders also entered into a Put/Call option contract to purchase the remaining 40% at a price commensurate with the financial and economic results of TXT Working Capital Solutions activities in 2024. As regards the valuation of the instrument, please refer to the paragraph on "*Fair Value Hierarchies*".

Mac Solutions S.A.

On 13 July 2020, the final contract for the acquisition of Mac Solutions S.A., with registered office in Chiasso in Switzerland, was executed.
At the closing date, CHF 5.4 million was paid in cash.
The consideration is increased by additional cash payments based on the Net Financial Position of MAC Solutions S.A..

Component	Euro
Price paid in cash	5,060,162
Price adjustment for NFP	1,321,587
Total (100%)	6,381,749

HSPI S.p.A.

On 19 October 2020, the final contract was signed for the acquisition of the company HSPI S.p.A., a company specialising in the digital transformation of large Italian public and private companies.
The Transaction constitutes a related party transaction as Laserline S.p.A., majority shareholder of HSPI S.p.A., is wholly owned by Enrico Magni, Chair of the Board of Directors of TXT.
It also must be noted that the Transaction qualifies as a transaction of "greater importance" with related parties pursuant to the provisions of Article 8, paragraph 1 of the Consob Regulations 17221/2010
and Article 2 of the related party procedure approved by the Company. In this context, an information document was made available on 21 October 2020, in compliance with the provisions of Consob Regulations 17221/2010 and the related parties procedure approved by the Company.

The price paid for the purchase of the Investment is broken down as follows:

- an amount equal to € 9,061,000 paid in cash;
- an amount equal to € 2,547,547 by means of payment of TXT's ordinary treasury shares;
- an amount based on the Net Financial Position of HSPI S.p.A.;
- an additional amount, potential and variable, defined as "Restricted Shares Price Adjustment".

Transfer of the Banking & Finance business unit

In the separate financial statements of TXT e-solutions S.p.A. as at 31 December 2019, the assets and liabilities related to the transfer of the Banking & Finance business unit of TXT e-solutions S.p.A. to Assioma.Net S.r.l. were identified as discontinued operations. As illustrated in these financial statements, they amounted to € 2,665,165 and € 1,707,156, respectively.
The transfer of its Banking & Finance business unit to the subsidiary Assioma.Net S.r.l. (company 100% controlled by TXT e-solutions) was completed on 1 January 2020, and determined the transfer of assets and liabilities in the aforementioned amounts.

The transfer consisted of an autonomously organised complex, already identified and independent in TXT e-solutions, with 121 employees and revenues of € 8.7 million as at 31 December 2019. Its activity was characterised by the provision of services dedicated to financial operators to accompany them in the "digital transformation" process aimed at "Quality Excellence" and specifically: design of test processes, software quality control service, design and development of "business critical" applications in the financial sector, "Application Maintenance" services.
The transaction is functional to the reorganisation of the organisational and managerial structure of the Group.
In addition, the transfer aims to develop the synergies of similar or complementary activities, concentrating them in the company Assioma.Net S.r.l., so as to offer customers an even wider and more complete, more sophisticated and cutting-edge service, optimising the synergies and capabilities of the Group.

The most significant changes related to the transaction are analysed on in the notes to the financial statements of the individual items.

3 Relevant accounting standards

ASSETS AND LIABILITIES

Intangible assets

Intangible assets acquired separately are initially measured at cost, while those acquired in business combinations are recognised at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and the corresponding costs are recognised in the income statement as incurred.

The useful life of intangible assets is assessed as finite or indefinite.

Intangible assets with a finite useful life are amortised systematically over their useful lives and are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The changes in the expected useful life or in the expected pattern of consumption of the future economic benefits embodied in the assets are recognised by changing the amortisation period or method, as required, and are accounted for as changes in accounting estimates. The amortisation expense related to intangible assets with a finite useful life is recognised in the income statement 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 the income statement when the asset is derecognised.

Research and development costs

Research costs are recognised as an expense in the income statement when incurred. Development costs incurred in relation to a specific project are recognised as an intangible asset when the conditions provided for by IAS 38 apply.

After initial recognition, development costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation begins when development is completed and the asset is available for use. Development costs are amortised with reference to the period during which the related project is expected to generate economic benefits for the Company. During the period in which the asset is not yet in use, it will be tested for impairment annually.

Software licences

Licences for use of intellectual property are carried at cost and amortised over 3 to 5 years, according to the specific type of licence.

Tangible assets

Tangible assets are measured at acquisition or production cost including directly attributable costs necessary to bring the asset to its working condition.

Tangible assets are depreciated on a straight-line basis over their useful life, i.e. the period over which an asset is expected to be available for use by an entity. Depreciation begins when the asset is available for use and is calculated on a straight-line basis using the rate deemed representative of the asset's estimated useful life. Given the nature of the assets within the separate classes, no significant parts having different useful lives were recognised.

Depreciation is calculated using the straight-line method over the estimated useful life of the relevant asset, as shown below:

Class	Useful life
Furniture and fixtures	8 years
Electronic office machinery	5 years
Motor vehicles	4 years

The costs of maintenance, repair, enhancement, upgrade, and replacement that have not led to any significant and measurable increase in the production capacity or in the useful life of the asset concerned are recognised as an expense in the period in which they are incurred.

Leasehold improvements shall be recognised in the asset class to which they refer and, if separable, they shall be depreciated in accordance with their useful life; if they are not separable, they shall be depreciated based on the shorter of the lease term or the asset's useful life.

Leases

The right to use of assets held under leases is accounted for as tangible fixed assets (historical cost of the asset and accumulated depreciation) and classified in the specific classes, recognising the financial payable to the lessor as a liability. Depreciation is calculated in accordance with the previously mentioned method.

Lease payments are apportioned between the reduction of the outstanding liability and the finance charge to be allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability at each financial year-end.

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

- Lease contract for the main office (Milan)
- Lease contracts for the national secondary offices
- Portfolio of hire vehicles for the Company's staff

Lease contracts for offices:	Contractual years	Years remaining	Main Options
Milan	6	4	Renewal
Orbassano (Turin)	6	4	Renewal

For the lease contract for the main office in Milan, the contractually envisaged duration was used, just subject to renewal, without taking into account the early termination or further renewal options which are considered unlikely.

As regards vehicle lease contracts, these refer to medium/long-term rental agreements, usually for 4 years with monthly instalments paid in advance with an average value of € 540.

In the absence of a readily available implicit rate, the present value of the liabilities was determined using the Group's marginal lending rate, taking into account the duration, amount funded and underlying asset for each type of contract. The Group has established that the differences between the rates to be applied for the different contract categories do not lead to significant differences in impact.

For further details, see Note 8.3 "Tangible assets" and Note 9.6 "Financial income and charges".

The Group's leasing liabilities are included under Non-current Financial Liabilities (8.13) and Current Financial Liabilities (8.16).

Impairment of non-financial assets

At the end of each reporting period, TXT assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when an annual impairment test is required, TXT estimates the recoverable amount of the asset. The recoverable amount is the higher between the fair value of an asset or a cash-generating unit, net of 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 net of 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 the income statement in the expense categories consistent with the intended use of the impaired asset. An exception is represented by revalued assets for which the revaluation has been recognised in other comprehensive income and classified as a revaluation surplus. In these cases, the impairment loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus.

At the end of each reporting period, TXT assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, TXT estimates the recoverable amount of that asset. An impairment loss recognised in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal of an impairment loss shall not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

The following criteria are used to recognise impairment losses on specific types of assets:

a) Goodwill

Goodwill is tested for impairment at least annually (as at 31 December) and, more frequently, when the circumstances indicate that the carrying amount may be impaired.

The impairment loss on goodwill is determined by measuring the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill can be allocated. Wherever the recoverable amount of the cash-generating unit is lower than the carrying amount of the cash-generating unit to which goodwill was allocated, an impairment loss is recognised. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

b) Intangible assets with an indefinite useful life

An intangible asset with an indefinite useful life is tested for impairment at least annually (as at 31 December) both as an individual asset and as a cash-generating unit, whichever is more appropriate to determine whether any impairment exists.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaced the corresponding regulations previously set forth in IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the project on the accounting of financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard from the effective date (1 January 2018).

Classification and measurement of financial assets and liabilities

The Company does not hold financial liabilities designated at FVTPL due to the adoption of the optional regime or equity instruments designated at the FV recognized in other items of the comprehensive income statement. For completeness it is reported that the change in financial liabilities relating to the acquisition of minority shares in the extraordinary transactions described in the previous paragraphs will continue to be recorded entirely in the income statement. With regard to financial assets, the new principle establishes that the classification of assets depends on the characteristics of the financial flows relating to these assets and the business model used by the Group for managing them. The Group signed the following contracts during the year:

- 6 multi-segment life insurance contracts for € 58,825,559 (€ 77,725,206 as at 31 December 2019);
- Bond loan for € 501,000;
- Treasury management for € 7,785,822.

Furthermore, the Company does not have financial investments in the form of shareholdings that could fall within the scope of IFRS 9. With regard to derivative financial instruments, embedded or otherwise, the Company has exclusively entered into interest rate swap contacts linked to bank loans expenses for which hedge accounting has been activated. Trade receivables are held for the purposes of collection at the contractual due dates of the cash flows relating to them in capital share and interest, where applicable. The Company has analysed the characteristics of the contractual cash flows of these instruments and has concluded that they comply with the criteria for valuation at amortised cost in accordance with IFRS 9. Similar conclusions can be reached for the items relating to cash and cash equivalents.

Initial recognition and measurement of financial assets

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income statement (OCI) and at fair value through the income statement. The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them. With the exception of trade receivables that do not contain a significant financing component or for which the

Company has applied a practical expedient, the Company initially values a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied a practical expedient are valued at the transaction price determined in accordance with IFRS 15.

For a financial asset to be classified and measured at amortised cost or at fair value through OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid ('solely payments of principal and interest (SPPI)'). This assessment is referred to as the SPPI test and is carried out at instrument level.

The Group's business model for the management of financial assets refers to the way in which it manages its financial assets in order to generate financial flows. The business model determines whether the cash flows will arise from the collection of contractual cash flows, the sale of financial assets or both.

A purchase or sale of a financial asset that requires delivery within a time frame generally established by regulation or convention in the marketplace (regular way trade) is recognised on the trade date, i.e. the date on which the Company commits itself to purchase or sell an asset.

Subsequent measurement of financial assets

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value recognised in other comprehensive income statement with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value recognised in other comprehensive income statement without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through the income statement.

In general, the most important categories for the Company are the first and the fourth.

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is owned as part of a business model whose objective is to own financial assets for the purpose of collecting contractual cash flows;
- the contractual terms of the financial asset provide for cash flows at certain dates represented solely by payments of principal and interest on the amount of principal to be repaid.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.

Group financial assets at amortised cost include trade receivables and other receivables as well as investments that pass the SPPI test.

Financial assets at fair value through the income statement.

This category includes financial assets held for trading and assets designated as at fair value through profit or loss upon initial recognition with changes recognised in the income statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for the purpose of selling or repurchasing them in the near term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments (the Company does not currently hold derivatives that are not designated as hedges). Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value through the income statement, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be recognised at fair value through the income statement at initial recognition if this results in the derecognition or significant reduction of an accounting mismatch.

Financial instruments at fair value through the income statement are recognised in the balance sheet at fair value and net changes in fair value are recognised in the statements of profit/(loss) for the year.

Impairment of financial assets

The Company recognises an expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through the income statement. ECLs are based on the difference between the contractual cash flows payable under the contract and all cash flows expected to be received by the Company, discounted at an approximation of the original effective interest rate. Expected cash flows will include cash flows arising from the application of collateral held or other credit guarantees that are an integral part of the contractual conditions. Expected losses are recognised in two phases. With regard to credit exposures for which there has been no significant increase in credit risk since the initial recognition, it is necessary to recognise credit losses resulting from the estimate of default events that are possible within the next 12 months (12-month ECL). For credit exposures for which there has been a significant increase in credit risk since initial recognition, expected losses relating to the residual duration of the exposure must be fully recognised, regardless of when the default event is expected to occur ("Lifetime ECL").

For trade receivables and contract assets, the Company applies a simplified approach in calculating expected losses. Therefore, the Company does not monitor changes in credit risk, but fully recognises the expected loss at each reference date. The Company has defined a matrix system based on historical information, revised to consider forward-looking elements with reference to specific types of borrowers and their economic environment, as a tool for determining expected losses.

A financial asset is derecognised when there is no reasonable expectation that the contractual cash flows will be recovered.

Initial recognition and measurement of financial liabilities

Upon initial recognition, financial liabilities are classified under financial liabilities at fair value through the income statement, under loans and borrowings, or under derivatives designated as hedging instruments.

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

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

Subsequent measurement of financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through the income statement

Financial liabilities at fair value through the income statement include liabilities held for trading and financial liabilities designated as at fair value through the income statement upon initial recognition.

Liabilities held for trading are all those taken on with the intention of settling or transferring them in the near term.

Gains and losses on financial liabilities held for trading are recognised in the statements of profit/(loss) for the year.

Financial liabilities are designated upon initial recognition as at fair value through the income statement only if the conditions in IFSR 9 are met.

Loans and receivables

This is the most important category for the Company. After initial recognition, loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement only when the liability is extinguished, as well as through amortisation.

The amortised cost is calculated accounting for acquisition discounts or premiums, fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised in financial charges in the statement of profit/(loss). This category generally includes interest-bearing loans and receivables.

Cancellation

A financial liability is cancelled when the obligation underlying the liability is extinguished, annulled or fulfilled. If an existing financial liability is replaced by another one from the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a cancellation of the original liability, accompanied by the recognition of a new liability, with any differences in carrying amounts recognised in the statements of profit/(loss) for the year.

Derivative financial instruments and hedge accounting

The Company uses interest rate swaps to hedge against interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is signed and, subsequently, are re-measured at fair value. Derivatives are recorded as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, the aforementioned hedges are referred to as “cash flow hedges”.

When a hedging transaction is initiated, the Company formally designates and documents the hedge relationship to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and how the Company will assess whether the hedge relationship meets the hedging efficacy requirements (including analysis of sources of hedge ineffectiveness and how the hedge relationship is determined). The hedge relationship meets the eligibility criteria for hedge accounting if it meets all of the following hedging efficacy requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk effect does not prevail over the changes in value resulting from the aforementioned economic relationship;
- the hedge ratio of the hedge relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge this quantity of hedged item.

The transactions carried out by the Group, since they meet all the criteria for hedge accounting, have been accounted for as follows:

The portion of gain or loss on the hedged instrument relating to the effective portion of the hedge is recognised in other comprehensive income statement in the cash flow hedge reserve, net of tax, while the ineffective portion is recognised directly in statements of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

Investments in subsidiaries and associates

Subsidiaries are companies in which the company exercises control. Control is obtained when the Company is exposed or entitled to variable yields, deriving from its relationship with the investee company and, simultaneously, has the capacity to impact said yields by exercising its power over said entity.

Specifically, the company controls an investee company if, and only if, it has:

- power over the subject entity of the investment (or rather it holds valid rights that grant it the current power to manage significant assets of the entity subject to investment);
- exposure or rights to variable yields deriving from the relationship with the entity subject to investment;
- the capacity to exercise its power on the entity subject to investment in order to influence the amount of its yields.

Associates are companies over which TXT e-solutions S.p.A. exercises a significant influence. Significant influence refers to the power to participate in determining the financial and operating policies of the associate without having control or joint control of the same. Significant influence is presumed when the Company holds at least 20% of the voting rights.

The considerations made to determine significant influence or joint control are similar to those required to determine control over subsidiaries.

Investments in subsidiaries and associates are recognised at cost less impairment.

On acquisition of the investment, any positive difference between the acquisition cost and the Company's share of the present value of the subsidiary's or associate's equity is therefore included in the investment's carrying amount.

Investments in subsidiaries and associates are tested for impairment at least annually, or more frequently, if necessary. If there is evidence that an impairment loss has been incurred, such loss is recognised in the income statement 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 the income statement to the extent of the original purchase cost.

The cost of investments in foreign companies is converted into Euro at the historical acquisition and subscription exchange rates.

Contractual assets

Contractual assets are measured at the lower of acquisition or production cost and market value. This refers mainly to consumables measured at acquisition cost, determined by the last cost incurred, which is an approximation of FIFO.

Contractual assets relating to projects, consisting of services not yet completed at the end of the financial year relating to indivisible contracts that will be completed during the next twelve months, are measured on the basis of the considerations agreed in relation to the stage of completion determined using the cost-to-cost method. Advance payments received from customers are deducted from inventories, to the extent that they do not exceed the consideration accrued; the remaining part is recognised as a liability.

Cash and cash equivalents and short-term deposits

Cash and cash equivalents and short-term deposits comprise cash on hand and demand and short-term deposits with maturity of up to three months.

Treasury shares

Treasury shares are measured at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale or cancellation of an entity's treasury shares. Any difference between the consideration paid and received, when treasury shares are reissued, is recognised in the share premium reserve. Voting and dividend rights attached to treasury shares are suspended. If stock options are exercised, they are serviced with treasury shares.

Employee benefits expense

Post-employment benefits

The liability relating to employee benefits paid upon or after the end of employment and relating to defined benefit plans, net of any plan assets, is determined based on actuarial assumptions made to estimate the amount of benefit that employees have earned to date. The liability is recognised on an accrual basis over the vesting period.

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

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

- Post-employment benefits earned since 1 January 2007 are considered elements of a Defined Contribution Plan even if the employee exercised the option to allocate them to the Treasury Fund at INPS. These benefits, determined based on statutory provisions and not subject to any actuarial valuation, therefore represent negative income components recognised as labour costs.
- Post-employment benefits earned as at 31 December 2006 continue instead to represent the liability for the company's obligation under a Defined Benefit Plan. This liability will not be increased further in the future with additional provisions; therefore, unlike in the past, the component relating to future increases in salaries was excluded from the actuarial calculation made to determine the balance as at 31 December 2017.

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

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of TXT's obligations at the end of the period, due to the change in the previously used actuarial parameters (described above), are recognised outside the income statement (in the comprehensive income statement) 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 the income statement as a cost during the vesting period, with a specific reserve recognised in equity. This implicit cost is determined using specific income-equity models.

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

Contingent liabilities

The Company may be involved in legal proceedings regarding various issues. Owing to the uncertainties inherent to said issues, it is normally hard to make a reliable estimate of the outflow of resources that could arise from said disputes. In the ordinary course of business, the management consults with legal advisors as well as legal and fiscal experts. TXT recognises a liability for said disputes when it deems it probable that an outflow of financial resources will be required and when the amount of the losses resulting from it can be reliably estimated. If an outflow of financial resources is possible, this fact is reported in the notes to the financial statements.

Dividends

Dividends received are recorded in the income statement on an accrual basis, i.e. in the period in which the relevant right arises, following the shareholders' resolution to distribute the investee companies’ dividends. If the dividend received exceeds the total comprehensive income statement of the subsidiary or associate, in the year in which it is declared, the Company assesses whether this situation may constitute an indicator of impairment of the investment.

Dividends payable are recognised as movements in equity in the period in which they are approved by the Shareholders' Meeting.

Intragroup and transactions with related parties

The following are considered to be related parties of TXT e-solutions S.p.A.:

a) The 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) The associates of TXT e-solutions S.p.A.;

c) The joint ventures in which TXT e-solutions S.p.A. participates;

d) The managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies;

e) The close members of the family of parties referred to in the above points a) and d);

f) The entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights;

g) An occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity.

As for transactions with related parties, including intra-group transactions, it should be noted that they cannot be classified as atypical or unusual, as they fall within the course of ordinary activities of the Group's companies. Said transactions are conducted at arm's length, considering the characteristics of the goods and services provided.

Disclosure on transactions with related parties, comprising disclosure required by Consob communication dated 27 July 2006, is provided in the "Transactions with Related Parties" section of this note to the financial statements.

Translation of foreign currency items

The financial statements are presented in Euro, which is the functional and presentation currency adopted by the Company.

Foreign currency transactions are recorded on initial recognition in the functional currency by applying the spot exchange rate at the date of the transaction.

The monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the exchange rate at the reporting date.

Exchange differences are recognised in the income statement 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 statement until the disposal of the net investment, and only then will be recognised in the income statement. 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 the comprehensive income statement or the income statement are recognised in the comprehensive income statement or the income statement, respectively).

REVENUES AND COSTS

Revenues from contracts with customers

Revenues from contracts with customers are recognised when control of goods and services is transferred to the customer for an amount that reflects the fee that the Company expects to receive in exchange for those goods or services. The Company has generally concluded that it acts as the principal for agreements that generate revenue as it controls the goods and services before they are transferred to the customer.

The Company considers whether there are other commitments in the contract that represent obligations to be carried out, for which a portion of the transaction fee is to be allocated (e.g. guarantees, customer loyalty schemes). In determining the price of the equipment sale transaction, the Company shall consider the effects of variable fees, significant financing components, non-monetary fees and fees payable to the customer (if any).

If the fee promised in the contract includes a variable element, the Company estimates the fee amount to which it will be entitled, in exchange for the transfer of the goods to the customer.

The variable fee is estimated when the contract is entered into and cannot be recognised until it is highly probable that when the uncertainty associated with the variable fee is subsequently resolved, there will be no significant downward adjustment to the amount of cumulative revenue that has been accounted for.

Sales of other assets

Revenues from the sale of licences or other capital goods are recognised when control of the goods passes to the customer. Generally, no unusual commercial deferment terms have been applied.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is measured using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is classified as financial income in the income statement.

COSTS

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

Personnel costs include, consistently with their substantial nature, stock options/grants provided to employees. In determining these costs, reference is made to the comments in the “Employee benefits expense” section concerning the policies adopted in preparing the consolidated financial statements.

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

Government grants

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

When TXT receives a non-monetary grant, the asset and the grant are recognised at their nominal amount in the income statement 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 the income statement if the tax relates to items that are recognised outside the income statement, and is therefore recognised in equity or in other comprehensive income statement, consistently with the recognition of the item it relates to. Management periodically assesses the tax position taken in the tax return with respect to situations in which tax laws are subject to interpretation and makes provisions where appropriate.

Deferred tax

Deferred tax is calculated using the so-called “liability method” on the temporary differences arising at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that it arises from:

- the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the reversal of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures that may be controlled and is unlikely to occur in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences as well as the unused tax losses and unused tax credits can be utilised, unless:

- the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- the deferred tax asset for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures is recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed annually at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised outside the income statement if the tax relates to items that are recognised outside the income statement, and is therefore recognised in equity or in other comprehensive income statement, 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 the income statement, 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 the income statement;
- trade receivables and payables include the tax.

The net amount of indirect sales taxes that can be recovered from or paid to the tax authorities is recognised as part of trade receivables or payables, depending on whether the balance is positive or negative.

FAIR VALUE HIERARCHY

For measurements of financial instruments recognised in the balance sheet, IFRS 13 requires that fair value measurements be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are as follows:

- Level 1: quoted prices in an active market for assets or liabilities subject to measurement;
- Level 2: inputs other than quoted prices included within level 1 that are observable in the market, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data.

No transfers between hierarchical levels occurred during the financial year 2020.

Comparison between fair value and carrying amount of the TXT Group's financial instruments is provided in the table below, subdivided by hierarchy level:

Amounts in €	Notes	31.12.2020	Level 1	Level 2	Level 3
Financial assets for which the fair value is identified					
- other non-current financial assets		-	-	-	0
- other short-term financial receivables	8.9	-		-	502,481
- Financial instruments at fair value	8.10	67,112,382	8,286,822	-	58,825,560
Total financial assets		**67,112,382**	**8,286,822**	**-**	**59,328,041**
Financial liabilities for which the fair value is identified					
- other non-current financial liabilities	8.13	20,171,618	-	18,082,927	2,088,691
- other current financial liabilities	8.16	37,911,336	-	37,111,336	800,000
Total financial liabilities		**58,082,954**	**-**	**55,194,263**	**2,888,691**

Non-current financial liabilities of Level 3 (note 8.13) include the debt for:

- Earn-Out Gruppo Assioma Net S.r.l. (long term portion);
- HSPI payable for "Restricted Share Price Adjustment".

Non-current financial liabilities of Level 2 (note 8.13) include the debt for:

- Non-current monetary flow swaps;
- a payable for medium/long-term bank loans;
- a payable to the lessor for leases and rentals, pursuant to IFRS 16 (for the portion to be repaid beyond 12 months).

While for *current financial liabilities* of level 3 (note 8.16) the following are included:

- the short-term portion of the Assioma Group's Earn-Out.

While for *current financial liabilities* of level 2 (note 8.16) the following are included:

- the portion of short-term payable for bank loans;
- the short-term portion of the payable to the lessor for leases and rentals pursuant to IFRS 16;
- the payable for loans received from subsidiaries through cash pooling contracts.

On completion of the above, it is furthermore specified that on the date of the financial statements the directors deemed the fair value of the option on minority shares in the subsidiary TXT WORKING CAPITAL SOLUTIONS not to be significant, as the call option was stipulated at the same conditions as the combined put option, which envisage a variable forward price, based on multiples of the prospective results that approximate the fair value upon their exercise. For further details, please refer to note no. 2.

The directors have furthermore checked that the fair value of cash and cash equivalents and short-term deposits, trade receivables and payables and other current assets and liabilities is close to the book value as a result of the short-term maturity of these instruments.

Guarantees issued, obligations

As at 31 December 2020, the Company had issued guarantees on debts and obligations of third parties and associates amounting to € 718 thousand, in particular € 265 thousand in the form of bank guarantees for rental security deposits, and the remainder in the form of bank guarantees for bids in tenders.

The Company has contractual obligations with reference to lease contracts for the offices in Milan (expiring in August 2024) and Turin (expiring in April 2025) and for the vehicle fleet for staff use with contracts stipulated for an average duration of 48 months.

4 Use of estimate 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 the income statement. Here below are the assumptions made about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenues from contracts with customers

The Company has carried out the following assessments, which have a significant impact on the determination of the amount and timing of revenue recognition from contracts with customers:

Identification of the performance obligation in a joint sale

The Company provides maintenance and assistance services to customers who have been sold, either separately or together, licenses for use, as well as professional services.

The Company has determined that for the product types offered for which it is reasonable to expect that the customer requires a level of continuous involvement from the Group over a period of time, and which require a certain period of implementation by the customer, the maintenance and assistance service contract cannot be considered separately from the license contract, even if the latter exclusively envisages an up-front fee. The fact that the Group does not regularly grant the right to use its licences separately from the signing of a first maintenance contract, together with the consideration that maintenance services cannot reasonably be provided by other suppliers, are indicators that the customer does not tend to separately benefit from both products independently.

The Company, on the other hand, has established that professional services must be distinguished within the context of the contract and that a price must be independently allocable to them.

Determination of the method for estimating the value of the recognisable variable fee

In estimating any variable fee, the Group must use the expected value method or the most likely quantity method to estimate which method best determines the value of the fee to which it is entitled.

Before including any value of the variable fee in the transaction price, the Group shall assess whether a portion of the variable fee is subject to recognisability limits. The Group has determined that, on the basis of its past experience, economic forecasts and current economic conditions, the variable fee is not subject to uncertainties that could limit its recognisability. Furthermore, the uncertainty to which the variable fee is exposed will be subsequently resolved within a short period of time.

Considerations on the significant financing component in a contract

The Company does not usually sell with formal or expected extension of payment terms exceeding one year, for which it believes that there are no significant financing components in the commercial transactions.

Determination of the time frame for project service satisfaction

The Company has determined that the input method is the best method for determining the progress of services provided for projects (such as the development of technological solutions, consultancy, integration services, training) since there is a direct relationship between the Group's activities (for example, the hours worked and costs incurred) and the transfer of the service to the customer. The Group recognises revenues on a cost-to-cost basis (including the total costs expected to be incurred to complete the service). Depending on the contractual clauses, orders can be managed on a Time & Material or Fixed Price basis. With the former type, revenues are recognised on the basis of the hours actually spent on the project, calculated and accepted by the customer. The agreement with the customer is essentially based on a number of hours to be invested in the project, which can be revised, including upwards, depending on the actual use of resources. Revenues for Fixed Price orders, for which a price is fixed in advance with no subsequent adjustments, are instead determined by applying the completion percentage to the amount of the fee for the project. The calculation of the completion percentage, determined using the Cost to Cost method, i.e. the ratio between the costs incurred and the total expected costs, takes into account the hours spent by personnel involved in the project on the reference date and any other direct costs.

Impairment of non-financial assets

An impairment loss occurs when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is measured based on data available from binding sale agreements between knowledgeable, willing parties for similar assets or observable market prices, less the costs of disposal. Value in use is calculated using a discounted cash flow model. Cash flow projections are based on the plan for the next five years and include neither restructurings for which TXT does not have a present obligation, nor significant future investments that will increase the return on the assets of the cash-generating unit subject to measurement. The recoverable amount significantly depends on the discount rate used in the discounted cash flow model, as well as on the expected future cash inflows and the growth rate used to extrapolate. The key assumptions used to determine the recoverable amount for the various cash-generating units, including a sensitivity analysis, are detailed in note 1.4.

Taxes

Deferred tax assets are recognised for all unused tax losses, to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. Management is required to make significant estimates to determine the amount of tax assets that can be recognised based on the level of future taxable profits, when they will arise, and tax planning strategies.

Pension funds

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation requires assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates, and future benefit increases. Because of the long-term nature of these plans, the estimates are subject to a significant degree of uncertainty. All assumptions are reviewed annually.

In determining the appropriate discount rate, the directors use the interest rate of corporate bonds with average terms corresponding to the estimated term of the defined-benefit obligation. The bonds are subject to further qualitative analysis and those that present a credit spread deemed excessive are removed from the population of bonds on which the discount rate is based, as they do not represent high-quality bonds.

The mortality rate is based on mortality tables available for each country. Future salary and benefit increases are based on the expected inflation rates for each country. Further details, including a sensitivity analysis, are provided in note 1.13.

5 New accounting standards, interpretations and amendments adopted by the Company

The accounting standards adopted in preparing the condensed consolidated half-yearly financial statements are consistent with those used in drawing up the consolidated financial statements as at 31 December 2019 and illustrated in the Annual Financial Report under note 4 “Accounting standards and basis of consolidation”, with the exception of standards, interpretations and amendments, whose application is compulsory from 1 January 2020. Detailed descriptions of the newly applied standards, interpretations and amendments are provided below.

Moreover, there were no transfers of fair value among hierarchical levels during the first half of 2020 with regard to the existing financial instruments.

- Amendments to IFRS 3: definition of a business

The amendments to IFRS 3 clarify that, in order to be considered a business, an integrated set of activities and assets must include at least one input and an underlying process that, together, contribute significantly to the ability to create an output. Furthermore, it was clarified that a business can exist without including all inputs and processes necessary for creating an output. The Group’s directors applied their judgment and took into account the updated definitions to identify and evaluate the business subject to a combination in the year as such. These amendments must also be considered at the time of upcoming acquisitions in order to evaluate whether the set of assets and activities acquired constitute a business or not pursuant to IFRS 3 and, subsequently, whether the acquisition method is deemed applicable.

- Amendments to IFRS 7, IFRS 9 and IAS 39: Reform of the interest rate benchmark

The amendments to IFRS 9 and IAS 39 Financial instruments provide a series of expedients, which apply to all hedging relations that are directly concerned by the reform of the interest rates benchmark. A hedging relationship is influenced if the reform generates uncertainties over the timing and/or extent of the cash flows based on the benchmarks of the hedged element or the hedging instrument.

The Group currently has the following hedges in place on floating interest rates linked to the Euribor:

• a € 14.0 million loan of the Parent Company with Unicredit, 5 years, with a quarterly amortisation plan, a floating interest rate and an Interest Rate Swap to hedge interest rate risk.
• a € 6.5 million loan of the Parent Company with BNL, 5 years, with a quarterly amortisation plan, a floating interest rate and an Interest Rate Swap to hedge interest rate risk.

The application of the expedients would allow, if the requirements of the standard are confirmed and the uncertainties over the hedged risk, the instrument or the underlying are resolved, the modification of the formal designation of a hedging relationship in response to a change in the reference benchmark rate without this constituting neither an interruption of the hedging relationship nor the designation of a new hedging relationship.

- Amendments to IAS 1 and IAS 8: definition of material

The amendments provide a new definition of materiality in which it is reiterated that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. These amendments had no impact on the financial statements of the Company and no future impact is expected.

6 Financial risk management

TXT e-solutions S.p.A. has adopted an internal control system made up of a set of rules, procedures and organisational structures aimed at ensuring a correct management of the Company, including through adequate identification, management and monitoring of the main risks that could jeopardise the accomplishment of corporate goals.

This section describes the risks and uncertainties related to the economic-regulatory framework and market conditions that may affect the Company's performance; specific risks that may give rise to obligations for TXT are assessed when determining the amount of the relevant provisions and detailed in the Notes to the financial statements together with the relevant contingent liabilities.

For the purposes of risk management, the Company adopts specific procedures designed to maximise value for its shareholders, undertaking all measures necessary to prevent the risks inherent to the Company's business.

TXT is exposed to financial risks deriving from exchange rate and interest rate fluctuations, and from its customers’ capacity to meet their obligations to the Company (credit risk).
With cash and cash equivalents of € 4,047,797 as at 31 December 2020 (€ 6,053,126 as at 31 December 2019) and a positive Net Financial Position of € 13,579,665 (see the financial position under section 11 “Net financial position“), TXT's liquidity risk is limited.

Financial Risks

Currency risk

The Company’s exposure to currency risk derives from the different geographical distribution of the Company’s production operations and commercial activities. This exposure is mainly the result of sales in currencies other than the functional currency.

In order to manage the economic impact deriving from the exchange rate fluctuations with respect to the Euro (mainly of the US Dollar), TXT has entered into forward sale contracts to mitigate the impact of exchange rate volatility on the income statement. Currency forward sales and purchases are not specific for each transaction but are carried out based on the overall balance by currency and typically have a quarterly duration.

As at 31 December 2019, there were no currency hedge contracts present.

Credit risk

Credit risk represents the Company's exposure to potential losses arising from the non-fulfilment of the obligations by counterparties.

To limit this risk, TXT mainly deals with well-known and reliable customers; sales managers assess the solvency of new customers and management continuously monitors the balance of relevant receivables so as to minimise the risk of potential losses.

The table below summarises the degree of concentration of the Company's trade receivables (net of receivables from TXT Group companies):

	Amount in €	Concentration %
Total receivables due from customers	20,575,199	-
Receivables due from customers (Top 5)	16,186,292	78.67%
Receivables due from customers (Top 10)	16,798,993	81.65%

In general, trade receivables are mainly concentrated in Italy. Receivables from an important Italian customer operating in the Aerospace & High Tech business account for more than half of the TXT's total trade receivables. The first ten customers account for 82% of the total trade receivables collectible.

Interest rate risk

The Company's debt is predominately characterised by floating interest rates, and therefore the Company is exposed to the risk deriving from their fluctuation.

At the end of the reporting period, the Company has not entered in any derivative contracts for the purpose of hedging interest rate risk.

The net financial exposure subject to floating rates is connected to the Group's centralised treasury management.

The table below shows the impact on the income statement deriving from a 1% increase or decrease in the interest rates to which TXT is exposed, with all other conditions being equal:

(Amounts in € thousands)	31.12.2020	Interest rate change	Financial income/charges
Net Financial Position (NFP)	13,579,665		
Fixed rate payables	60,632,954		
Financial exposure (floating rate)	(47,053,289)	+1%	(470,533)
		-1%	470,533

Liquidity and investment risk

On the basis of cash and cash equivalents of € 4,047,797, and a positive Net Financial Position of € 13,579,665 (see note 11), the Company does not deem itself to be exposed to significant liquidity risks at present.

The Company's financial instruments are exposed to market risk deriving from uncertainties around the market values of assets and liabilities produced by changes in interest rates, exchange rates and asset prices. TXT manages price risk through diversification and by setting individual or total limits on securities. Portfolio reports are regularly submitted to the company's management. The company's Board of Directors reviews and approves all investment decisions.

At the reporting date, the fair value of financial instruments was € 67 million. It should be noted that these instruments may be divested at any time, even before maturity, without incurring any charges.

Other risks

Covid-19

Covid-19, an infectious disease caused by a new virus, was declared a global pandemic by WHO on 11 March 2020. The measures to contain the spread of Covid-19 have had a significant impact on the global economy. Entities must consider the impacts of Covid-19 when preparing their financial statements.

The impact of Covid-19 may give rise to the need to apply further considerations in the areas subject to estimates and assessments. Given the evolution of Covid-19 and the limited experience with regard to the economic and financial impacts of the pandemic, changes in estimates in the measurement of assets and liabilities may also be necessary in the future.

The areas related to the preparation of the financial statements identified as potentially susceptible to greater impacts were:

• determination of expected losses on financial assets;

• impairment of both current (e.g. inventories) and non-current assets (e.g. tangible and intangible assets);

• recovery of assets due to deferred tax assets;

• revised estimates on the useful life and residual value of fixed assets;

• provisions for risks and liabilities deriving from contractual or criminal breaches.

Specific comments in relation to the individual areas are presented in the relevant notes where relevant.

With reference to the shares and contributions to which the company has had recourse or has had access, the following should be noted:

- In May 2020, TXT e-solutions S.p.A. requested and obtained, from the financial institutions with which they signed medium/long-term loan agreements, the deferment of the payment of solely the principal portions for the third and fourth quarters of 2020. This transaction will make it possible to deal with any delays in collections from customers with an impact on current operations.

- In 2020, the Company made use of social safety nets, in particular the Redundancy Fund: for a few months, the redundancy fund for the "Covid-2019 emergency" was activated in order to mitigate the effects of the pandemic, with the intention of returning to normal work once the events attributable to the health emergency are overcome.

Regarding operations, information is provided on the measures put in place, in line with the recommendation of WHO and national authorities, to preserve the health of its employees and support the prevention of contagion in their administrative and operating offices, such as work from home incentives, reduced shifts in operating areas to minimize the movement of workers, cleaning of work spaces, distribution of personal protective equipment, testing of suspicious cases and measurement of body temperature.

Brexit

The Group operates in the United Kingdom exclusively through its subsidiary TXT Next Ltd. Revenues from the United Kingdom's only end customers amount to € 1.306 thousand. The Group analysed the effects of Brexit and classified them as not being particularly significant.

7 Going concern

Pursuant to IAS 1, paragraph 25, the Directors, while preparing the financial statements as at 31 December 2020, have assessed that there are no material uncertainties regarding the Company's compliance with the going concern assumption.

Without prejudice to the inherent unpredictability of the potential impacts of the epidemic, management took into account the existing and foreseeable effects of the epidemic on the entity's activities. In assessing the going concern assumption, management took into account all available information on the future that was obtained at a date after the end of the financial year pursuant to IAS 10. This information included, but was not limited to, measures undertaken by governments and banks to provide support to entities in difficulty.

In particular, in support of the assessment and conclusions reached on the going concern assumption, the directors highlighted that:

- The Company has a positive net financial position and the loans guarantee the Company's ability to meet liquidity needs;

- The positive result for the year and business forecasts are based on a good portfolio of orders with large customers.

Notes to the BALANCE SHEET and INCOME STATEMENT as at 31 December 2020

8 Balance sheet

8.1 Intangible assets with a finite useful life

Intangible assets with a finite useful life amounted to € 72,536 as at 31 December 2020, net of amortisation, and refer to licences for software use purchased by the Company for the operation of internal tools.

The changes occurring over the year are presented below:

Intangible assets	Software licences	TOTAL
Balances as at 31 December 2019	**76,331**	**76,331**
Acquisitions	18,179	18,179
Amortisation	(21,974)	(21,974)
Balances as at 31 December 2020	**72,536**	**72,536**

Balances as at 31 December 2020	Software licences	TOTAL
Historical cost	231,414	231,414
Accumulated amortisation and impairment	(158,879)	(158,879)
Net value	**72,536**	**72,536**

8.2 Tangible assets

Net of depreciation, tangible assets amounted to € 2,450,069 as at 31 December 2020, down by € 331,455 compared to 31 December 2019. The changes that occurred during the year are detailed below:

Tangible assets	Electronic machinery	Furniture and fixtures	Buildings (lease)	Electronic machinery (lease)	Vehicles (lease)	TOTAL
Balances as at 31 December 2019	**681,572**	**35,669**	**1,425,649**	**24,529**	**614,105**	**2,781,524**
Acquisitions	419,615	2,487	53,339	0	151,154	626,595
Disposals	(1,226)	-	(37,461)	-	(15,824)	(54,511)
Amortisation	(275,891)	(7,933)	(316,114)	(10,150)	(293,450)	(903,538)
Other Changes	-	-	-	-	-	-
Balances as at 31 December 2020	**824,069**	**30,223**	**1,125,413**	**14,379**	**455,985**	**2,450,069**

Balances as at 31 December 2020	Electronic machinery	Furniture and fixtures	Buildings (lease)	Electronic machinery (lease)	Vehicles (lease)	TOTAL
Historical cost	2,029,842	318,193	2,096,360	44,829	1,211,514	5,701,400
Accumulated depreciation	(1,205,772)	(287,970)	(970,947)	(30,450)	(755,528)	(3,251,331)
Net value	**824,069**	**30,223**	**1,125,413**	**14,379**	**455,985**	**2,450,069**

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

The present amount of accumulated depreciation is deemed adequate in relation to the estimated remaining useful life.

Leased buildings refer to the new Turin rental.

The increases in the "vehicles (lease)" category relate to TXT e-solutions S.p.A.’s vehicle fleet.

8.3 Investments

The item “Investments” amounted to € 54,902,694 as at 31 December 2020, compared to € 29,555,456 as at 31 December 2019.

	Balances as at 31 December 2019	Acquisitions	Balances as at 31 December 2020
Investments in subsidiaries	29,555,456	25,347,238	54,902,694
Investments in associates	-	-	-
Investments	**29,555,456**	**25,347,238**	**54,902,694**

The changes occurring over the year are presented below:

Company name	Balances as at 31 December 2019	Increases	Balances as at 31 December 2020
Pace GmbH	7,472,191	5,100,000	12,572,191
TXT e-solutions Sarl	100,000	-	100,000
TXT Next Ltd.	113,135	-	113,135
TXT e-solutions Sagl	37,082	-	37,082
Cheleo S.r.l.	10,950,819	-	10,950,819
Assioma.Net S.r.l.	10,882,229	997,820	11,880,049
TXT Working Capital		800,000	800,000
HSPI S.p.A.		12,064,169	12,064,169
MAC SOLUTIONS S.A.		6,381,749	6,381,749
Innovative Complex Consortium		3,500	3,500
Total	**29,555,456**	**25,347,238**	**54,902,694**

The increases refer to the new acquisitions completed during the year as described in paragraph 2, with the exception of the equity investment of Assioma.Net S.r.l., the increase of which is linked to the transfer of the Banking & Finance business unit and the equity investment of Pace whose increase is linked to the exercise of the call option on minority interest (21%).

Below is a table showing the main financial data for directly controlled companies, as required by Consob communication no. 6064293 of 28.7.06 (*).

Company name	City or foreign country	Share capital	Shareholders' Equity	Profit / Loss	% control	Carrying amount	Share of shareholders' equity
Pace GmbH	Berlin	295,000	4,930,474	205,289	100	12,572,191	4,930,474
Cheleo S.r.l.	Brescia	99,000	4,346,639	770,702	100	10,950,819	4,346,639
TXT e-solutions Sagl	Chiasso	43,784	876,698	291,908	100	37,082	876,698
TXT NEXT S.a.r.l.	France	100,000	262,198	64,781	100	100,000	262,198
Assioma.Net S.r.l.	Milan	30,000	8,097,562	679,652	100	11,880,049	8,097,562
TXT Working Capital S.r.l.	Milan	500,000	558,818	- 441,182	100	800,000	500,000
HSPI S.p.A.	Bologna	220,000	4,851,659	396,921	100	12,064,169	220,000
Mac Solutions S.A.	Chiasso	93,589	2,516,052	526,868	100	6,381,749	93,589
Innovative Complex Consortium	Bologna	10,000	5,475	27,568	100	3,500	10,000
TXT Next Ltd.	Great Britain	114,614	120,237	18,309	100	113,135	114,614
Total		**1,505,987**	**26,565,812**	**2,540,815**		**54,902,694**	

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

Below is a table showing the main financial data for indirectly controlled companies:

Company name	City or foreign country	Subsidiaries	Share capital	Shareholders' Equity	Profit / Loss	% control	Share of equity
Pace America Inc.	Seattle	Pace GmbH	9	46,743	488,946	100	46,743
AssioPay	Milan	Assioma.Net S.r.l.	10,000	835,177	491,698	51	425,940
Txt Risk Solutions	Milan	Cheleo S.r.l.	79,592	- 647,442	- 599,285	51	- 284,295
Total			**89,601**	**234,478**	**381,359**		

The investments in Pace Gmbh (100%), Cheleo S.r.l. (100%) and Assioma.Net (100%) have been tested for impairment.

The recoverable value of the remaining investments was not analysed on the basis of discounted cash flow, instead the carrying amounts were compared with the related shareholders' equity. These investments are as follows:

- TXT e-solutions S.a.r.l. (Switzerland), 100%-owned and established in 2016, carries out primarily activities dedicated to a single customer (Pilatus), with high profitability and a low risk profile;
- TXT Next Ltd. (UK) and TXT Next S.a.r.l. (France), 100%-owned and established in 2017, they do not carry out direct activities with customers, but are dedicated to logistical support for the hiring of employees who render services to local customers, whose contractual and commercial relationships are headed and managed directly by TXT e-solutions S.p.A. and Pace GmbH;
- It was decided not to carry out the impairment test on the Investment in TXT Working Capital, HSPI S.p.A. and Mac Solutions S.A. (100%) as at 31.12.2020 as it was acquired during the year and the underlying cash flow projections do not show indicators for an impairment test.

The investments in Pace GmbH, Cheleo and Assioma, in the presence of a difference between the carrying amount and the corresponding fraction of the underlying shareholders' equity, were subjected to checks of the recoverability of the registration amounts. The recoverable amount was assumed to be equal to the equity value, estimated by discounting the expected cash flows over an explicit 5-year forecast period. In December 2020, the Company's Board of Directors approved the plans based on which the recoverable amounts were measured. The terminal value used to check the recoverable amount of the investments is consistent with that used in the impairment tests for goodwill (for further details reference should be made to note 8.1 of the Group's consolidated financial statements). For the sake of completeness, it should be noted that the directors, for the purposes of drawing up the Separate Financial Statements, considered the call option on the residual minority rights of TXT Working Capital Solutions S.r.l. (40%) as a financial instrument, recognised at its fair value at the initial recognition date and with subsequent changes posted to the income statement. For considerations on the valuation as at 31 December 2020, please refer to the section “Fair value hierarchy”.

For the different treatment of the PUT/CALL options for the purposes of consolidation, please refer to the explanatory notes for the same.

Discount rate

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

For the investment in Pace GmbH, the rates on German and US 10-year government bonds as at 31 December 2020 were considered as "Free Risk" rate, based on the relative contribution of each market to the weighted average plan results of **0.02%.**

For the investment in Cheleo S.r.l. and Assioma.Net S.r.l., the rate on 10-year Italian government bonds (BTPs) as at 31 December 2020 were considered as "Free Risk" rate, equal to **0.52%**.

The valuation parameters were applied in accordance with prior years:

- The risk premium relative to the market was estimated at 5.50%;
- Beta was estimated at 1.00, in line with the previous year;
- An additional 3% risk was considered (based on sector studies), in order to align the WACC with that used by analysts;
- Long-term growth rate (g) 1.50%.

The cost of own capital is therefore:

For Pace GmbH: 0.02% + 3.00% + 5.50% * 1.00 = 8.52%.

For Cheleo S.r.l. and Assioma.Net S.r.l.: 0.52% + 3.00% + 5.50% * 1.00 = 9.02%.

In consideration of the Net Financial Position, which remains largely positive and as a precaution, it was decided not to consider medium/long-term loans as a source of financing for invested capital, but to consider the entire invested capital covered by equity and therefore calculate the cost of capital entirely consisting of the cost of own capital.

The discount rate is therefore **8.52%** for Pace GmbH and **9.02%** for Cheleo S.r.l. and Assioma.Net S.r.l..

Sensitivity analysis

In order to test the fair value measurement model for changes in variables, changes in four key variables were simulated:

1. An increase in the interest rate used to discount cash flows by 200 bps, other conditions being equal (Pace from 8.52% to 10.52% - Cheleo and Assioma.Net: from 9.02% to 11.02%).
2. A reduction in the growth rate in calculating the terminal value of 50 bps, other conditions being equal (from 1.50 to 1.00).
3. Reduction in the growth rate of revenues forecast in the business plan for each year of the period 2021-2025 of -75%.
4. Reduction in the EBITDA Margin applied to the terminal value of 200 bps, other conditions being equal.

For each of the above variables the value of the shareholding was calculated, compared with the carrying amount to show how the headroom of the baseline case is reduced in the sensitivity analysis.

Amounts in € thousand			Recoverable value and carrying amount (Post sensitivity) difference

	Recoverable value and carrying amount (baseline) difference	∆ WACC	∆ g-rate	∆ Revenue CAGR	∆ EBITDA Margin TC
Pace GmbH	30,154	23,464	28,619	27,114	27,027
Assioma.Net S.r.l.	11,631	9,343	11,197	7,390	5,658
Cheleo S.r.l.	11,707	8,671	11,049	9,834	9,553

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

Investment in associates

On 27 November 2019, TXT sold its equity investment in the start-up Sense immaterial Reality S.r.l., representing 24% of its share capital, for a total value of € 48,000 to its shareholder Alvise Braga Illa, without generating any difference.

8.4 Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to € 27,182 as at 31 December 2020, a slight increase compared with € 22,762 as at 31 December 2019. The amount refers mainly to the deposit lodged for the renegotiation of the lease contract for the Milan office.

8.5 Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities as at 31 December 2020, compared to the figures as at the end of 2019, is shown below:

	Taxes tax assets	Taxes tax liabilities	Net balance
Balance as at 31 December 2019	261,017	288	260,729
Used in the period	(60,983)	(287)	(60,694)
Provisions in the period	75,047	100	74,947
Balance as at 31 December 2020	**275,082**	**99**	**274,982**

Deferred tax assets refer to the temporary differences (deductible in future years) for which recovery in the next few years is deemed to be reasonably certain.

The temporary differences of deferred tax assets and liabilities are shown by type in the tables below and compared with the previous year's figures:

	31 December 2020		31 December 2019	
Deferred tax assets	**Temporary differences**	**Tax effect**	**Temporary differences**	**Tax effect**
Prepaid taxes for recoverable losses	-	-	-	-
Provisions for future risks and charges	118,905	28,537	118,905	28,537
Provision for bad debts	258,748	62,100	281,171	67,481
Write-down on treasury shares	244,664	58,719	244,664	58,719
Fair Value MTM Interest Rate Swap	159,194	38,207	208,875	50,130
Costs deductible in future years	362,256	86,941	231,674	55,602
Other changes	2,404	577	2,283	548
Total	**1,146,171**	**275,082**	**1,087,572**	**261,017**

	31 December 2020		31 December 2019	

Deferred tax liabilities	Temporary differ-ences	Tax effect	Temporary differ-ences	Tax effect
Exchange differences	413	99	1,205	289
Total	**413**	**99**	**1,205**	**289**

The total net changes of € 274.982 is the result of various movements in temporary differences. For the quantification of the changes with an impact on the income statement, reference should be made to chapter9.7 “Income taxes”.

8.6 Contractual assets

Final contractual assets as at 31 December 2020 amounted to € 3,829,249 and recorded a decrease of € 256,344 compared with the end of 2019. These are activities carried out but not yet invoiced to customers for services for ongoing projects.

The table below provides the breakdown of inventories:

(Amount in €)	at 31.12.2020	at 31.12.2019	Change
Inventories of services for ongoing projects	3,829,249	4,083,519	(254,270)
Inventories of consumables		2,074	(2,074)
Total	**3,829,249**	**4,085,593**	**(256,343)**

8.7 Trade receivables

Trade receivables at 31 December 2020, net of the provision for bad debts, amounted to € 20,575,198 as shown in detail below:

(Amount in €)	31.12.2020	31.12.2019	Change
Receivables due from customers	17,572,398	8,426,074	9,146,564
Receivables to be collected	-	-	-
Receivables due from customers for invoices to be issued	186,469	328,629	(142,160)
Provision for bad debts	(258,748)	(258,748)	-
Receivables due from Subsidiaries	3,075,080	843,848	2,230,991
Receivables due from Subsidiaries for invoices to be issued		8,166	(8,166)
Receivables due from Associates	-	-	-
Other receivables	-	-	-
Total	**20,575,198**	**9,347,970**	**11,227,228**

The change compared to the previous year includes the effect of the transfer of the Banking & Finance business unit for € 2,484,223.

The provision for bad debts amounted to € 258,748.

The provision decreased due to the closure of a number of customer balances that are no longer recoverable.

This provision is deemed suitable to manage any possible losses.

Receivables due from customers for invoices to be issued include amounts for orders completed and not yet invoiced.

Receivables due from intercompany customers, all fully collectible, regard fees for services provided to subsidiaries. They amount to € 3,075,080, an increase of € 2,230,991 over the previous year. For further information, see the paragraph Transactions with Related Parties. Payment terms are short-term, in line with standard market practices.

The table below includes the detail for receivables past due and not impaired as at 31 December 2020 compared with the situation as at 31 December 2019.

(Amount in €)	Trade receivables	Performing	0 - 90 days	91 - 180 days	181 - 360 days	More than 360 days	Non-performing
Trade receivables	20,833,946	10,823,720	5,327,511	3,775,194	636,981	270,540	10,010,226
Provision for bad debts	(258,748)	(5,481)	(29,150)	(40,623)	(33,193)	(150,301)	(258,748)
Balance as at 31.12.2020	**20,575,198**	**10,818,239**	**5,298,361**	**3,734,571**	**603,788**	**120,239**	**9,751,478**

(Amount in €)	Trade receivables	Performing	0 - 90 days	91 - 180 days	181 - 360 days	More than 360 days	Non-performing
Trade receivables	9,606,717	6,533,385	2,366,079	267,538	335,906	103,811	3,073,333
Provision for bad debts	(258,747)	(3,727)	(4,054)	(1,695)	(145,460)	(103,811)	(255,020)
Balance as at 31.12.2019	**9,347,970**	**6,529,659**	**2,362,025**	**265,843**	**190,446**	**-**	**2,818,312**

8.8 Sundry receivables and other current assets

The “Sundry receivables and other current assets” item includes receivables for research grants, tax and other receivables, as well as accrued income and prepaid expenses. The balance as at 31 December 2020 of € 1,450,755 compared to the balance of € 2,856,141 as at 31 December 2019.

The breakdown is shown below:

(Amount in €)	at 31.12.2020	at 31.12.2019	Change
Receivables for research grants	386,640	1,023,349	(636,709)
Tax receivables	360,364	891,806	(531,443)
Advances to suppliers and employees	115,521	156,411	(40,890)
Accrued income and prepaid expenses	524,414	668,159	(143,745)
Other receivables	63,816	116,417	(52,601)
Total	**1,450,755**	**2,856,141**	**(1,405,387)**

The item “receivables for research grants” includes receivables for research financed by various institutes relating to contributions for research and development activities, subject to specific grant competitions; such grants will be disbursed upon completion of the development stages for the projects concerned. The balance is down from the previous year, as a result of the reduction in research activities carried out with grants.

Tax receivables of € 360,364 (€ 891,806 as at 31 December 2019) represent the receivables due from taxation authorities as shown below in detail:

(Amount in €)	at 31.12.2020	at 31.12.2019	Change
IRES receivable for IRAP deductibility on personnel costs	-	405,147	(405,147)
Interest income withholding	296	519	(222)
Tax advances	354,387	482,343	(127,957)
Other withholding taxes paid	5,681	3,797	(1,884)
Total	**360,364**	**891,806**	**(531,443)**

The decrease in the item tax receivables, amounting to € 531,443 is due mainly to the collection of the receivables due from taxation authorities for IRES credit deriving from the tax-deductibility of IRAP on personnel costs relating to the years 2007-2011 amounting to € 405,147.

The “Advances to suppliers and employees" item mainly represents the company's receivable due from employees for the advance payment of foreign taxes due abroad, pending receipt of the tax credit due with the tax returns pursuant to double taxation agreements.

The "Accrued income and prepaid expenses” item, equal to € 524,414, represents adjustments to prepaid costs not pertaining to the year, whose invoices were received and accounted for as at 31 December 2020. The increase compared to 2019 is mainly due to maintenance services and licence fees for the use by the company of software instruments paid in advance.

"Other receivables" amount to € 63,816, in line with the previous year, and mainly include receivables for INAIL self-liquidation.

8.9 Other financial receivables

The item "Other financial receivables" amounted to € 502,440 as at 31 December 2020 compared to € 200,000 as at 31 December 2019.

The amount of € 502,440 mainly refers to:

- € 500.000, representing the receivables for cash-pooling due to TXT e-solutions S.p.A. from its subsidiary TXT RISK. The cash pooling contract is designed to centralise and better manage the Group's treasury, and provides for a 12-month EURIBOR rate plus a spread of 1%.

8.10 Financial instruments at fair value

As at 31 December 2020, this item included "Financial instruments at fair value" of € 67,112,382 million. They consist of investments in 6 multi-segment life insurance contracts with partially guaranteed capital for a fair value of € 58,825,559 bond loan for € 501,000, treasury management for € 7,785,822.

The fair value hierarchy for insurance instruments, hybrid or otherwise, was classified as level 3, whilst for the second and third category it was considered as qualifying at level 1.

The figure reported by the issuer was adopted as confirmation of the fair value, where possible (level 1 instruments) comparing this with the market values.

8.11 Cash and cash equivalents

Cash and cash equivalents amounted to € 4,047,797, down by € 2,005,329 compared to 31 December 2019. Reference should be made to the cash flow statement for details on the generation and movement of cash; the movements in the year with the main impact relate to the following:

- investment in financial instruments (notes 8.9and 8.10);
- payment of dividends; note 8.12;
- operations in treasury shares (note8.12);
- obtaining loans (notes8.13and 8.16).

Cash and cash equivalents all relate to ordinary current accounts with Italian banks

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

8.12 Shareholders' Equity

The Company's share capital as at 31 December 2020 consisted of 13,006,250 ordinary shares with a par value of € 0.5, totalling € 6,503,125.

The reserves and retained earnings include the legal reserve (€ 1,300,625), which represents one-fifth of the share capital, the share premium reserve (€ 11,818,223), the merger surplus reserve (€ 1,911,444), the reserves for actuarial differences on post-employment benefits (negative to the tune of € 901,870), the reserve for cash flow hedge accounting (negative to the tune of € 120,987 net of the related tax) and the reserves for retained earnings (€ 62,782,275).

Description	Free	Required	Established by	TOTAL
		by Law	Shareholders' Meeting	
Share premium reserve	11,818,223	-	-	11,818,223
Legal reserve	-	1,300,625	-	1,300,625

Merger surplus	-	-	1,911,444	1,911,444
Reserve for actuarial differences on post-employment benefits	-	-	(901,870)	(901,870)
IRS Fair Value	(120,987)	-	-	(120,987)
Stock option reserve	-	-	56,421	56,421
Reserve for retained earnings	-	-	62,782,275	62,782,275
Total	**11,697,236**	**1,300,625**	**63,848,270**	**76,846,131**

Incentive plans

The Shareholders' Meeting held on 18 April 2019 approved a stock option plan for the Group's executive directors and senior managers, involving up to 600,000 shares subject to the achievement of specific performance objectives, such as performance of revenues, profit or specific individual performance objectives.

On 27 May 2019, the Board of Directors, upon favourable opinion by the Remuneration Committee, assigned 135.00 options for the purchase of an equal number of shares of the company to 8 individuals, comprising executive directors, managers with strategic responsibilities and other directors and managers of the Group, for the period 2019-2021, at the exercise price of € 8.67.

During the year, 27,000 options were cancelled following the exit of two Group executives.

S.G. PLAN 2019-2021				
Options		**2019**	**2020**	**2021**
(i)	Outstanding at the start of the year/period	0	135,000	108,000
(ii)	granted during the year/period	135,000	0	0
(iii)	forfeited during the year/period	0	(27,000)	0
(iv)	exercised during the year/period	0	0	0
(v)	expired during the year/period			
(vi)	outstanding at the end of the year/period	135,000	108,000	108,000
(vii)	exercisable at the end of year/period	0	0	108,000

Treasury shares

On 10 January 2020, the share price of TXT e-solutions reached an official high of € 10.10 and a low of € 4.63 on 18 March 2020. On 31 December 2020, the share price was € 7.88, € 1.78 below the value of € 9.66 recorded as at 31.12.2019. Average daily trade volumes on the stock market in 2020 amounted to 24,990 shares, a slight increase against the daily average of 22,878 shares in the previous year.
As at 31 December 2020, 1,401,429 treasury shares were held (1,220,971 as at 31 December 2019), accounting for 10.78% of shares outstanding, with an average carrying amount of € 3.75 per share. In 2020, 727,945 treasury shares were purchased at an average price of € 7.31.

8.13 Non-current financial liabilities

"Non-current financial liabilities" amounted to € 20,171,618 (€ 25,228,715 as at 31 December 2019).

	at 31.12.2020	at 31.12.2019	Change
Assioma Earn-Out	1,592,352	2,369,408	(777,056)
Debt Guaranteed Price (HSPI S.p.A.)	496,339	-	496,339
Bank loans	16,882,572	21,218,457	(4,335,885)
Non-current monetary flow swaps	159,194	208,875	(49,682)
Payable due to suppliers for leases	1,041,162	1,431,975	(390,813)
Total	**20,171,618**	**25,228,715**	**(5,057,096)**

This item includes: a) medium/long-term loans for the amount due after 12 months; b) the debt for an amount of € 1,592,352 for the Earn-Out to be paid to Assioma shareholders; c) the non-current part of the financial debt for € 1,041,162 in accordance with IFRS 16; d) the payable for hedging against exchange rate risk (fair value Interest Rate Swap) for € 159,194; and e) the "restricted share price" payable in connection with the purchase of the Investment in HSPI S.p.A..

The loans referred to in point a) consist of:

- A loan for € 20,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.53% spread, granted to the parent company on 01.08.2018 by UNICREDIT S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.17% per annum. As at 31 December, the residual portion amounted to € 13,026,139, the non-current portion was € 9,028,460.
- A loan for € 10,000,000.00 at a 3-month EURIBOR floating rate (360) + 0.60% spread, granted to the parent company on 27.07.2018 by BANCA NAZIONALE DEL LAVORO S.P.A.. A derivative product was taken out on the same loan to protect the floating rate, setting it at 0.08% for a quarter. As at 31 December, the residual portion amounted to € 6,500,000, the non-current portion was € 4,500,000.
- A loan for € 10,000,000.00 at a fixed rate of 0.50%, granted to the parent company on 01.08.2018 by UNIONE DI BANCHE ITALIANE S.p.A.. As at 30 June, the residual portion amounted to € 6,022,407, the non-current portion was € 3,354,112.

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

- financial covenants based on which the company undertakes to comply with certain levels of financial indexes, contractually defined, the most significant of which relate the gross or net financial indebtedness with the gross operating margin (EBITDA) or the Shareholders' equity, measured on the basis of the consolidated scope of the Group according to the definitions agreed upon with the financing counterparties;
- negative pledge commitments pursuant to which the company may not create security interests or other restrictions on the corporate assets;
- pari-passu clauses based on which the loans have the same degree of priority for their repayment as the other financial liabilities and clauses for change of control, which are activated in the event of a divestment by the majority shareholder;
- limitations to the extraordinary transactions that the company can carry out, if exceeding certain thresholds;
- some obligations toward the issuers, which may make the distribution of reserves or capital, inter alia, subject to prior notification to and consent by the lending party; certain extraordinary transactions; certain transactions for the transfer or assignment of its assets.

The measurement of financial covenants and other contractual obligations is constantly monitored by the Group; as at 31 December 2020 the following requirements were met.

UNICREDIT S.P.A. Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	8,022,989	8,013,772	(9,271)
Maturity 2-5 years	1,005,470	3,014,678	(2,009,208)
Total	**9,028,460**	**11,028,450**	**(1,999,990)**

BANCA NAZIONALE DEL LAVORO S.P.A. Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	4,000,000	4,000,000	
Maturity 2-5 years	500,000	1,500,000	(1,000,000)
Total	**4,500,000**	**5,500,000**	**(1,000,000)**

UNIONE BANCHE ITALIANE S.P.A. Loan	31.12.2020	31.12.2019	Change
Maturity 1-2 years	3,354,112	4,690,008	(1,335,896)
Maturity 2-5 years	-	-	-
Total	**3,354,112**	**4,690,008**	**(1,335,896)**

The table required by IAS 7 on changes in liabilities linked to financing activities is provided below.

	1 January 2020	Cash flows	Reclassify Current - Non-Current	Change in fair value	Interest	New funding	31 December 2019
Payable for Assioma Earn-Out	2,369,408		(800,000)	-	22,944	-	1,592,352
Debt Guaranteed Price				-	-	496,339	496,339
Obligations for financial leases and rental contracts with purchase option - NON current portion	1,431,975		(595,305)			204,493	1,041,162
Interest-bearing loans and financing - NON-current portion	21,427,331		(4,335,884)	(49,682)	-		17,041,764
Total liabilities deriving from financial assets	**25,228,715**	**-**	**(5,731,190)**	**(49,682)**	**22,944**	**700,832**	**20,171,618**

8.14 Employee benefits expense

The “Employee benefits expense” item as at 31 December 2020 amounted to € 812,384, for both defined contribution plans and defined benefit plans.

The breakdown of and changes in the total post-employment benefits for this item over the year are presented below:

Provision for post-employment benefits and other employee provisions	31 December 2019	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	at 31.12.2019
Post-employment benefits	1,098,263	886,736	(1,196,189)	22,164	1,411	812,384
Provision for severance for end of term of office	1,207,217		(1,207,217)	-	-	-
Total non-current provisions relating to employees	**2,305,480**	**886,736**	**(2,403,406)**	**22,164**	**1,411**	**812,384**
- Of which continued operations	*2,064,678*					
- Of which discontinued operations	*240,802*					

Post-employment benefits for personnel of € 812,384 as at 31 December 2020 (€ 1,098,263 as at 31 December 2019) were measured as a defined benefit provision.

The portion allocated to the provision amounted to € 886,736.

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

	2020	2019
Provision for post-employment benefits	**749,692**	**1,021,539**
Current cost	(20,785)	(13,293)
Financial charges	1,411	10,852
Actuarial differences	22,164	(6,986)
Actuarial differences following acquisitions	(16,820)	
Retained earnings	76,722	86,149
Total	**812,384**	**1,098,263**

To calculate the present value of post-employment benefits, the following assumptions regarding the future trends in the variables included in the algorithm have been used:

- The probability of death was estimated based on the census of the Italian population by age and gender taken in 2000 by ISTAT [Italy's National Institute for Statistics], reducing it by 25%.
- The probability of removal due to total and permanent disability of the employee, such as to become disabled and leave the company, was estimated based on disability tables currently used in the reinsurance practice, differentiated by age and gender.

- The retirement age of a generic worker was estimated assuming that the first retirement requirement for the purpose of obtaining the Mandatory General Insurance was satisfied and that the employees started paying into INPS [Italy's Social Security Institute] no later than 28 years of age. This measurement accounts for the changes to the retirement age introduced by the Monti reform in late 2011.
- As for the probability of termination of employment due to resignations and dismissals, as at the measurement date an annual 6% staff turnover rate was calculated.
- As for the probability of requests for advance payment of benefits in TXT, an annual 2.00% 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% per year.

The discount rate used for the valuation was -0.0231% per year, i.e. the rate on Bonds issued by AA-rated European Companies as at 31 December 2020 with maturities of between 7 and 10 years. The average duration of the liability was calculated at 7.9 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 € 812.384):

Sensitivity analysis as at 31 December 2020	**% Change in liabilities (DBO)**			
Type of change for the specific assumption	**Decrease**	**Increase**	**Decrease**	**Increase**
Decrease or increase of 50% in company staff turnover	3.01%	-2.14%	836,837	794,999
Decrease or increase of 50% in frequency of advance payments	0.21%	-0.14%	814,090	811,247
Decrease or increase of inflation by one percentage point	-0.73%	0.74%	806,454	818,396
Decrease or increase of discount rate by one percentage point	1.36%	-1.32%	823,433	801,661

The payable for severance for end of term office, relating to the fee for the Chairperson of the Board of Directors to be paid when the term of office ends, was paid at the end of the term of office.

8.15 Provisions for future risks and charges

“Provisions for future risks and charges” as at 31 December 2020 amounted to € 118,905 and mainly includes provisions for contingent liabilities of a contractual nature.

8.16 Current financial liabilities

Current financial liabilities amounted to € 37,911,335 (€ 23,073,219 as at 31 December 2019), an increase of € 14,838,116.

(Amount in €)	31 December 2020	31 December 2019	Change
Bank loans and overdraft facilities	26,565,974	16,554,706	10,011,268
Cash Pooling from subsidiaries	9,994,957	5,190,646	4,804,310
Advances for partners of funded projects	-	-	-
Pace Put/Call	-	-	-
Cheleo Earn-Out	800,000	727,604	72,396
Payables due to suppliers for leases - IFRS16	550,405	600,262	(49,858)
Total	**37,911,335**	**23,073,219**	**14,838,116**

The Bank loans and overdraft facilities item of € 26,565,974 includes:

- the short-term portion of medium/long-term loans, and in particular includes the following:

- € 3,997,680 on the loan granted by UNICREDIT S.P.A.
- € 2.000.000 on the loan granted by UNIONE BANCHE ITALIANE S.P.A.
- € 2.668.293 on the loan granted by BANCA NAZIONALE DEL LAVORO S.P.A.
- Short-term payables due to banks/hot money for € 17,900,000.

The IFRS 16 Loans item includes the € 550,405 payable to the Lessors due to the application of IFRS 16, relating to the amount due within 12 months.

The loans granted by subsidiaries to the Parent Company through cash-pooling contracts amount to € 9,994,362 (€ 5,190,646 as at 31 December 2019). Interest expense of € 73,657 accrued on these loans and was calculated by applying an interest rate equal to the 12-month Euribor + 1% spread.

The table below details the loans by counterparty, and compares the values with those of 31 December 2019:

(Amount in €)	31 December 2020	31 December 2019	Change
Pace GmbH	1,357,556	58,615	1,298,941
TXT e-solutions S.a.g.l. (CH)	450,000	450,000	-
TXT NEXT S.a.r.l.	150,000	50,000	100,000
TXT NEXT Ltd.	41,437	92,031	(50,594)
Txt Working Capital Solutions S.r.l.	500,000		500,000
Mac Solutions S.A.	899,990		899,990
Cheleo S.r.l.	3,500,000	2,000,000	1,500,000
Assioma.Net S.r.l.	3,095,974	2,540,000	555,974
Total	**9,994,957**	**5,190,646**	**4,804,311**

The changes are mainly due to the subsidiary Cheleo S.r.l.'s cash generation, net of the relevant net changes in working capital, which generated a cash surplus accredited on the Cash-pooling accounts.

The table required by IAS 7 on changes in liabilities linked to financing activities is provided below.

	1 January 2020	Decision on distribution of dividends	Cash flows	Reclassify Current - Non-Current	Interest	New funding	31 December 2020
Interest-bearing loans and borrowings - current portion	16,554,705		(10,324,617)	4,335,884		16,000,000	26,565,973
Payable for Cheleo Earn-Out	727,604		(727,604)	-			-
Assioma Earn-Out				800,000			800,000
Obligations for financial leases and rental contracts - current portion	600,261		(658,833)	595,305	13,674		550,407
Cash Pooling	5,190,646					4,804,310	9,994,956
Total liabilities deriving from financial assets	**23,073,219**	**-**	**(11,711,054)**	**5,731,190**	**13,674**	**20,804,310**	**37,911,336**

8.17 Trade payables

Trade payables amounted to € 4,774,570 as at 31 December 2020 (€ 2,527,913 as at 31 December 2019). Payables due to suppliers are of a trade, non-interest bearing nature and are due within twelve months. This item includes advance payments from customers.

8.18 Tax payables

The Company had tax payables of € 677,054 as at 31 December 2020, net of the advances paid during the year.

8.19 Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to € 5,672,154 as at 31 December 2020, compared to € 5,024,432 as at 31 December 2019, as shown in the table below:

(Amount in €)	at 31.12.2020	at 31.12.2019	Change
Payables due to social security institutions	913,450	1,243,870	(330,420)
Payables due to employees and external staff	3,217,197	2,444,433	772,764
Tax payables other than income taxes	610,654	901,095	(290,442)
Accrued expenses and deferred income	930,853	435,033	495,819
Total	**5,672,154**	**5,024,432**	**647,722**

The change compared to the previous year includes the effect of the transfer of the Banking & Finance business unit for € 1.352.783.

The item payables due to employees and external staff includes:

- variable remuneration (bonuses) of € 1,1 million (€ 0.8 million as at 31 December 2019) that will be paid during 2021 based on the achievement of corporate and personal performance targets;
- provisions for deferred remuneration (predominantly the thirteenth month bonus, leave and holiday pay) for the difference.

VAT payables of € 233,339 (€ 197,521 as at 31 December 2019) and payables for withholding taxes for employees, external staff and professionals of € 377,314 (€ 703,574 as at 31 December 2019) are classified under the “tax payables other than income taxes” item.

The “Accrued expenses and deferred income” item mainly refers to the reversal of revenues pertaining to the following year invoiced in advance to customers and other costs pertaining to the current year for the remaining portion.

9 Income Statement

9.1 Total revenues and other income

Revenues and other income for 2020 amounted to € 27,518,055, up 13.6% compared with the previous year.

	31.12.2020	31.12.2019	Change	% change
Revenues and other income	27,518,055	24,218,635	3,299,420	13.6%
Total	**27,518,055**	**24,218,635**	**3,299,420**	**13.6%**

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

9.2 Purchases of materials and external services

Purchases of materials and external services amounted to € 5,289,286, up from 2018, when they totalled € 5,037,561.

The item is detailed below:

	31 December 2020	31 December 2019	Change
Consumables and resale items	168,803	354,219	(185,415)
Technical consulting	859,869	826,546	33,322
Travel expenses	1,216,460	1,099,994	116,466
Utilities	197,270	172,070	25,199
Media & marketing services	245,008	303,962	(58,954)
Intercompany charges	450,994	334,462	116,531
Canteen and ticket services	360,586	425,003	(64,417)
General, administrative and legal services	1,121,244	787,729	333,514
Directors' fees	669,052	733,573	(64,521)
Total	**5,289,286**	**5,037,561**	**251,725**

As a percentage of revenues, costs for purchasing materials and services were down from the prior year, at 19.22% (21% in 2019).

9.3 Personnel costs

Personnel costs for 2020 amounted to € 19,572,303, up by € 1,533,533 (+9%) compared to 2019.

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

Personnel costs	31.12.2020	31.12.2019	Change
Wages and salaries	14,803,725	13,552,854	1,250,871
Social security costs	3,767,578	3,549,180	218,398
Post-employment benefits	865,951	817,072	48,880
Other personnel costs	135,048	119,665	15,384
Total personnel costs	**19,572,303**	**18,038,770**	**1,533,533**

The employees of TXT e-solutions, excluding directors and external consultants, numbered 420 as at 31 December 2020 (485 at 31 December 2019).

The table below shows the breakdown of employees by level at the end of the year and the comparison with the previous year.

	Office workers	Managers	Executives	Total
31.12.2020	389	23	8	420
31.12.2019	447	32	6	485
31.12.2018	371	31	12	414

9.4 Other operating costs

The item “other operating costs” amounted to € 80,439, down by € 73,789 from the previous year. This item includes costs relating to the occasional rental of vehicles for travel, costs for donations and deductible taxes.

9.5 Depreciation, amortisation and impairment

Depreciation and amortisation as at 31 December 2020 amounted to € 925,512 (€ 888,741 as at 31 December 2019).

These amounts have been calculated based on the useful life of the capitalised asset or cost and its use in production. In relation to the rates applied, reference should be made to the relevant paragraphs of these Notes.

Amortisation	31.12.2020	31.12.2019
Intangible assets		

Software licences	21,974	25,451
Total intangible assets	**21,974**	**25,451**
Tangible assets - IFRS16 leases		
Buildings	316,114	309,624
Vehicles	293,450	270,818
Electronic machinery	10,150	10,150
Total tangible assets - IFRS16 leases	**619,713**	**590,592**
Other tangible assets		
Electronic machinery	275,891	265,469
Furniture and fixtures	7,933	7,228
Other fixed assets	0	0
Total other tangible assets	**283,824**	**272,697**
TOTAL AMORTISATION AND DEPRECIATION	**925,512**	**888,741**

9.6 Financial income and charges

The balance between financial income and charges as at 31 December 2020 was positive for € 669,971, mainly due to the positive changes in fair value on investments described in note 8.10.

Financial income is detailed as follows:

(Amount in €)	31.12.2020	31.12.2019	Change
Bank interest income	1,138	1,994	(856)
Exchange rate gains	45,638	16,498	29,140
Interest income on intercompany loans	3,170	663	2,508
Change in fair value of financial instruments	1,017,063	2,861,684	(1,844,620)
Earn-Out variation	-	772,101	(772,101)
Other financial income	56,535	-	56,536
Total	**1,123,547**	**3,652,941**	**(2,529,394)**

Financial charges are detailed as follows:

(Amount in €)	31.12.2020	31.12.2019	Change
Bank expenses	43,917	30,915	13,001
Bank interest expense	163,398	253,773	(90,375)
Loss on financial instruments	23,211	303,202	(279,990)
Exchange rate losses	108,572	12,599	95,973
IFRS16 interest expense	13,674	18,266	(4,592)
Interest expense on intercompany loans	73,657	41,471	32,185
Interest expense for post-employment benefit discounting	1,410	10,852	(9,441)
Other	25,734	23,084	2,650
Total	**453,576**	**694,165**	**(240,588)**

9.7 Income taxes

Income taxes had a negative effect on the result for € 561,936.

The total is shown below:

	2020	2019	Change
Current taxes	588,113	387,086	357,421
Deferred tax assets	(25,988)	383,546	735,512
Deferred tax liabilities	(189)	287	432
Deferred taxes of previous years		(776)	(32,193)
Total	**561,936**	**770,143**	**1,061,172**
- Of which continued operations		**591,946**	
- Of which discontinued operations		**178,197**	

The "current taxes" item refers to IRES (company earnings' tax) and IRAP (regional business tax).

IRES reconciliation

Description	Amount	Taxes
Earnings before taxes (EBT)	2,320,462	
Theoretical tax expense (24%)		556,911
Differences that will not be carried forward in future years:	40,805	9,793
Taxes expensed in the year		566,704
Temporary differences taxable in future years:	(417)	(100)
Temporary differences deductible in future years:	362,381	86,971
Reversal of temporary differences from previous years:	(230,863)	(55,407)
IRES tax base for the year	**2,492,368**	
Current theoretical IRES for the year		**598,168**
Use of previous years' losses	**0**	
Current effective IRES for the year		**598,168**

10 Transactions with related parties

Transactions with related parties essentially refer to the exchange of services, as well as funding and lending activities with the subsidiaries. All transactions fall within the course of ordinary activities and are conducted at arm's length, i.e. under the conditions that would apply between two independent parties, and are carried out in the interest of the companies. Amounts of transactions with related parties carried out for *trading* or *financial* purposes are indicated below.

Trade transactions

As at 31 December 2020	Receivables	Payables	Costs	Revenues
Pace GmbH	863,813.73	23,295.16	80,228.66	1,479,380.65
TXT e-solutions S.a.g.l. (CH)	121,814.20	19,347.00	88,557.59	179,236.75
TXT NEXT S.a.r.l.	-	608.78	-	-
TXT NEXT Ltd.	-	31,736.70	232,614.48	-
Cheleo S.r.l.	135,203.40		-	112,067.70
Txt Risk Solutions S.r.l.	327,795.60		-	187,572.96
TXT Working Capital Solutions S.A.	8,758.08		-	-
AssioPay	18,102.34		-	5,228.40
Assioma.Net S.r.l.	1,585,571.00	8,265	49,593.05	799,364.90
Innovative Complex Consortium		13,542	101,100.00	-
Mac Solutions S.A.	13,983.95	1,913	-	-
HSPI S.p.A.		91,647	80,266.00	-
Pre-acquisition HSPI		0	6,800	
ICS consortium		0	0	
Paradis S.r.l.		0	0	
Directors and key management personnel		155,600	561,145	
Total as at 31.12.2020	**3,075,042.30**	**345,956**	**1,200,305**	**2,762,851.36**

As at 31 December 2019	Receivables	Payables	Costs	Revenues
Pace GmbH	331,087	0	63,831	839,906
TXT e-solutions S.a.g.l. (CH)	18,274	4,345	46,713	97,211
TXT NEXT S.a.r.l.	0	553	0	0
TXT NEXT Ltd.	0	801	223,919	0
Cheleo S.r.l.	41.92	8,862	0	5,779
Txt Risk Solutions S.r.l.	114,724	0	0	105,035
Assioma.Net S.r.l.	386,686	99,892	-	38,753
HSPI		39,040	52,000	

AN-LIGHT S.r.l.		1,830	1,500	
PARADIS S.r.l.			4,817	
Directors and key management personnel	0	1,331,011	1,004,511	0
Total as at 31.12.2019	**850,814**	**1,486,334**	**1,397,331**	**1,086,684**

Financial transactions

As at 31 December 2020	Receivables	Payables	Charges	Income
Pace GmbH		1,357,556	15,914	
TXT Working Capital S.r.l.		500,000	-	
Mac Solutions S.A.		899,990	1,913	
TXT e-solutions S.a.g.l. (CH)		450,000	2,345	
TXT NEXT S.a.r.l.		150,000	1,084	
TXT NEXT Ltd.	2,440	41,437	711	
Cheleo S.r.l.		3,500,000	23,137	
TXT RISK	500,000			3,171
Assioma.Net S.r.l.		3,095,974	28,553	
Directors and key management person-nel				
Total as at 31.12.2020	**502,440**	**9,994,957**	**73,657**	**3,171**

As at 31 December 2019	Receivables	Payables	Charges	Income
Pace GmbH		58,615	12,399	
TXT e-solutions S.a.g.l. (CH)		450.0000	1,599	
TXT NEXT S.a.r.l.		50,000	933	
TXT NEXT Ltd.		92,031	801	
Cheleo S.r.l.		2,000,000	15,870	
TXT RISK	200,000	0	0	458
Assioma.Net S.r.l.		2,540,000	9,869	206
Total as at 31.12.2019	**200,000**	**5,190,646**	**41,471**	**664**

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

	Total	Related par-ties	Impact
Trade receivables	20,575,198	3,075,042	14.9%
Other financial receivables	502,440	502,440	100%
Provision for post-employment benefits and other employee provisions	812,384	-	0%
Current financial liabilities	37,911,335	9,994,957	26.4%
Trade payables	4,774,750	190,356	4%
Sundry payables and other current liabilities	5,672,154	155,600	2.7%
Total Revenues	27,518,055	2,762,851	10%
Purchases of materials and external services	5,289,286	639,160	12.1%
Personnel costs	19,572,845	561,145	2.9%
Financial income	925,513	-	0.0%
Financial charges	669,971	70,486	10.5%

	Total	Related parties	Impact
Net cash from operating activities	(5,821,751)	2,157,761	-37%
Net cash used in investing activities	(1,993,742)	6,745,750	-338%
Net cash used in financing activities	5,810,162	5,106,792	88%

Transactions with directors and key management personnel refer to the fixed and variable components of their remuneration (composed of salaries as Company's managers and compensation for offices held). The Remuneration Report details the amounts paid to each beneficiary and the underlying policy.

11 Net financial position

Pursuant to Consob communication dated 28 July 2006 and in conformity with the CESR's recommendation dated 10 February 2005, "Recommendations for the consistent implementation of the European Commission's Regulation on prospectuses", it is noted that TXT's net financial position is as follows:

(€ thousand)	31.12.2020	31.12.2019	Change
Cash and cash equivalents	4,047,796	6,053,126	(2,005,330)
Financial instruments at fair value	67,112,382	86,281,566	(19,169,184)
Current financial assets	-	-	-
Current bank loans	(26,565,973)	(16,554,706)	(10,011,267)
Cash Pooling	(9,492,517)	(4,990,646)	(4,501,871)
Cheleo Earn-Out	-	(727,604)	(727,604)
Assioma Earn-Out	(800,000)	-	(800,000)
Other current financial liabilities	(550,406)	(600,266)	49,857
Short-term financial resources	**33,751,282**	**69,461,473**	**(35,710,191)**
Non-current financial liabilities - IFRS 16	(1,041,162)	(1,431,975)	390,813
Non-current bank loans	(16,882,572)	(21,218,457)	4,335,885
MTM IRS	(159,194)	(208,875)	49,682
Options related to acquisitions (Earn-Out)	(2,088,691)	(2,369,408)	280,717
Financial resources - non-current portion	**(20,171,618)**	**(25,228,715)**	**5,057,097**
Net Available Financial Resources	**13,579,665**	**44,232,758**	**(30,653,095)**

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

12 Disclosure of public funds

Please refer to note 14 of the Consolidated Financial Statements.

13 Subsequent events

On 11 January 2021, the Company purchased from Andrea Serra its shareholding in Assiopay S.r.l., representing 49% of its share capital, for a consideration of € 1.6 million. For further details, reference should be made to the Directors' Report.

On 28 January 2021, as part of its policy to optimize the asset allocation of available liquidity, it made a financial investment of approximately € 14.3 million in the share capital of Banca del Fucino S.p.A. ("Bank"), against the issue of new shares equal to approximately 9% of the share capital (post-money). The share capital increase reserved for TXT took place on the basis of a delegation granted to the Bank's Board of Directors, which today has accepted the TXT's investment proposal. Banca del Fucino is the parent company of the Igea Banca Banking Group and, inter alia, fully controls Igea Digital Bank S.p.A., a digital bank with excellent growth prospects in the current market context. The capital strengthening of the Bank, which in the last month recorded a total of more than € 45 million in capital increase paid in cash, is aimed at implementing the 2020-2023 business plan, focused on the business model of a specialty bank with a strong Fintech vocation. In line with the business plan, the management's objective is to promote the Bank's listing.

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

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

The first quarter of 2021, taking into account the significant negative effects linked to the spread of Covid-19, could have a more limited level of profitability than expected, despite the fact that in the first two months of the year management managed to maintain revenue and margin levels in line with expectations.

14 Proposal for allocation of profit or coverage of losses

Based on the results achieved and in view of the company liquidity that is sufficient to finance, together with treasury shares and medium/long-term loans, the ambitious growth plans of the Group launched in the second half of 2018, the Board decided to propose to the Shareholders' Meeting to distribute a dividend of € 0.04 per share (nil in 2019) for each of the outstanding shares, excluding treasury shares and with payment starting from 12 May 2021, record date 11 May 2021 and ex-dividend date 10 May 2021. Total dividends will therefore be approximately € 0.5 million, distributed to the 11.6 million shares outstanding (shares issued net of shares owned by the company).

15 Certification of the financial statements

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

The undersigned Enrico Magni, as CEO, and Eugenio Forcinito, as Manager responsible for preparing corporate accounting documents for TXT e-solutions S.p.A., certify, also pursuant to Article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy, in relation to the company's characteristics; and
- the effective application of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2020.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2020 is based on a process defined by TXT in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission which represents a reference framework that is generally accepted at an international level.

We also certify that the financial statements as at 31 December 2020:

- correspond to the accounting books and records;
- are prepared in compliance with the International Financial Reporting Standards endorsed by the European Union as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005;
- are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer.

Manager responsible for preparing corporate accounting documents The Chief Executive Officer

Eugenio Forcinito Enrico Magni

Milan, 9 March 2021

16 External auditors' report